Keohane, AFTER HEGEMONY

1. REALISM, INSTITUTIONALISM, AND COOPERATION.

Keohane takes the existence of mutual interests (as well as conflict) as given across specific scenarios and examines the conditions under which mutual interests will lead to cooperation. Even where common interests exist, cooperation frequently fails.

The international environment is anarchic in that is lacks an authoritative government (Keohane accepts the realist assumption). "Institutionalists", argues Keohane, are often naive about the concepts of power and conflict; they are overly optimistic about ideals or the prospects for state learning. Rather, one should argue that interests are malleable and that interdependence creates a propensity for cooperation. At the point of decline of American hegemony (mid-1960s and onward), US involvement in the world economy actually accelerated. This led realists to predict that more diffuse national power should undermine the ability of any one state to create order, whereas institutionalists predicted that increased interdependence would prompt a greater need for policy coordination.

Keohane defines cooperation as "mutual adjustment" rather than simply "common interests": Discord can prevail even in the case of common interests. Keohane accepts that states are rational egoists, but that Realism's pessimism is not warranted in all situations - regimes do matter (Chapter 5). Institutions do not change state behavior strictly by implementing and enforcing rules, but by changing the context in which states reach decisions based on self-interest. Rather than in enforceability, the value of regimes lies in their enabling qualities - they assist and empower governments in concluding mutually beneficial agreements (Chapter 6).

Institutionalism modifies realism: Institutions are a function of the distribution of power, shared interests, and prevailing expectations and practices. They form against the background of earlier, sometimes failed, attempts at cooperation. Most importantly, institutionalism explains the continuation of regimes *after* the initial, favorable conditions for their creation have disappeared: Regimes perform important functions and they are difficult to create or reconstruct. Even though a number of international regimes came under pressure in the 1970s, the advanced states continued to engage in policy coordination.

Realism continues to provide valuable insights - we need to go beyond it, not abolish it (does this ring any bells?).

4. COOPERATION AND INTERNATIONAL REGIMES.

Cooperation and hegemony are not antithetical. Hegemony suggests asymmetrical cooperation. While cooperation is valuable, it is difficult to organize. Keohane insists on a distinction between the creation and maintenance of regimes. When interests converge sufficiently and "other key conditions are met" (Ch. 5), cooperation can ensue without hegemony. At the same time, regimes are easier to maintain than create (Ch. 6): Cooperation after hegemony is related to the fact that the conditions for maintaining existing regimes are less demanding than those for creating them.

Harmony exists under conditions where the actions of states (as manifestations of their self-interest) automatically facilitate the achievement of the goals of other states (eg. the "hypothetical competitive market world."). Under conditions of harmony, cooperation (mutual adjustment) is unnecessary. Cooperation requires that the actions of various entities, which do not pre-exist in a state of harmony), are brought into conformity with one another. A useful distinction between harmony and cooperation is that harmony is *apolitical*, while cooperation is highly political. Cooperation requires the alteration of patterns of behavior. Lindbergh defines policy coordination as follows:

> A set of decisions is coordinated if adjustments have been made in them, such that the adverse consequences of any one decision for other decisions are to a degree and in some frequency avoided, reduced, or counterbalanced or overweighed.

Keohane adds:

> Intergovernmental cooperation takes place when the policies actually followed by one government are regarded by its partners as facilitating realization of their own objectives, as the result of a process of policy coordination.

The concept of discord is crucial to Keohane's argument: Discord prompts others to make efforts to change their policies. If these attempts are resisted, policy conflict results. Negotiation and bargaining may or may not take place in this context. Cooperation is typically mixed with conflict; it reflects the efforts to overcome conflict. Trade relations, for example, are not *per se* harmonious (steel!). Governments tend to respond to domestic demands for protection (liberal argument), by cushioning the burdens of trade liberalization borne by influential domestic groups. These types of unilateral measures shift the adjustment costs to other actors, and discord poses a continuing threat.

The Marxist-Leninist critique is that mutual policy adjustments cannot eliminate systemic contradictions, because they are attributable to capitalism (quest for increasing profit) rather than to coordination problems suffered by egoistic actors operating under anarchy.

