CHAPTER 2

Institutions, Power, and Interdependence

Randall W. Stone

THE TWO AND A HALF DECADES since the appearance of Keohane and Nye's *Power and Interdependence* have witnessed a profound institutionalization of international relations. International institutions have proliferated, expanded, and deepened. The number of intergovernmental organizations has increased, and their memberships have expanded: The United Nations has 192 members, the International Monetary Fund and World Bank currently have 185 members, and the World Trade Organization grew from 128 members in 1994 to 153 a decade later, with 30 more countries at various stages in the application process. The European Union expanded to fifteen member countries in 1995, to twenty-five in 2004, and to twenty-seven in 2007. Substantial decision-making power has been delegated to international organizations, and a few dispose of substantial resources. The IMF held approximately $400 billion in assets, of which $190 billion was available to lend in 2007, while the World Bank had $230 billion in outstanding loans and $33 billion in capital. International institutions have extended their influence into policy areas traditionally the prerogative of states, and patterns of international cooperation have become progressively formalized in international law. By the beginning of the twenty-first century there was virtually no problem of broad international concern for which no international regime existed to express principles and norms of formalized cooperation, and this cooperation almost always involved the participation of international organizations.

On the other hand, international institutions consistently fail to solve the problems they were created to address. This is not simply to say that international institutions are suffering from unpopularity; indeed, the fact that dissatisfaction with institutions such as the IMF, the WTO, and the EU is on the rise is not necessarily a bad sign. Public institutions that evoke no dissatisfaction cannot be very significant, and if public opinion identifies problems and interest groups organize to influence these institutions, this is a sign of their growing importance. As a result of this pressure, international institutions across the board are engaged in efforts at reform, and they are evolving at an ever-increasing rate, becoming more transparent, publishing more data, and creating independent evaluation agencies. Nor can we hold institutions to blame for failing to coordinate states when their leaders have opposed preferences, as in the recent case of the U.S.-led war against Iraq: International institutions can only facilitate cooperation when there are common objectives to be achieved. However, across a wide spectrum of issues, the pattern is consistent that international institutions are failing to provide satisfactory solutions to international problems, and there appear to be important constraints that prevent them from achieving optimal solutions.

This returns us to the central question Robert Keohane and Joseph Nye posed in *Power and Interdependence*: what explains institutional change? Keohane and Nye suggested three broad categories of explanations: power, international processes, and the structure of international institutions. These three categories have structured many of the subsequent debates in the field. Progress in European integration has variously been ascribed to a coincidence of great-power interests, to economic incentives created by markets, and to initiatives promoted by the European Commission.[1] The pattern of IMF lending has been attributed by some to the interests of the biggest donors, by others to the logical imperatives of market reform and global stabilization, and by still others to the private agenda of an out-of-control agency. When international bureaucrats are weak, path-dependent arguments often arise nevertheless, in which the design of earlier institutions plays an important role in shaping subsequent decisions. For example, did the transformation of the international capital control regime from a closed to an open system come about because of the inherent vulnerabilities of the closed regime?[2] Alternatively, was it driven by the interests of powerful states, or by the market pressures created by private actors?[3] The three categories of explanation capture the broad outlines of many significant debates; but, as their authors acknowledged, they are too underspecified to serve as testable theories.

Rather than seeking general answers, this essay selects a few rational-choice hypotheses about international institutions that have become prominent since the appearance of *Power and Interdependence*. The focus is on five central incentive problems that explain many of the failures of international society to achieve common goals: public goods, delegation, institutional design, bargaining, and agenda control.

[1] Moravcsik 1998.

[2] The capital controls regime instituted at Bretton Woods enshrined the principle in the IMF Articles of Agreement that members had the right to establish capital controls at their own sole discretion, and even foresaw the possibility of bilateral or multilateral cooperation to enforce capital controls. This permissive regime was gradually undermined, until by the 1990s dismantling capital controls became obligatory for members of the OECD and strongly encouraged for members of the IMF.

[3] Helleiner 1994.

The Underprovision of Public Goods

When international institutions perform unsatisfactorily, the most prominent explanation is that international governance has some of the characteristics of a *public good*; although sometimes excludable, the benefits of international cooperation are generally non-rival, so that the countries that enjoy international cooperation never fully internalize its social benefits. Robert Keohane and others have used this logic to link the underprovision of international cooperation to the distribution of power: Only a powerful state could take on the role of an international hegemon, which is willing to provide public goods because it alone internalizes enough of the benefits of cooperation to be willing to pay the costs. Writing in 1984, Keohane believed that it was too early to test his contention that international institutions could support cooperation in the absence of a hegemon. Only if his forecast of U.S. decline over the next decade turned out to be correct would it be possible to test the theory.[4]

