

CHAPTER 2

Institutions, Power, and Interdependence

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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.