Keohane does not examine cooperation "atomistically" as sets of isolated acts, but want to understand patterns of cooperation in IPE. While Ruggie defined regimes as 'sets of mutual expectations, rules and regulations, plans, organizational energies and financial commitments accepted by a group of states,' we should focus on Krasner's definition, which continues to be accepted near-universally (i.e memorize):

> International regimes are sets of implicit or explicit principles, norms, rules and decision-making procedures around which actors' expectations converge in a given area of international relations. Principles are beliefs of fact, causation and rectitude. Norms are standards of behavior defined in terms of rights and obligations. Rules are specific prescriptions or proscriptions for action. Decision-making procedures are prevailing practices for making and implementing collective choice.

Keohane expands on Krasner's definition of norms, arguing that a second usage of norms would distinguish norms from rules and principles by stipulating that participants in a social system regard norms, but not rules and principles, as morally binding regardless of considerations of narrowly defined self-interest. But if we included this definition of norms, the conception of regimes based strictly on self-interest would be a contradiction in terms. Keohane thus treats norms simply as standards of behavior, whether adopted on rational (self-interest) or other (constructivist) grounds.

At the margin, rules and norms merge. Rules tend to be more specific than norms, in that they set out the details of rights and obligations. Rules can be altered more easily than norms or principles (eg. of international monetary relations, Ruggie's "embedded liberalism"). However, it is not easy to distinguish "an implicit rule of broad significance" from a "well-understood, relatively specific operating principle." Rules and principles can affect expectations and values, and strong regimes will likely display tight linkages between rules and principles.

Think of it in terms of "injunctions": Some injunctions are important and rarely change, while others may be very technical and can be changed without significant political impact. Then there is a set of intermediate injunctions "that are both specific enough that violations of them are identifiable and that changes can be observed," but also sufficiently significant that changes in them have an impact on state behavior and the nature of IPE. These intermediate injunctions are the essence of regimes. Keohane uses the oil-regime example: An exclusive focus on the avoidance of *competition* would have resulted in the observation of continuity (i.e. the trend towards cartels), but this would have missed the "momentous changes" that occurred. Focusing on the minute, specific arrangements, on the other hand, would have revealed continuous flux. Keohane claims that "Only by focusing on the intermediate level of relatively specific but politically consequential injunctions, whether we call them rules, norms, or principles, does the concept of regime help us identify major changes that require explanation."

A political (international) system based on the concepts of sovereignty and self-help means that the principles and rules of international regimes will be weaker than in domestic society. Cooperation occurs when states have sufficiently converging interests that mutual suspicion can be overcome. Regimes are thus not part of a new international order, but expressions of self-interest; sovereignty remains a constitutive principle of the system. International regimes are thus consistent with differentials in power and a "sophisticated view of self-interest." They can be seen as intervening variables between structural qualities of the international system (distribution of power) and non-state actors (like MNCs).

5. RATIONAL-CHOICE AND FUNCTIONAL EXPLANATIONS.

Objective interests do not determine world events: Rational individuals who would benefit from cooperating may still fail to do so (game theory; collective action debate). To infer conflicting interests from discord is therefore a serious potential error. Actual cooperation is often less than potential cooperation.

Realists use the rationality assumption to predict state behavior on the basis of sparse information about the states' environments. Institutionalists, on the other hand, have more complex ideas about (changes in) self-interest. Keohane's method is to show, on the realists' own assumptions, that the overly pessimistic conclusions do not follow.

States are involved in "mixed-motive games," such as the PD. There is an incentive to defect, but a higher payoff for cooperation. Free-riding is a likely outcome where each member-s contribution (cost) to the creation of a common good is small.

Rational (egoist) choice models, as employed by the realists, are ideal types (Weber). They make a contribution to causal analysis without demanding a commitment to the truth of the assumptions of the theory. However, argues Keohane, rational choice models cannot be mechanically applied to reality. They are subject to three significant distortions:

1. Choice and Constraint.

   The focus on rational choice at the exclusion of prior constraints can be misleading. Some accessions to a regime may not have been truly voluntary. Constraints generally result in a distribution of preferences that accords the greatest weight to those of powerful actors. Prior constraints may thus be more important that the process of choice; they are - in Andy's terms - logically antecedent. Moreover, regimes can (and often are designed to) impose costs on non-members. Regimes may thus not always improve "world welfare." Discard the idealism!

