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Power Politics and the Institutionalization of International Relations

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-- Abstract --

Taking a fresh look at the European Monetary System and its institutional successor, Europe's newly-inaugurated monetary union, this paper asks whether power asymmetries and the "threat" of domestic political turnover might be influencing the types of international institutions and dispute resolution structures we see emerging across today's international landscape. Perhaps the most striking feature of these new arrangements is their flexibility; most leave considerable room for ex post changes in the initial terms of cooperation. That this is so—and the EMS, whose rules explicitly allowed for periodic parity realignments, is a case in point—presents something of a mystery. Why don't the creators of these arrangements fully specify their terms of cooperation ex ante? By allowing for subsequent revisions or "clarifications" over time, these powerful actors would seem to be increasing, rather than diminishing, their regime's susceptibility to unwarranted defections. The standard explanation is that the creators, being boundedly rational, are unable to devise a complete contract. But this is not, I contend, the only possibility. From a political standpoint, an incomplete regime may actually be preferable. By fleshing out the terms of cooperation ahead of time, the creators would be denying future opponents of the regime (who might one day include the initial prime movers' own domestic successors) any opportunity to moderate its terms, reformulating—or simply reinterpreting—them in ways intended to make their continued participation in the arrangement somewhat less burdensome than it would otherwise be. It is for this reason, I suggest, rather than out of the (narrowly construed) efficiency considerations emphasized by previous scholars, that the contractual terms embodied in many of today's regional and multilateral institutions take the looser forms they do. Delimited though it is, this flexibility works to co-opt the regime's "losers," reducing their propensity to mount a serious challenge to it if, in future years, they should ever get the opportunity.

Introduction

For several years now, rational choice theorists of international relations have been moving aggressively to incorporate the kinds of power-driven distributional considerations that earlier IR scholars, for all of their talk about hegemony and leadership, had tended to ignore or relegate to secondary status. The result has been an outpouring of new work aimed at demonstrating a simple (though previously neglected) theoretical point: international institutions can have profound distributional consequences, benefiting powerful states by more than—even, potentially, at the expense of—weaker states.[1]

This is reasonable enough, as far as it goes. Yet if what we want to know is why some of these institutions are formal and others informal, some supranational and others intergovernmental, some accommodating and inclusive and others inflexible and hierarchical, the recognition that "powerful states do better" does not take us very far. As a result, scholars interested in these sorts of questions do not generally look to power-oriented theories for inspiration.[2] Most draw instead upon the earlier transaction-cost tradition of institutionalist research.[3] Although contributors to that earlier body of work may not have paid enough attention to distributional issues, they did at least tell us something useful and important about institutional structure—as to date, by and large, exponents of the new power-politics models have not.

But to say that these models have not been put to use in helping us understand the nitty-gritty of institutional design is not to say they are incapable of doing so. Quite the contrary, power-oriented perspectives have a great deal to contribute to institutionalist theory—or so, in what follows, I will try to suggest. It's just that the work of clarifying that contribution, of explaining precisely how power considerations enter into the institutional design calculus, has yet to be done. This essay endeavors to fill that gap.

At the center of my analysis are the "enactors." These are the pivotal players in the institution design process, the ones who, at the outset of that process, commanded the greatest power. Why were they powerful? Perhaps their interest in moving to a new form of regional or multilateral organization was less urgent than it was for other participants in the process and so, having less to lose, they were able to hold out longer for their first-choice institutional structures.[4] Alternatively, the powerful actors, though no less dissatisfied with the anarchic status quo than anyone else, may have had the capacity to

[1] See, for example, Grieco 1993, Garrett and Weingast 1993, Gruber 2000, Krasner 1991, Martin 1992, and Oatley and Nabors 1998.

[2] This omission is pointed out by Barnett and Duvall (2003) in their introduction to this volume.

[3] Representative works here include Abbott and Snidal 1998, Kahler 1995, Moravcsik 1998, Yarbrough and Yarbrough 1992, and the contributions to Koremenos, Lipson, and Snidal 2001.