Whether U.S. power has in fact declined since the mid-1980s is an interesting question, and answers will depend on definitions of power and the selection of objectives.[5] In any case, U.S. decline cannot explain the underprovision of international cooperation, because the hegemonic stability argument had the logic of the distribution of power backward. Robert Pahre shows in a fairly general model that large leading states are able to shift a disproportionate share of the cost of providing public goods onto their allies, precisely because they are so large that everyone else has to adjust.[6] On the other hand, in a repeated public good model it becomes clear that the more powerful the leader, the narrower the scope of an enforceable cooperating coalition, because bigger states have bigger credibility problems.[7] In this model, the leader can only keep countries in the contributing coalition if they contribute enough to be worth punishing, and the opportunity cost of imposing the punishment increases as the leader grows relative to the followers. When we enrich the model to allow country-specific punishments, the type of cooperation chosen varies as

[4] Keohane 1984, 219.

[5] U.S. global military preeminence at the beginning of the twenty-first century is without historical parallel. U.S. influence in the former Soviet bloc and in areas that were contested spheres of influence during the Cold War has increased vastly, and there is no longer a formidable rival that can deter U.S. military adventures. Per capita income has not quite kept pace with America's closest rivals, increasing 43 percent since 1984, as compared to 45 percent in Europe and 47 percent in Japan, but U.S. per capita income remains 1.4 times that of Europe and 1.3 times that of Japan. Record fiscal and trade deficits are troubling and unsustainable in the long run, but the ability to run them without seriously disturbing U.S. financial markets has served as a signal of the extraordinary strength of the U.S. economy.

[6] Pahre 1998.

[7] Stone, Slantchev, and London 2008.

well: When possible, larger leading states choose to build discriminatory regimes rather than multilateral ones that provide public goods; this compensates for the disadvantages of size, which make the leader easy to exploit. When discrimination is not feasible, we find that dominant leaders build institutions, but again they do this to reduce the disadvantages of great power. Given these formal results, U.S. decline cannot explain the underprovision of international cooperation, although perhaps U.S. preeminence may do so. It is striking in this regard that the United States has taken an increasingly unilateral posture since the end of the Cold War.

Agency and Delegation

The familiar realist argument about international institutions is that states do not delegate authority to international organizations because they fear that cooperation will allow rivals to make disproportional gains in military power.[8] This logic only applies to intense, bipolar military rivalries,[9] but two more sophisticated arguments related to agency are plausible. First, states are reluctant to delegate because they anticipate that agency problems will make intergovernmental organizations difficult to control. Second, if states do nevertheless delegate functions to international institutions, they will do so in a way that allows them to retain substantial control, so international institutions will not have the autonomy to exercise much influence that is independent of the power and interests of states.

The study of agency in international institutions is thriving, particularly in studies of the European Union and the International Monetary Fund.[10] Roland Vaubel argued that international organizations should be analyzed in a public choice framework that focuses on the agency problems created by elected officials and international bureaucrats.[11] The domestic version of this account argues that elected officials delegate to international organizations in order to escape from their own accountability to voters and other principals such as nongovernmental organizations. This is a harsh verdict, but it finds echoes in the popular argument that the IMF is able to provide political cover for governments that want to reform their economies but face opposition at home.[12] According to this view, governments seek to deflect the blame for the social cost of economic reform by using as a scapegoat an international organization that

[8] Waltz 1979; Mearsheimer 1994-95.
[9] Snidal 1991.
[10] Hawkins et al. 2006.
[11] Vaubel 1986.
[12] Putnam 1988; Haggard and Kaufman 1995; Vreeland 2003.

is not accountable to voters. At the international level, the public choice critique argues that the objectives of international bureaucrats are to increase their power, perquisites, and organizational slack. For example, Rawi Abdelal argues provocatively that the EU Commission, the Secretariat of the Organization for Economic Co-operation and Development, and the IMF senior management played key roles in promoting the liberalization of capital controls in the 1980s and 1990s, in part because they were competing with each other to control the issue area.[13] This returned to the agenda subsequently, as the IMF staff unsuccessfully tried to use the development of its Medium Term Strategy as an opportunity to expand the IMF's authority to regulate capital controls.[14] In a less critical vein, but along similar lines, it has been argued that the European Commission[15] and the European Court of Justice[16] have played important roles in promoting European integration, often over the objections of some of the states involved.

These arguments suggest that international organizations seize authority and that international governance may be more robust and intrusive than is optimal from the point of view of voters or other relevant principals.[17] Alternatively, it may be the case that principals would like to delegate more functions to international institutions, but do not do so because they cannot control the institutions' policies. This could be the case for one of two reasons. First, agency problems may arise because there are multiple principals with divergent preferences. Second, agency problems may be due to the difficulty of monitoring the policies international institutions implement, but only if the preferences of international bureaucrats are unknown or it is costly when international bureaucrats shirk.