2. Egoism and Anomie.

   Rational egoism should not be equated with the notion of anomic individuals who operate "outside of human society." Egoistic players, linked by a common society, may have certain expectations for interaction and may act as if they shared ethical standards (Mafia/PD example).

3. Rationality and Ethics.

   Different ethical views may affect the PD payoff matrix (eg. guilty feelings when defecting). Altruists and saints violate the assumption of egoism, not that of rationality. Rational-choice logic forces us to make some assumptions about the values and interests of actors, because the logic, in itself, is empirically empty.

Iteration of the PD may produce learning (mutual punishment over the long term). Future rewards must have perceived value for cooperation to occur (Axelrod). Mutual adjustment can occur with or without direct communication. Collective action theory can also help to explain cooperation. Olson showed that it is easier to form smaller cooperating groups than larger ones. Negotiations among industrialized countries rarely depend on more than a few key participants (OECD). Larger groups may be explained by their provision of private goods as by-products of membership (eg. IEA members can receive oil under the emergency sharing mechanism, but other consumers may benefit if the mechanism functions properly). Collective goods theory can thus not only account for discord, but it can explain the forms that cooperation must take.

The creation of regimes depends on the existence of (perceived) common or complementary interests, regardless of the presence of a hegemon. The hegemon itself can be replaced by "intensive interaction among a few players." The evolution of a regime is as important as its origin. Dense policy spaces provide a greater incentive to develop regimes, because *ad hoc* agreements in such environments would be conflictual. Conversely, in environments with low issue density, the latter may be sufficient.

Functional explanations (eg. regimes are efficient) are generally of a *post hoc* nature. Rational choice theory thus assumes that institutions can be explained and accounted for by examining the incentives for their creation. However, even though an institution may have an effect A, it may have been created for reason B. Functional arguments therefore do not map institutions perfectly onto interests (*Post hoc ergo propter hoc* fallacy). This fallacy can be overcome by showing that the actors involved are rational and that the institutions and social practices to be explained were designed to fulfill anticipated functions (eg. IEA).

Keohane supplements the PD and collective action logic with theories of market failure. Market failure is defined as the absence of agreements that would be beneficial to all parties (eg. the used car market; 'quality uncertainty'). Conscious institutional innovation may be necessary to remedy market failures.

6. A FUNCTIONAL THEORY OF INTERNATIONAL REGIMES.

Conflicts of interest prevail in a self-help system. However, 'negative' externalities do not necessarily preclude effective coordination among actors. Ronald Coase established that Pareto-optimal outcomes can, in certain cases, be achieved regardless of legal liability (costs and payoff structure are determinative; eg. of polluter and laundry operator - review pp. 85-86). The Coase theorem, however, specifies three conditions, which are not met in the real world: (i) a legal framework that establishes liability; (ii) perfect information; and (iii) zero transaction costs. Keohane suggests that, with respect to IR, an 'inverted Coase theorem' would be more appropriate - in the absence of these conditions, coordination will fall prey to collective action dilemmas.

Transaction costs play an important and complex role: If they are too high, no bargain will be struck, and if they are too low, the result may be an infinite series of unstable conditions. Governments act on the basis of the expected effects of regimes. Regimes are thus perceived to be superior to *ad hoc* agreements, for three reasons:

(i) Legal liability:

> Sovereignty concerns prevent the creation of institutions that exercise authority over states. Keohane, however, argues that the significance of institutions does not lie in their formal legal status, but in the manner in which they help states to organize relationships in mutually beneficial ways. Institutions form stable mutual expectations about the patterns of behavior of other members, whereby the costs of cheating are increased and the costs of operating

within the parameters of the institution are reduced. Regimes are often fragile and can be altered frequently.

(ii) Transaction Costs:

Violations of institutional rules such as GATT/WTO are costly. The nestedness of institutional arrangements amplifies this effect. Linkages operate on economies of scale; once an institution has been created, there is a lower marginal cost of dealing with additional issues. Side-payments are facilitated: "More *quids* available for the *quo*." Linkages and side-payments within the *same* institution become easier, whereas linkages across different regimes are more difficult (eg. WTO + debate; Charter & human rights regime?). The EU spillover literature is of some help here - the expectation that the substantive jurisdiction of the EU would expand permitted a broadening of side payments, which, in turn, facilitated agreement.