[4] Though central to theories of bargaining (cf. Hirschman 1945, Raiffa 1982, Rubinstein 1982), this notion of hold-out power does not fit squarely within any one cell of the two-by-two power matrix introduced by Barnett and Duvall in their introductory chapter. The ambiguity here lies in the "indirectness" of the power exercised by the actor who enjoys the bargaining advantage. This actor does not directly control the actions of others in the way that, say, an emperor controls his subjects. While it is true that hold-out power resides in the actions of specific actors—placing the relationship in the upper row of chapter one's power matrix—the bargaining losers are never "compelled" to alter their behavior. Nor, insofar as they have a choice in the matter, are their options limited (by the bargaining winners) to unattractive alternatives. If the losers dislike the institutional arrangements for which their partners are holding out—if they would prefer the non-institutionalized status quo—they can always say no.

alter that status quo unilaterally. It isn't hard to see how this go-it-alone capacity—the ability to opt out of collective negotiations, proceed on one's own, and still derive positive gains with respect to the baseline (non-institutionalized) status quo—would afford an enormous advantage to whichever subset of the larger collectivity was lucky enough to enjoy it.[5] For present purposes, however, the precise source of the enactors' power advantage is of less relevance than the fact that they have one, and because they have one—because they can get the other participants to accede to their demands—their institutional preferences are likely to count for considerably more than those of the other institution builders sitting around the table. If our goal is to understand why the institutions of global governance take the particular forms they do, our first step must be to inquire into the strategic calculations and incentives of these more powerful players. What kinds of problems are they likely to be worried about, and to try as best they can to preempt or mitigate, as they go about the task of designing "their" institutions?

Drawing upon the new economics of organization (see esp. Williamson 1985), one might expect two such problems to loom particularly large. The first is the risk of ex post opportunism, referred to below as the incomplete contracting problem.[6] The second is the risk of ex ante coordination failure, or what might be termed the multiple equilibria problem.[7] There is, however, a third category of institutional design problems which, though less familiar to students of global governance, may loom even larger in the minds of the pivotal players. These problems—the nature and implications of which I focus on in this chapter—stem precisely from the "power-politics" fact that few international agreements benefit all of their signatories equally. The same could be said of domestic agreements of course, or indeed of any agreement or contract whose signatories wish it to endure for more than a very short period of time; rarely do long-term transactional relationships benefit each party by exactly the same amount. Yet the fact that such asymmetries exist in most long-term <u>international</u> relationships holds a special significance, for the beneficiaries of these relationships (including the prime movers whose idea it was to establish them in the first place) do not have the luxury of appealing to a higher body in the event that their transaction partners—some of whom may not benefit nearly as much—decide one day to radically overhaul the terms of their ongoing relationships.

True, the relative losers' incentives to engage in this sort of behavior may not be very strong at first. Although their own expected benefits may not be as great as those anticipated by their institutional partners, a governance arrangement's losers could still be better off faithfully abiding by its terms (their relative losses notwithstanding) than not abiding by them—at least initially. Over time, however, that could change, for there is

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[5] See Gruber 2000. Because the powerful actors in this scenario only indirectly control the actions of the weak—a consequence of the former's having removed the status quo from the choice sets of the latter—this different conception of (what I have elsewhere termed "go-it-alone power") belongs in the upper-right-hand cell of the Barnett-Duvall matrix. My concluding section discusses some of the parallels between this type of power and Bachrach and Baratz's (1962) more familiar conception of agenda power; see also Schattschneider 1960.

[6] As noted below, ex post defections are more likely to occur when the terms of the contract or agreement at issue are incomplete and therefore fundamentally ambiguous.

[7] I do not mean to suggest that these are the <u>only</u> problems with which the new economics of organization is concerned. To date, however, I think it is fair to say that this literature—particularly as it has been applied by students of international relations—has given opportunism and coordination problems the lion's share of attention (as opposed, say, to the problem of variable tastes or preferences). For a more nuanced treatment, see Furubotn and Richter 1997 and especially Koremenos, Lipson, and Snidal 2001.

always a chance that a government presiding over one of the institution's relatively disadvantaged member states could be turned out of office and replaced by a less cooperative political party or coalition, one whose leaders see the terms embodied in the institution as producing not just relative losses but also absolute losses. Even if it decided not to withdraw from the arrangement, this "new kid on the block" would be in a position to wreak havoc, demanding full-scale changes in the rules of the game that its predecessor, along with all of the arrangement's other founding members, had previously agreed to uphold. The original enactors would not be required to adopt those changes, of course. But by the time the threat surfaced, the once-powerful enacting coalition might find that its earlier position of dominance had deteriorated. The most likely cause of this deterioration—and certainly the most dramatic—would involve one of the enacting governments being forced to step down after a pivotal national election or (even more dramatically) following a violent coup d'état. Should something like this ever happen—if even one of the enacting governments were to be succeeded in office at some point in the future by an anti-institution party or coalition—the institution in question would be rendered particularly vulnerable, as would all of those future benefit streams anticipated by the signatories who had been profiting from it and who, like the enactors who created it, wished to see it survive.

