

After Hegemony: Cooperation and Discord in the World Political Economy, by Bob Keohane, Ch. 5,6

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Chapter 5—Rational Choice and Functional Explanations

- States can fail to cooperate even when they have mutual interests. This brings us into “mixed-motive” situations, in Schelling’s terminology, which combine conflict and dependence. Prisoners’ Dilemma (PD) is one such situation, which points to the power of systemic arguments as an explanation for failures to cooperate (since it is the nature of the system, not the nature of the actors, the results in the failure to cooperate). He also believes that systemic arguments put a proper perspective on rational choice approaches by reminding all of us that state behavior is not all about choice, it is about constraints and the manipulation of structural incentives, as well.
- Keohane reiterates the fact that the possibility of related negotiations that turn a game into more of a “multiple-play,” whereby defection by one party can result in retaliation by another. This is the first part of his functional theory of institutions. He focuses in turn on collective action problems and market failure as other factors that can contribute to an understanding of international institutions.
- He also argues that there are important and frequent instances of bargaining among a small number of actors (e.g., the OECD). Despite the difficulty of completing excluding the benefits of public goods to states that are not members of institutional arrangements, Keohane points out that those who are members tend to accrue the most direct and significant benefits to cooperation. It is the small groups of interacting states who take the role of the hegemon in engaging in repeated bargaining so as to create and maintain institutional arrangements (in order to facilitate the fulfillment of shared interests, including increased efficiency of exchange across issues).
- By characterizing institutions as a product of the interests of actors, Keohane has espoused a functional view of institutions, which is to say that he believes that institutions are created for specific ends by purposeful actors. Generally, this does imply post-hoc analysis, but Keohane believes that you can avoid interpreting institutions merely by their consequences by establishing rationality on the part of the founding/participating members of the institutions, and identifying the specific purposes for which the institutions were designed.

Chapter 6—A Functional Theory of International Regimes

- Drawing from the work of Ronald Coase, Keohane focuses on three conditions that will facilitate international cooperation through bargaining—a legal framework that defines liability, low-cost (and more widespread) information, and reduced transaction costs.
- On legal liability, Keohane concedes that without a supranational authority, it is impossible to register enforceable agreements, but he does believe that patterns of contracts and bargaining engender mutual and stable expectations about state behavior, violations of which will at least be recognized.
- On transaction costs, Keohane argues that international institutions reduce transaction costs in the following ways: by lending legitimacy to measures that retaliate against defection, by making it cheaper for states to get together and party (err...negotiate), as long as they are portable across issues (generating political economies of scale), by increasing the possibilities for side-payments across issues, and by engendering changes (and often, convergence) among domestic bureaucracies.
- Turning to information, Keohane focuses on three especial problems: asymmetrical information, moral hazard, and irresponsibility. By information, Keohane is referring especially to knowledge about other states’ “resources and formal negotiating positions,” as well as “knowledge of their future positions,” (94). Regimes not only set benchmarks against which state behavior can be compared, they are also often unbiased providers of information. However, the effectiveness of international regimes as mitigators of the problem of asymmetrical information is limited by the differential transparency of a state’s decision-making procedures.
- Where moral hazard is concerned, Keohane points out that the extent of a state’s participation in an international bargaining may inspire more risk-seeking behavior on the part of sub-unit actors, who have the knowledge that the state is now more responsible to other actors in the international system to keep its house in order (and therefore will absorb the costs to save sub-unit actors who go astray). Finally, irresponsibility in Keohane’s world is making commitments that one will be unable to uphold, which gives rise to the problem of credible commitments. Keohane believes that international regimes raise the costs of moral hazard and irresponsibility, which will ensure that states take greater steps to avoid both.
- Keohane turns to compliance next, and concedes from the beginning that there is a great deal of non-compliance with international regimes. But he is interested in the puzzle of why a state would abandon its “myopic” self-interest in favor of participation in an international regime.
- Focusing on the maintenance of an international regime, Keohane argues that states can become used to relying upon international regimes as information providers and as reducers of transaction costs, which results in the embedding of these patterns. Additionally, he argues that the high sunk costs of building international regimes makes states unwilling to abandon existing ones. The fact that states are invariably party to many regimes makes defection from a regime improbable, because of the costly implications for the state’s membership of other regimes.
- But retaliation to defection is costly, so Keohane relies on reputational costs to explain why a state would not defect from an international regime. Essentially, a bad reputation may make it difficult for a state to find other states willing to enter into a future advantageous agreement with it.
- Relying a cost-benefit analysis to explain why states continue to abide by international regimes, Keohane believes that regimes will evolve rather than disintegrate. They may evolve as a consequence of changes in the international distribution of power, changes in interests, and changes in membership (as newly autonomous actors enter the stage).