(iii) Uncertainty and Information:

Many situations involve both conflicting and common interests. Actors need to worry about being deceived. Uncertainty is the primary reason why some mutually advantageous bargains are not concluded. There are three particular sources of difficulty:

(a) Asymmetrical Information: Some actors have better information or more information than others. Awareness of this differential is a barrier to making agreements. Not all communication reduces uncertainty; deception may distort outcomes. Institutions may help actors to assess each other=s reputations, or they may provide secretariats which are charged with the provision of unbiased information. On the other hand, the information provided by an institution may be insufficiently detailed. The degree of closure of a state's decision making process thus becomes important. Governments that cannot provide detailed, reliable information about their intentions may fail to convince others of their commitment to an institution.

(b) Moral Hazard: Agreements (eg. property insurance) may alter incentives to encourage *less* cooperative behavior (eg. recklessness). Automatic insurance in the banking field has led to a trend towards more risky, but profitable loans.

(c) Irresponsibility: Some actors enter into agreements they are unable to keep later because of changes in circumstances. From the standpoint of the actor deciding whether to enter into an agreement with an irresponsible actor, irresponsibility gives rise to uncertainty.

Close, sub-state ties among officials (networks) are inherently more conducive to an exchange of information than the traditional relationships between closed bureaucracies. Regimes facilitate agreement by (i) raising the anticipated costs of violating others' (property) rights; (ii) altering transaction costs through the clustering of issues; and (iii) providing reliable information to members. The conditions most favorable to institutions are those where states have both common and conflicting interests across a range of multiple, overlapping issues and where externalities are difficult, but not impossible to address through bargaining.

While compliance with institutions should not be overstated (trade and monetary regimes have weakened through the 1970s), the overall pattern does not support the claim that governments disregard compliance with international agreements. Keohane distinguishes between 'myopic self-interest', i.e. a government's cost-benefit analysis of an issue in isolation, and compliance with more broadly defined interests, which poses a problem for realists and theorists who assume rational egoistic action. Other realists, like Morgenthau, have been able to avoid this problem by relying on a murky notion of "national interests." Keohane views each issue and each regime as part of a larger network of issues and regimes, and thus offers a more sophisticated view of self-interest.

Existing regimes are valuable in part *because* of the difficulties involving high transaction costs and uncertainty that must be overcome to create them. Complementary interests are a necessary but insufficient condition for the emergence of regimes. Existing regimes begin to draw benefits from a relatively high and symmetrical level of information and the facilitation of regime-supporting bargains. Institutions are persistent because they are not quasi-governmental rule makers, but providers of information that reduce transaction costs. Intricate and extensive networks of communication among working-level officials create an institutional stickiness in the face of (American) hegemonic decline. Sunk costs may tend to preserve the pattern of action here. Moreover, if institutions could be established at zero cost, there would be little point in constructing them.

Social pressure, applied via issue-linkages, can compel governments to comply. Retaliation remains an option: Sometimes it is expressly authorized (GATT), and at other times "it is more general and diffuse." The pursuit of myopic self-interests, in the context of tightly-linked regimes, can become unattractive. Institutional learning should ultimately lead to the calculation that a rational actor will not violate the rules of a regime unless the net benefits of doing so will outweigh the net costs of the effects of the violation *on other international regimes*. GATT retaliation provisions, at the time of writing, had been invoked only once. Even absent retaliation, government still have incentives to comply, on the basis of (i) setting a good example of a compliant state and thereby discouraging violations on the part of others and (ii) the costs of acquiring a bad reputation. There is value in having a good reputation, even for those who have a small role collective activities.

Systems of social control, both primitive and advanced, are forward-looking: "They depend on intense, continuing interaction among a small number of actors, who deal frequently with each other without formal laws enforced by a common government."

Keohane has assumed here that governments perform minute interest calculations on every issue that faces them. No assumptions have been made about the "public interest" or "general will," and the analysis does not rely on idealism. Even on realism's own restrictive assumptions, its gloomy predictions do not follow. International institutions 'authorize' and 'facilitate' certain types of bargains and negotiations leading to mutually beneficial agreements. There are many intervening factors that can affect institutions, including changes in the constellation of power; changes in interests; and changes in institutional membership.