The influence of multiple principals is the most convincing account, because alternative agency arguments must assume that international bureaucrats have substantial information advantages over national authorities. This seems consistent with the widespread assumption that international institutions provide information that facilitates cooperation.[18] However, the most convincing empirical stories that have been told about this suggest

[13] Abdelal 2007.

[14] Work on the Medium Term Strategy began in June 2004 under managing director Rodrigo de Rato, and culminated in its publication in September 2005. The proposal to extend the Fund's jurisdiction to capital controls was first advanced by staff, subsequently embraced by management, and finally killed by the IMF executive board.

[15] Sandholtz and Zysman 1989.

[16] Garrett 1992.

[17] A parallel argument in a constructivist vein attributes mission creep and bureaucratic dysfunction to organizational cultures that arise within IOs and can become pathological (Barnett and Finnemore 2004).

[18] Keohane 1984.

that institutions reduce transaction costs by making authoritative determinations about what counts as defection from an agreement.[19] That is, institutions help to facilitate correlated strategies by resolving uncertainty about the definition of the rules. There are not many examples where institutions really have superior information. Most intergovernmental organizations, as for example the WTO, rely upon member states to put violations of rules on the agenda: they rely on "fire alarms" rather than "police patrols."[20] Even the European Union, the most impressive international institution in terms of its bureaucratic capacity, cannot rival the analytic and data collection capacities of its member states. The IMF does not have an information advantage over borrowers, which filter and often falsify the data that they feed to it, and arguably has no advantage over international financial markets, where major investors have the resources and incentives to procure information. Although it has subsequently modernized and made significant strides in creating incentives for members to provide it with quality data, during the Mexican crisis of 1994–95 the IMF relied on incomplete data reported by the Mexican Central Bank with a three- to four-month lag, when more complete data were available daily from Reuters and Bloomberg's. The IMF management has an information advantage over its executive board, but the degree of advantage varies significantly across countries. The Fund has developed procedures that allow it to withhold confidential information from the executive board, including internal memos.[21] However, informal consultations allow the U.S. Treasury much more extensive access to information, and in important cases such as Mexico, Indonesia, Korea, Russia, and Argentina, Treasury officials were directly involved in the negotiations.[22] Confidentiality in the IMF has more to do with centralizing control than with delegating.

Even when institutions have an informational edge over states, an agency problem arises only if the agents' types are unknown or the costs of shirking are substantial. If shirking is not very costly (i.e., discretion is important, but effort is not), the principal can achieve the desired policy by appointing an agent who is known to share the principal's preferences.[23] A great deal is indeed known about agents' types, to conclude from the recent public discussions over selection of EU commissioners, ECB presidents, IMF managing directors, and WTO directors. The problem of shirking, on the other hand, is not very costly in international organizations. The IMF has a staff of 2,700, so how much money can it

[19] Reinhardt 2001.
[20] McCubbins and Schwartz 1984.
[21] Martin 2006.
[22] IEO 2003, 2004.
[23] Moe 1990.

waste?[24] The EU is capable of spending more than any other international institution, and the issue of mismanagement of EU funds is significant enough to motivate conservative candidates in EU parliamentary elections, but it is not important enough to excite voters very much.

On the other hand, the existence of multiple principals with divergent preferences is sufficient to create agent discretion, even in the absence of asymmetric information.[25] Discretion, in this formal sense, means that the agent is able to choose among a range of policies to implement. In the case of the EU, the Commission exercises a substantial degree of discretion when the status quo lies outside the voting core of the states represented in the European Council, because it can make proposals within a wide range that will be approved by a qualified majority.[26] Along similar lines, Martin argues that multiple principals account for the substantial degree of autonomy that the IMF staff enjoys in crafting the conditionality attached to its loans.[27] Stone likewise finds that the Fund enjoys considerably more autonomy in program design than in lending or enforcement decisions, although this autonomy can be revoked in a crisis when the United States is deeply interested.[28]

The existence of multiple principals can explain an agency's discretion, but it is not clear that this should make the principals unwilling to delegate. For the problems created by multiple principals to explain the underprovision of international governance, governments would have to be unable to coordinate their votes. Otherwise, they could agree on a voting rule that would constrain the agent and leave them all better off than they would be without institutionalized cooperation. For example, when the European Commission appeared likely to enforce the rules of the Stability and Growth Pact to the disadvantage of Germany and France in 2003, Germany and France traded votes to prevent the rules from being enforced against either. When the agent seemed in danger of getting out of control, the principals coordinated their votes and reined it in. Similarly, discretion over the design and enforcement of IMF conditionality is often delegated to the donor country most directly interested in the borrowing country (France in Francophone Africa, Britain in former British colonies, the United States in Latin America), which prevents the IMF from

[24] The issue of compensation for Fund employees is controversial, but not because of cost. The United States consistently tries to limit Fund compensation because the greater attractiveness of working for the IMF than for the U.S. bureaucracy makes it difficult to retain qualified personnel at Treasury. Similarly, clientelism arises because former executive directors find it attractive to join the IMF staff. Executive directors from poor countries consistently support Fund proposals to increase staff compensation.

