

Keohane begins his investigation of cooperation among advanced, industrialized nations in an increasingly interdependent world with the premise that even where common interests exist, cooperation often fails (p. 6). Reflecting on the world views of institutionalists (who argue that shared economic interests create a demand for international institutions) and realists (who argue that the world is an anarchic system where discord is a result of fundamental conflicts of interest), he argues that “Realists would seem to have made the better forecast” (p. 9). Using a modified realist model Keohane seeks to understand how cooperation can take place in the time of decreasing American hegemony. Chapters 6 and 7 attempt to answer this question through an investigation of a functional theory of regimes, first using realist assumptions that regimes are egoists and then relaxing those assumptions to allow regimes situations of bounded rationality and self interest.

Ronald Coase (1960) argued that “the presence of externalities alone does not necessarily prevent effective coordination among independent actors” (p. 85). Keohane sets out Coase’s three conditions for the efficacy of bargaining and for solving coordination problems without the presence of a central authority: 1) a legal framework establishing liability for actions, 2) perfect information, and 3) zero transactions costs. International politics encounters, which usually take place without the presence of these conditions, become difficult-to-solve coordination problems. Keohane argues that “regimes are developed in part because actors in world politics believe that with such arrangements they will be able to make mutually beneficial agreements that would otherwise be difficult or impossible to attain” (p. 88). This functional argument postulates that regimes: reduce the operating costs of transactions between states, increase the renegeing costs, reduce transactions costs, reduce marginal costs of additional issues, and, importantly, reduce uncertainty. Thus “regimes make it more sensible to cooperate by lowering the likelihood of being double-crossed” (p. 97). Keohane also points out that the concept of “sunk costs,” where “an action in the past has given rise to a permanently useful resource” (p. 102), is embodied in institutions, and thus “we can understand why they persist even when all the members would prefer somewhat different mixtures of principles, rules, and institutions.”

Keohane then relaxes the assumptions that underpinned the functionalist argument for regimes, namely that they are both rational and egoists. Keohane argues that “even the shrewdest speculator or the most brilliant scientist faces limitations on her capacity for calculations,” and therefore actors are subject to “bounded rationality” where they “are not capable of using all the information that is potentially available” (p. 112). Using Simon’s theory of satisficing, where actors economize on information by finding a course of action at their aspiration level, Keohane argues that the “inclination of governments to join or support international regimes will be reinforced” (p. 115). Regimes, desperate to simplify their decision making processes, use simple rules of thumb, not classically rational methods. Regimes allows complex governments to satisfice by providing them with “rules of thumb in place of those that governments would otherwise adopt” (p. 116).

Finally, Keohane allows for states acting as altruists or empaths, where states “may redefine their interests so that they are empathetically dependent on those of others” (p. 125). States no longer need think of their interests as Realists have, i.e. as independent preferences which are unaltered by their neighbors’ preferences. Governments which are empathic will be more likely to seek out solutions even at the “expense of direct gains to themselves.” Thus for states who have empathy for each other, cooperation will be more likely than for states who act as egoists. Keohane concludes by admitting that a “complete analysis” of regimes would need to explain how states “think about their interests – that is, as a result of actors’ learning” (p. 132).