10. THE CONSUMERS' OIL REGIME, 1974-1981.

Recap: Cooperation depends on real or potential discord as well as institutional arrangements that reduce transaction costs and provide high-quality information in a relatively symmetrical fashion. Hegemony has certain residual effects: Even after the 1950s and the decline of American power, the US is still no "ordinary country." The United States continues to be the most important actor and lacks the ability or inclination to sustain strong, multilateral (liberal) rules. Keohane claims, however, that his theory would be disconfirmed if cooperation were not to emerge at all after hegemony, or if it consistently appeared "in the wrong places," by which he means cooperation among large numbers of small countries without the leadership of a few great powers (cf. Realism). Lastly, institutionalism would be undermined if most agreements took place on an *ad hoc* basis rather than within an institutional framework.

Keohane looks at the IEA and oil regime. According to his argument, the IEA should function primarily as a facilitator of agreement. Notions of sovereignty should not preclude cooperation from taking place; rather, institutions should operate less as enforcers of rules than through the provision of rules as guidelines or through informal coordination.

The IEA offers a longitudinal case study, involving both the 1973-74 and 1979-80 oil crises. During the 1973 crisis, the major oil consuming countries acted in an uncoordinated and competitive way, thereby creating additional (pricing) distortions. They were unable to solve the collective action dilemma. Countries defected, and the Netherlands wound up paying for the sucker's payoff of oil shortages. The oil companies, on the other hand, saved the states from their own myopic self-interest: They ignored government demands for preferential treatment and tried to reduce shipments equally across their customer base.

The lessons of 1973-74 propelled the IEA into the role of an operational IO "with a clear orientation towards facilitating cooperation among the advanced consuming countries" by 1978. Monitoring mechanisms were put in place which facilitated long-term measures to reduce net demand. The IEA was also endowed with the authority to make findings of reductions of oil supplies to a particular country or the group, which would trigger the emergency provisions of the Program and place governments under and obligation to take mandatory action. Moreover, the Standing Committee on Long-Term Cooperation developed a (soon to be irrelevant) floor price of $7/bbl.

The 1979 crisis was unexpected. The market was more fragmented, uncertain and rigid than in 1973-74 so that even small short-falls of production created massive collective action problems and chain reactions. Government and private entities were actually adding oil stocks, rather than sharing and drawing down; this had an important but unrecognized effect on oil prices. The trade-off between higher prices and shortages was settled in favor of the former. Oddly, production exceeded consumption in 1979! The IEA's efforts to supply members with information about the spot market were largely ineffective, due to the rapid change of the market. The emergency oil sharing mechanism was never activated. The triggering provisions did not necessarily result in the equalizing of burdens; since countries with tight price controls could create the appearance of a deficiency (consumption is stimulated, while sellers are turned away). Price controls were not coordinated (harmonized). Thus, in all, the 1979 crisis produced results that were only marginally better than in 1973-74. Prices followed the spot market.

The dynamics during the 1980 mini crisis played out differently. IEA members formally approved country-by-country import targets. The two collective action problems were excessive final demand for, and stockpiling of oil. The IEA adopted a rule oriented approach to the excessive demand problem, by way of public commitment to import targets (reputational constraints). Stockpiling, in contrast, was addressed by purely informal arrangements. The targets, however, were too high to present an effective constraint and thus had largely symbolic significance. This symbolic impact, on the other hand, was an important rhetorical means of facilitating cooperation.

The stockpiling question was tackled by way of the development of an information system, coupled with "regular discussions." However, no clear criteria were developed that governed the use of national or IEA controlled stocks. Thus, in two of three areas (emergency sharing and demand restraint), rule-based approaches were adopted. At the same time, the rules were never implemented. After the September 1980 Iran-Iraq war broke out, prices rose sharply to $ 40 by December, but ultimately retraced to a level only 5% above the level prior to the outbreak. What accounts for the different outcome, compared to the 1973-74 crisis?