[25] Banks and Weingast 1992; Calvert, McCubbins, and Weingast 1989.

[26] Tsebelis 1994; Tsebelis and Garrett 2001.

[27] Martin 2006.

[28] Stone 2008.

exploiting disagreements among its principals about how rigorously to enforce its programs.[29] When there is disagreement on the executive board about lending to particular countries (as in the case of Argentina in 2001), the G-7 countries coordinate their positions ahead of time, and there is a virtually unbroken norm that dissenting executive directors abstain rather than voting against the management proposal. (Abstentions do not count against approval.) Coordination failure may be unavoidable when there are extreme divergences of preferences, severe commitment problems, or a lot of *ex ante* uncertainty. In most areas of economic cooperation, however, coordination among the principals appears to be able to mitigate agency problems enough to make the costs of delegation tolerable. Furthermore, when *ex ante* coordination is difficult, it is nevertheless possible for powerful states to limit their losses by circumventing the formal voting process: They buy votes or threaten to exercise outside options.[30] Agency does not provide a compelling explanation for the unwillingness of states to delegate to international institutions.

The principals' lack of commitment to institutional independence does pose a significant obstacle to effective international governance, however. Principals may prefer to retain discretion because they are uncertain about future states of the world, and are unable to write complete contracts that cover all possible contingencies. When devising the WTO's adjudication procedures and rules covering export subsidies, for example, the United States and the European Union could not be certain whether they would ultimately be directed against Boeing or Airbus. Until the issue became caught up in the 2004 U.S. presidential campaign, both sides preferred not to roll the dice, and this explains the long-standing informal ceasefire over enforcement of WTO rules against either aircraft producer. On the other hand, there exist areas of international cooperation in which the temptations to defect are very predictable, where commitment is optimal *ex ante* and reneging is optimal *ex post*. This situation, known in economics as a time consistency problem, arises whenever current policies affect the payoff to decisions made in the past.[31] For example, when sudden reversals of capital flows make it impossible for important sovereign borrowers to service their short-term debt, there are strong incentives for creditor countries to use the IMF to provide financing to bail out their banks—but this rewards the irresponsible borrowing and investment decisions that led to the crisis in the first place.[32] When the United States pushed the IMF to lend an unprecedented $17.8 billion

[29] Stone 2004.
[30] Fang 2005; Voeten 2001.
[31] Kydland and Prescott 1977.
[32] Aggarwal 1996; IEO 2003.

to Mexico in 1995, it met fierce resistance from Germany and the United Kingdom, whose leaders feared that this would exacerbate moral hazard—creating incentives for banks to make destabilizing short-term loans in the future in the expectation of future bailouts. Indeed, over the next six years the IMF struggled to cope with the systemic consequences of short-term capital flows to Russia, Brazil, Korea, Indonesia, and Argentina, which seemed motivated by the expectation that important debtors were "too big to fail," because the IMF would be compelled to provide financing, which would give creditors a breathing space to withdraw their capital. The IMF's commitment problem may explain why lending to systemically important countries invariably fails to catalyze private capital flows: asset prices do not move after an IMF loan to a truly important country because it was fully anticipated, and therefore contains no new information.

The best solution to time consistency problems is commitment. Facing such dilemmas, farsighted national leaders may attempt to tie their hands—or those of their successors—by delegating authority to an international organization. From this point of view, the existence of such dilemmas is a key functionalist explanation for international organization. However, it is a feature of the anarchical international environment that such commitment devices are generally unavailable and always imperfect. Even when they attempt to delegate important functions to international institutions, states always retain the capacity to renege, and the most independent international institutions remain vulnerable to the efforts of member states to influence their policies. To the extent that commitments are kept in international relations, it is generally because they rely on reputation building in repeated interactions. These reputational equilibria are generally only second-best solutions, however, in the sense that the optimal degree of cooperation is unattainable without resort to punishments that would turn out not to be credible.[33] In practice, the best reputational equilibria are messy and may not always look much like cooperation, because states' strategies only require them to refrain from exercising discretion when the temptation is tolerably small, and allow them to defect to myopic behavior when the temptation is compelling.

Both time inconsistency and agency are clearly important concepts for analyzing international institutions, so what is gained by emphasizing one or the other? One of the most popular targets of the agency critique is the IMF, and the enforcement of IMF conditionality offers an illustration of how the agency and commitment views lead to opposite expectations. Quantitative studies find rather weak effects of IMF conditionality

[33] Barro and Gordon 1983.

on countries' policies, and a host of case studies indicates that the conditions attached to IMF loans are only weakly enforced.[34] Why? An agency interpretation would argue that poor enforcement is a function of incentives for the IMF to shirk in order to "push loans." (At present the Fund is suffering from severe budget shortfalls because it does not have enough customers, and conditionality is the main deterrent to borrowing from the IMF.) The testable implication is that enforcement should be most robust in the most important cases, where financial instability poses real risks to the stability of the global economy, and where the major donors have the strongest incentives to monitor the IMF's performance; when monitoring is weak, the IMF should shirk.

