

*"Enumerate at least five hypotheses that could plausibly test the proposition that international institutions overcome commitment problems and lower transaction costs."*

If we take seriously the proposition that states act in the pursuit of interests, then it seems likely that states act through international institutions to the extent that such institutions further these interests. However, in the process of pursuing immediate interests, states may choose to vest international institutions with portions of their sovereignty, and thus bind themselves to the rules and norms of their own instruments. Such transfers of sovereignty may undermine the long-term freedom of the state, but purchase substantial freedom of action in the short term.<sup>1</sup>

International institutions are broader than the formal secretariat – they include “mutual expectations, rules and regulations, plans, organizational energies and financial commitments which have been accepted by a group of states” (Ruggie 1975). Such “international regimes” function as networks of “implicit or explicit principles, norms, rules and decision-making procedures around which actors’ expectations converge” (Keohane 1984). Rules and norms often merge into one another at the margin, and the scope of such regimes generally corresponds to the boundaries of international-political issue areas. By the mere fact of convening officials, international organizations help to activate potential coalitions in international politics (Keohane and Nye 1989).

Keohane (1984) argues that we should see international regimes as “arrangements motivated by self-interest” (63), but he argues that such regimes can themselves shape state interests by changing actors’ perceptions both of consequences for action and of fundamental values. He argues that a possibility of exclusion from collective benefits (requiring costly monitoring) and a high likelihood that interactions will be continued over time facilitate the emergence of the “principles, norms, rules and procedures” that constitute international regimes (84). He thus emphasizes that “properly[-]designed” institutions can enable cooperation in the absence of coercive (hegemonic) power, and that such cooperation can persist in the absence of a hegemon even if the creation of an equivalent international regime *ex nihilo* would be impossible.<sup>2</sup> If states are indeed motivated by self-interest but are held back by commitment problems, two hypotheses follow immediately:

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<sup>1</sup> For a description of an analogous process at the individual level, see Bates and Lien (1985).

<sup>2</sup> This recalls Russell Hardin’s (1997) proposed “bootstrapping” problem of collective public good provision.

*H1: We should expect to see international organizations flourish in areas where transaction costs and commitment problems would otherwise proliferate.*

*H2: We should expect to see international organizations in areas where it would be advantageous to a powerful state to “self-bind” to plausibly make a credible commitment.*

If international institutions are the product of rational state behavior, we should be able to predict the circumstances under which they should be possible or likely. Koremenos et al. (2001) conceive of international institutions as “explicit arrangements” negotiated among international actors that prescribe or proscribe behavior (762). Calling Keohane’s optimistic prediction of rational cooperation a “folk theorem,” the authors attempt to reintroduce distributional considerations alongside the efficiency concerns that Keohane acknowledged. They develop a number of conjectures concerning the rational design of international institutions and the circumstances under which they will be likely or unlikely. Most notable among these, they expect the flexibility of an organization’s response to decrease as the number of participants increases. However, their point about distributional considerations and relative gains seems to me the most important, giving me the following hypothesis:

*H3: We should expect to see international organizations in areas where distributional problems are minimized, such as public goods provision.*

Why do states obey the dictates of the international regimes they create and participate in? Are we forced to choose between purely epiphenomenal compliance or totally independent agency on the part of the international organization? Schneider and Slantchev (2013) suggest an additional possibility: an “agent-implementing organization” where members contribute even though they would not have done so without the organization, but are not punished by other states for deviating from the organization’s prescribed behavior. Under these circumstances, agent-implementing organizations are able to galvanize collective action without resorting to enforcement, and are able to function in the absence of a long shadow of the future. Thus:

*H4: We should expect to see international organizations formed through coercive delegation where the shadow of the future is long OR through non-coercive delegation (where the shadow of the future is short).*

To understand whether it is in the interest of a state to vest sovereignty in an international organization, we must first understand that state's reserve option – the opportunity cost of doing nothing. Fearon (1998) proposes that when a state's cost of noncooperation is low, it is likely to hold out for a better deal as a means of distinguishing itself as the “powerful” type and availing itself of the resulting bargaining leverage. He also makes the crucial point that where the issues at stake are vitally (even existentially) important, the shadow of the future lengthens to the extent that bargains creating international organizations may be very hard to reach.<sup>3</sup> States must value future benefits to an extent if they are to care about the efficiency gains of working through international organizations, but if they care too much, states will be unable to strike a deal. Thus the following hypotheses:

*H5: We should expect to see international organizations formed in areas where a state's cost for noncooperation (holding out) is high.*

*H6: We should expect to see international regimes emerge where states value future benefits somewhat but not too much.*

Finally, for an international organization to deliver satisfactory outcomes, its members must be engaged enough to communicate satisfaction or dissent. However, as Hirschman (1970) points out, cooperation will be best facilitated by a mix of “alert” members (to convey dissatisfaction) and “inert” members (to provide the organizational slack necessary to address the problem) (24, 32). Hirschman famously distinguished between exit and voice as conceptual substitutes. An agent's choice of “recuperation mechanism” is guided by the baseline plausibility of the voice option, weighed against the opportunity costs of exit (30). Thus:

*H7: We should expect international organizations to work best when they feature a mix of “alert” and “inert” members.*

*H8: We should expect engagement (“voice”) in international organizations to be greatest where exit options are most remote (e.g. regional organizations (NAFTA), issue-specific organizations (OPEC)) and prospects for the effective use of voice exist.*

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<sup>3</sup> Combined with Keohane (1984), we may infer that international organizations covering existential issues (such as the United Nations and the World Trade Organization) may *only* be possible to set up through hegemonic compulsion. However, the existence of these institutions may continue to benefit a post-hegemonic set of states even if such states would be unable to recreate them.

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