Keohane argues that the IEA regime mattered in a number of ways: It facilitated coordination between governments and oil companies and reduced uncertainty by providing reliable information. "Learning" occurred between 1978 and 1980. Officials understood the problem; the industry had become used to 'uncertainty'; and political leaders learned that the price question could not be ignored. Concretely, the IEA member countries agreed to urge market participants from engaging in 'abnormal spot market purchases'; to consult with oil companies to encourage draw-downs; and to consult among each other on the fair implementation of these measures. Stocks were in fact drawn down at twice the normal rate in late 1980, and the IEA contributed in the creation of a belief that prices would decline over the long term.

Centralized rule enforcement, even among the most institutionalized regimes like the WTO and IMF, is not the predominant mechanism by which institutions affect state behavior. The anarchy-hierarchy dichotomy, so argues Keohane, is fundamentally misleading. Institutions function as facilitators of agreement. The IEA case shows that, for institutions to matter, a sufficiently favorable environment must exist that permits the marginal contributions of (i) minimizing transaction costs; (ii) reducing uncertainty; and (iii) providing rules of thumb for government action to take effect.

11. THE VALUE OF INSTITUTIONS AND THE COSTS OF FLEXIBILITY.

Interdependence creates conflict, and governments shift the costs of adjustments to domestic pressures (in response to conflict) onto others. This leads governments to pursue incompatible policies, which creates discord. Non-hegemonic cooperation is difficult, because it must occur among states who are motivated more by their own conception of self-interest than a commitment to the common good. However, declining hegemony may actually prompt an *increase* in the demand for international regimes (Oil regime history).

Realism provides a good starting point because its logic and assumptions provide safeguards against 'utopianism.' However, it must be revised because it underprivileges the quantity, quality, and distribution of information. Information and power are both significant systemic variables. Neither the “peace through law” nor the world government paradigms are particularly helpful. Again (how many times has he said it now?): Institutions facilitating cooperation do not mandate what governments must do, but they help governments pursue their own interests through cooperation. It is misleading to examine regimes on the basis of the centralization of authority.

Building institutions is difficult and frustrating (welcome to IR!) because common interests are hard to discern and maintain. Collective action also invites myopic behavior (Stag hunt). Most situations in institutional relationships will be mixed-motive games.

Ethics:

Ethical doctrines fall along the lines of ‘morality of states’ and the ‘cosmopolitan’ view (eg. Beitz). The latter view claims that there is an inherent relationship between the rights of individuals and the rights of states, i.e. states cannot be considered independent subjects of moral theory. If individuals across societies have moral obligations toward each other, effects outside of the circle of members must be subject to moral accountability.

Utilitarianism requires a high degree of altruism. Utilitarianism linked with cultural standards, on the other hand, would sanction huge inequalities. Even ‘plain’ utilitarianism legitimately sacrifices innocent people in the interests of the “greatest happiness of the greatest number.”

Beitz has extended Rawls’ theory of rights to the international realm: The veil of ignorance offers one in six chances of ending up as a citizen of a market economy. The difficulty is that it is impossible to know the motivation of political leaders. Moreover, students of international politics to not tend to evaluate leaders’ behavior on moral grounds (Chamberlain; Nixon).

Under a cosmopolitan analysis, the collapse of contemporary economic regimes would reduce overall welfare. Crises tend to arise faster than regimes can be created. Cooperation, however, will have a positive overall effect on stability and thus welfare in advanced, industrialized countries. Caveat: Regimes improve the bargaining power of individual investors vis a vis governments and other groups. Capital mobility turns this into a double bias in favor of capitalist states. Another distortion is that protectionism favors small, powerful, organized groups within advanced industrialized countries. Redistribution from wealthy to poor (least advantaged) states is morally desirable on either utilitarian or liberal (Rawlsian) grounds. The problem is that contemporary economic regimes result in disproportionately less benefit for developing countries. Some beneficial effect does exist, resulting in “conditional acceptability” of international economic regimes. Citizens of the advanced industrialist countries retain an obligation to modify the principles on which institutions are based.

With respect to foreign policy, Keohane’s central point is that uncertainty is reduced by (guess what...) institutions which can improve the quality of information about a government’s true intentions and by establishing standards of behavior. Unpredictable behavior reduces one’s ability to make credible promises.