A time-consistency approach makes the opposite prediction. In this view, the IMF is ineffective because it has a commitment problem: enforcement is weak because the largest shareholders prevent the Fund from rigorously enforcing its conditions. The industrialized countries benefit from IMF efforts to impose fiscal discipline and market openness on developing countries, but in particular cases they find compelling reasons to interfere. In some cases, such as Russia, Egypt, Turkey, and Pakistan, they trade their leverage with the IMF for concessions on other issues that seem more pressing at the time than economic reform. In others, such as Argentina in 2001, they waive conditionality in an effort to stave off a default that could rock the international financial system. The testable implication is that enforcement should be least effective in the most important cases, because these are the cases in which the major shareholders face the strongest temptations to interfere. The evidence to date suggests that poor enforcement is due to interference rather than shirking. The most influential post-Communist countries—those that received the most economic aid from the United States—were subject to the least rigorous enforcement and violated their conditions most often, and consequently suffered from higher inflation and more devaluation.[35] Similarly, African countries that received more U.S. aid, that were members of the CFA Franc Zone or the Commonwealth of Nations, or that voted with France in the UN General Assembly were subject to less rigorous enforcement of IMF conditionality.[36] This evidence suggests that the difficulty is not convincing the IMF to enforce its conditions, but rather convincing its principals to grant it enough autonomy to allow it to enforce conditionality when they might rather not.

[34] Steinwand and Stone 2008.

[35] Stone 2002.

[36] Stone 2004. In each of these studies, the rigor of enforcement is measured in terms of the length of program suspensions when programs go "off track."

short

Institutional Design

Having decided to provide international governance over a particular issue area and to delegate powers to an international organization, the society of states must resolve issues of institutional design. Should the rules of the regime be informal or legalized? Should commitments undertaken be permanent, or limited in duration? Should decision-making procedures be participatory or centralized? Each of these choices has implications for the effectiveness of international governance.

The dominant approach to studying institutional design, which Michael Gilligan reviews in this volume, has followed the logic of transaction costs economics. According to this view, institutions exist to reduce transaction costs, and the variety of institutional designs reflects the variety of political market failures that they are intended to address.[37] Thus, for example, Barbara Koremenos argues that states choose to make agreements of limited duration when they anticipate that circumstances may change, making long-term agreements untenable.[38] In much the same way, Rosendorff and Milner explain escape clauses, which allow states to temporarily set aside their legal responsibilities: they represent an efficient response to uncertainty about the short-term domestic political costs of compliance.[39] Duncan Snidal and coauthors advance a wide range of hypotheses linking transaction costs to decisions to centralize or decentralize decision making, expand or contract membership and the substantive scope of agreements, and legalize commitments or leave them informal.[40]

According to this approach, and to the transaction costs approach generally, institutions are efficient by assumption, or if second best, provide the best feasible set of incentives. For example, vertical integration of firms is an efficient response to commitment problems created by asset-specific investments[41] and executive compensation packages are designed to efficiently align executives' incentives to take risks with those of investors.[42] There are powerful insights here, and these claims may indeed be correct in particular cases; certainly impartial institutional designers would pay attention to incentives. Institutional designers are rarely impartial, however; it may also be the case that vertical integration is a way to increase market power and that executive compensation reflects collusion

[37] Keohane 1984.
[38] Koremenos 2005.
[39] Rosendorff and Milner 2001.
[40] Abbott and Snidal 2000; Koremenos, Lipson, and Snidal 2001.
[41] Williamson 1985.
[42] Milgrom and Roberts 1992.

between executives and board members. There is, furthermore, some danger of circularity in a functionalist approach that explains causes in terms of effects (e.g., explaining institutional features in terms of reductions in transaction costs), because some incentive problem can almost always be found to explain the existing state of affairs.[43]

For current purposes, the functionalist transaction costs approach is not very helpful for explaining failures of international governance, because it only explains efficient adaptations to incentive problems. It cannot shed light on the reasons why institutions might be designed inefficiently, or might be designed deliberately to fail. Historical accounts, on the other hand, tend to present the origins of international institutions as rather haphazard, marked by conflicts of interest, and shaped by the distribution of power that prevailed at the time.[44] To take a prominent example, the degree of legalization of the international trade regime has provoked sharp conflicts of interest since the dawn of the postwar era. The United States prevailed—over the obstreperous opposition of its allies—in imposing a template of legalized cooperation on the International Trade Organization, which was prevented from coming into force only by the reluctance of the U.S. Senate to ratify the treaty. Years later, developing countries objected to U.S. and EU-led plans to recast the informal trade regime of the General Agreement on Tariffs and Trade under the legalized aegis of the WTO, and acquiesced only after the United States and the European Union threatened to revoke the trade privileges they enjoyed under the GATT unless they complied.[45] This episode sharply underlined the importance of power in determining institutional design.

However, it would be a mistake to conclude from examples like this that institutions simply reflect the distribution of power and the interests of the powerful. Effective institutions depend on voluntary participation, so they must be at least minimally legitimate, and this need for legitimacy can itself be a constraint on effectiveness. The origins of the Global Environment Facility are a case in point. The GEF was conceived as a way to soften the economic impact of adjusting to global environmental targets by transferring resources from developed countries with high abatement costs to developing countries with lower costs.[46] In principle, there was a surplus to be gained by reducing CO_2 emissions where the reductions would be least costly, so both parties to the transaction should win. How-

[43] Thanks to Robert Keohane for pointing this out to me almost twenty years ago.

[44] Keohane 1984; Helleiner 1994; Milner 1997; Moravcsik 1998.

[45] Barton et al. 2006.

[46] The Global Environment Facility was established with a mandate to make grants to deal with four problems: global climate change, biodiversity loss, pollution of international waters, and ozone layer depletion. Two more areas were added subsequently: persistent organic pollutants in 2001, and land degradation in 2002.

ever, a conflict arose between developing countries, which insisted upon the principle of unconditional financing and sought to funnel GEF resources through United Nations organs where they held substantial leverage, and developed donors, which insisted on channeling their money through the World Bank under the existing framework of conditionality. In the end, a compromise was reached that left neither coalition satisfied, and the consequences were low levels of funding and an ineffective institutional structure.[47] The GEF was launched with only a symbolic level of funding—$1 billion over three years—and although this was gradually increased, it remains small: In the area of global climate change, for example, the GEF made 227 grants during its first decade, with an average size of $3.9 million.

Conflicts over institutional design are ubiquitous, because institutional details determine how the risks of international cooperation will be shared. Developing countries, with poor populations and weak states, are much more vulnerable to international market forces than are advanced industrial countries, and are therefore more risk averse; developed countries, for their part, attempt to use their market power to shift risks to developing countries.[48] The more-or-less legitimate compromises that emerge from the resulting struggles may or may not be efficient. Rather than assuming efficient design, we might do better to return to Keohane and Nye's prescription to explain institutional change in terms of power, international processes, and the opportunity structure provided by existing institutions. The next two sections suggest some hypotheses along these lines.

Bargaining

Apart from the substantive questions of how best to govern international society, there remains the procedural obstacle of how to secure the acquiescence and active participation of at least a subset of its members. If international institutions were not costly to create and modify, they could have no independent explanatory power; the supply would always equal the demand, and institutional design would simply reflect the short-run power and interests of the leading states, their leaders, and their supporting coalitions.[49] Indeed, in conventional terms such as budgets and overhead, all international institutions but the EU are extraordinarily inexpensive compared to the value of the issue areas over which they preside. The WTO, for example, had a staff of 625 and a budget of 182 million Swiss francs in 2007. Bargaining, however, is what makes institutions costly to

[47] Fairman 1996.
[48] Krasner 1985; Strange 1988.
[49] Krasner 1985.

create and reform, because bargaining involves strategic delay in reaching agreement, the investment of leaders' time, and the risk of their prestige.

Bargaining remains a substantial obstacle to international cooperation. Every GATT round faced delays and teetered on the edge of collapse before it was successfully concluded. Some meetings ended in dramatic failure, as in Cancún. Similarly, every major advance in European integration has been delayed, sometimes—as in the case of Economic and Monetary Union—for decades; and every significant change in the rules has come about after high-stakes brinkmanship.[50]

The peculiar curse of bargaining is that the necessary condition for successful cooperation—low discount rates—is precisely the condition that makes bargaining most costly.[51] In the familiar alternating offer game with incomplete information, for example, the length of the delay before agreement depends upon the patience of the players; more patient players hold out longer before they make concessions.[52] Similarly, when bargaining is modeled as a war of attrition, the size of the prize dwindles as the wrangling proceeds, and the bargaining drags on longer when the agents are patient.[53] The same logic has been used to explain the duration of wars.[54] The lesson is general, and does not depend on which bargaining protocol is chosen, so long as delay is possible: Outcomes are most inefficient when bargainers most value the future.

The fate of the Framework Convention on Climate Change is a sobering case in point. In 1992, mobilized by an emerging consensus in the scientific community, 194 countries signed the agreement in Rio de Janeiro.[55] Members of the OECD and twelve post-Communist countries agreed to stabilize their emissions at 1990 levels by the year 2000 and to negotiate an agreement to reduce emissions in the following decade. The details remained to be worked out in the Kyoto Protocol, however, and the proposals steadily became less ambitious in the course of the substantive negotiations.[56] Even the commitments at Kyoto remained abstract until the next stage of negotiations, completed at Marrakech in 2001, which defined the credits to reward land-use policies that remove CO_2 from the atmosphere, or "carbon sinks." The bargain struck at Marrakech dramatically relaxed the earlier targets: The average quota represented a 3.4

[50] Schneider and Cederman 1994.

[51] Fearon 1998.

[52] Admati and Perry 1987.

[53] Alesina and Drazen 1991.

[54] Slantchev 2003, 2004.

[55] Bodansky 2001.

[56] The European Union pushed for a target of 15 percent emissions reductions by 2010, but the Kyoto Protocol of 1997 pushed off the target until 2012 and called for only a 3.6 percent aggregate reduction below 1990 levels, setting targets that ranged from 8 percent cuts to 26 percent increases for individual countries.

percent reduction of emissions below 1990 levels at Kyoto, but a 1 percent increase after Marrakech.[57] In the end, even the nominal level of commitment implied by the Kyoto regime depended on the market power and selective incentives deployed by the European Union.[58] Developing countries refused to participate, and the United States, the most important producer of greenhouse gasses, failed to ratify the agreement. With only a few exceptions, the countries that adopted binding CO_2 quotas were members of the European Union or those seeking accession, and countries that were further from the European sphere of influence made fewer concessions.[59]

The fate of the Kyoto Protocol illustrates the difficulty of achieving multilateral cooperation through bargaining. There was no immediate cost to signing the protocol, but because countries cared about the future in which they would have to cooperate, they gradually whittled away at the cooperative agreement until it failed even to stabilize the carbon emissions that it was originally intended to reduce.

Agenda Control

International institutions evolve through a political process that privileges insiders, who are then able to impose many of their preferences on countries that join subsequently. All voting rules privilege the status quo, and many international institutions use supermajority rules that make the status quo very hard to change. In some cases this may be good for international cooperation.[60] In general, however, the privileged status of insiders is a significant impediment to deals that would deepen international cooperation.

Downs, Rocke, and Barsoom argue that the privileged position of insiders allows international institutions to choose consistently higher levels of cooperation by initially including only the most committed cooperators, and gradually broadening membership to include laggards.[61] In their model, late entrants prefer membership in an international institution such as the WTO or the EU to exclusion, even if they must accept a high level of cooperation as the price of admission, and the level of cooperation

[57] Den Elzen and de Moor 2001.

[58] McLean and Stone 2005.

[59] Russia's effective target after Marrakech was a 5 percent increase over 1990 levels, although actual CO_2 production had fallen 28 percent since 1990, and still Russia refused to ratify the agreement until the European Union dropped objections to its admission to the WTO.

[60] Downs, Rocke, and Barsoom 1998.

[61] Downs, Rocke, and Barsoom 1998.

within the institution is chosen by voting. By expanding membership gradually, a group of intensive cooperators can assure a high level of cooperation, which then becomes the reversion point for future votes. A subsequent entrant is faced with a fait accompli: The status quo is more cooperative than it would prefer, and the pivotal voter, which likewise prefers more cooperation than the new entrant, will block any proposal that it does not prefer to the status quo. As new states enter, the intensity of cooperation is gradually diluted—there is a trade-off between the depth and breadth of cooperation—but cooperation remains consistently more intense than it would have been had all states entered the arrangement simultaneously.

The necessary condition for this logic to work is that previous entrants prefer higher degrees of cooperation than subsequent entrants, which is plausible if cooperation occurs on only one dimension and high cooperators are most interested in joining institutions. Indeed, this story explains aspects of integration in the European Union, as more committed cooperators gradually co-opted states that were initially reluctant. However, the European Union also serves as a counterexample. Cooperation in the EU proceeds on numerous tracks that touch virtually every area of public policy, and these have gradually proliferated, so that the original cooperators could not anticipate all of the forms cooperation eventually took. On some of these dimensions the original cooperators have more conservative preferences than many of the countries that have joined more recently. To take a prominent example, Britain refused to sign the Treaty of Rome in 1957, and acceded to the European Economic Community only in 1973, by which time the interpretation of the Common Market had become well established. Under a variety of Labor and Conservative governments, Britain consistently pushed for a more liberal trade regime in Europe; France was often able to block these proposals, relying upon its position as a veto player and the fact that the status quo was favorable to French interests. The logjam was finally broken only in 1986, when the Single European Act provided an opportunity to reopen the package deal of European integration. On other dimensions, of course, it was France rather than Britain that was in favor of deepening European cooperation in 1986, but this is the point: Voting rules may favor deeper cooperation on some dimensions and shallower cooperation on others, depending upon which countries entered first.[62]

The international trade regime likewise provides examples of the pernicious effects of gradualism. There is a persuasive argument that gradually expanding the membership of trade agreements helps to overcome

[62] Britain was reluctant to accept the institutional innovations of the SEA, and agreement was only reached after France and Germany threatened to move ahead without British participation (Moravcsik 1998).

free-rider problems by diverting trade away from nonmembers.[63] The same bargaining tactic, however, shields early members from the need to make concessions to new entrants. Early members of the General Agreement on Tariffs and Trade were developed countries, which tended to share a preference for lower tariffs for industrial manufactured goods, which they exported, and for higher tariffs for textiles and agricultural goods, which were produced more cheaply abroad. Subsequent rounds of trade negotiations have expanded the range of goods and services covered by the regime, until the Uruguay Round extended it to cover services, foreign direct investment, and intellectual property rights. As new members have joined the regime in the 1990s, they have been required to accept the status quo and harmonize their trade policies with those of the WTO in return for equal treatment with existing members; the existing members have not been required to make corresponding concessions. As a result, the international trade regime remains asymmetric, tolerating high subsidies and barriers to trade in agricultural goods. Annual U.S. cotton subsidies, for example, have exceeded total U.S. foreign aid to sub-Saharan Africa for a number of years, and indeed, exceed the GDP of any of the small West African countries that depend heavily on cotton exports.

The examples of the EU and the WTO illustrate the point that when institutions are used for cooperation on multiple issues, gradually expanding membership may create a bias against deepening cooperation. More generally, supermajority voting rules create a bias against cooperation whenever a new issue emerges: For example, new scientific knowledge identifies a previously unknown threat to the international environment, or a dramatic terrorist attack focuses attention on a previously marginal group. The status quo level of cooperation in new issues is zero. The strongest policy response that can be chosen is one that the pivotal voter prefers to the status quo, and if a supermajority is required to initiate a policy, as in the United Nations Security Council, the pivotal voter will be one that prefers a minimal policy.

Conclusions

Power and Interdependence inspired much of the subsequent work on international institutions, and if its concepts of power, interdependence, and organizational process do not specify a rigorous theory, they nevertheless provide a framework for organizing many of the insights that subsequently emerged. Interdependence provides the rationale for international organization, and trends in international finance, trade, and the environment in

[63] Oye 1992.

the last three decades have raised the costs of failing to address the problems of governance in an anarchic system of states. The rapid proliferation of institutions, broadening of memberships, and expansion of functions that we have witnessed are testimony to the increasing demand in democratic political systems for coordinated solutions to problems that states cannot solve unilaterally. Interdependence, however, fails to predict failures of international governance. To do this, we have to turn our attention to theories of power and institutions.

The standard agency perspective fails to solve our problem. First, agency conventionally predicts excessive institutionalization of international affairs rather than weak governance. Alternatively, a principal-agent view could hold that states fail to delegate precisely because they anticipate agency problems, and this explains why we do not observe them. This begs the question of why such farsighted states are not clever enough to coordinate their behavior to limit the cost of delegation, however; and in fact we observe that they often are. Second, the agency view does not correspond well to empirical observation. Whenever excessive autonomy of international institutions has been alleged, it has turned out that states had never really released their hold on the reins. The pattern of cooperation is consistent with the interpretation that influential states interfere in the operation of international institutions when their interests are affected, rather than the view that international agencies generate policies largely autonomously.

Explanations based on sheer power have fared equally poorly, and on both theoretical and empirical grounds the ill-fated theory of hegemonic stability has fared worst. The realist claim that states refuse to delegate important functions to international institutions because they are obsessed with security concerns is similarly implausible. The problem is rather that irrevocable delegation is simply not feasible. International governance, in short, remains a form of cooperation in a society of autonomous states. Institutions cannot serve as commitment devices because full delegation is never really possible; instead, only reputational equilibria are available, and long-term cooperation is only sustainable when the short-term costs for the governments involved are tolerably low.

Complex theories of interactions between power and institutions are more persuasive. Powerful states delegate authority to international institutions, but they do so in ways that allow them to retain substantial degrees of control. International cooperation is negotiated, and the bargaining depends on the resources and outside options that states bring to the table. Institutional membership and voting rules provide resources that shift the range of feasible agreements. Influential states manipulate institutional rules, hold out for privileged treatment for their own interests, and exploit their agenda control, and these strategies undermine the ability

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of institutions to provide effective international governance. The results are that international institutions suffer from credibility problems, that progress in forging new cooperative projects is slow, and that cooperation in many areas is blocked by the entrenched interests of founding members. State power and international institutions interact in subtle ways, and the possibilities of achieving the common interests that are emerging in an increasingly interdependent global society may depend more upon those interactions than upon the distribution of power or the formal design of international institutions.