That being the case, one would expect this scenario to weigh quite heavily on the minds of the enactors during the initial period, as they considered the relative pros and cons of different institutional configurations. Might it weigh even heavier than the opportunism and coordination problems emphasized by previous institutionalist scholars? I think it could, though the answer would ultimately depend on the particulars of the case (e.g., the extent to which the enacting governments could feel confident that parties sharing their institutional preferences, if not necessarily they themselves, would remain in power for the foreseeable future). Suffice it to say that the power-politics side of the institutional design story deserves closer scrutiny than it has received thus far in the international relations literature. My hope is that by bringing these issues to the surface, this essay will point the way toward a broader, and ultimately more productive, institutionalist perspective.

The chapter is organized into five sections. I begin in section 1 by taking a brief look at what the IR community has had to say about recent institutional developments, and about the politics of institutional choice more generally. In section 2, I then put forward my own perspective, one that flows directly out of the theoretical logic I have begun fleshing out in this introductory discussion. Thus I ask how the knowledge that a regional or multilateral regime may one day include a preponderance of members who do not believe they are benefiting from it[8] should be expected to influence the decision making of the initial prime movers, the coalition of actors who, by virtue of their more powerful positions, can essentially dictate what form the regime takes. Might the threat posed by these (future) losers incline the original enactors toward more flexible—and hence more elaborate—institutional structures than they might otherwise want or prefer? And if so, just how flexible must these structures be? In short, how might the choices of the prime

[8] Or who, while not necessarily favoring a return to the non-institutionalized status quo, nonetheless feel strongly that the terms of institutional membership ought to be revised in a direction more conducive to their own interests.

movers be altered by the realization that the cooperative arrangements they are about to inaugurate will engender strong opposition, if not immediately then at some point after they, these arrangements' primary beneficiaries, have lost power domestically?

The remainder of the chapter uses my answers to these questions to shed new light on the origins and structures of the European Monetary System (EMS) and its institutional successor, Europe's new monetary union. In section 3, the French left is singled out as the enemy of the EMS most likely to bring about its demise. It was not, in other words, an external enemy—Britain's anti-EMS Tories, for example—that most concerned the regime's Franco-German enacting coalition. It was an internal enemy—France's newly-resurgent Socialist party. Having identified the Socialists as the EMS loser whose potential to wreak havoc was of greatest concern to the regime's French and German enactors, I then show how these concerns can help us make sense of the latters' otherwise perplexing institutional choices. Had it not been for the growing threat posed by the Socialists, France's conservative president and his German counterpart would never have created the open-ended and inclusive monetary structure with which, in 1978, they endowed "their" EMS. After a brief discussion of European monetary unification in section 4, the chapter concludes.[9]

1. Rationalist Perspectives on Supranational Governance

Like other proponents of the new institutionalism, neoliberal theorists of international relations see the process of institutional choice as being guided primarily by efficiency considerations, with groups of actors (here, states or governments) struggling to choose whichever institutional forms will enable them most effectively to respond to market failures, mitigate collective-action problems, and generally further their common interests.[10] This line of analysis begins with the observation that certain policy objectives—even seemingly "domestic" ones like generating economic prosperity—are difficult for nations to achieve on their own. From this it is but a short step to the conclusion that, by acting in concert, national governments can significantly improve their

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[9] It may be useful here to consider whether the prime movers' preoccupation with the actions and behaviors of their as-yet-unidentified political heirs extends this chapter's analysis from the top row of Barnett and Duvall's two-by-two matrix, where power resides in the action of specific actors, into the bottom row, where it resides in social relations of constitution. The actors over whom the members of the enacting coalition exercise power at the beginning of the institution building process are "specific actors," namely governments. Less clear is how to classify the actors over whom the coalition members are hoping to exercise power in the future. These actors—their own domestic successors—do not yet possess an identity and, in that sense, lack specificity. Indeed, as I discuss later on, the enactors would have a natural interest in trying to ensure that their successors were of the "right" types, that their underlying preferences did not diverge significantly from those of the enactors themselves. All of this is in keeping with Barnett and Duvall's notion of Productive Power (cf. the bottom-right cell). On the other hand, while the enactors might try to reproduce themselves—and while they would certainly like to reproduce themselves—the goal of insulating their new governance arrangements would not require them to do so. If the costs of destroying these structures could be made high enough (and the costs of staying in the structures brought down low enough), one suspects that the new institutional equilibrium could survive the coming to power of even the staunchest, most vociferously self-identifying regime opponent. It is for this reason—and not (or not only) in the interest of product differentiation—that I focus my analysis on the "constraints" side of the story rather than the "preferences" side. Ultimately, of course, the question is an empirical one; my point is simply that the powerful actors may be able to get much of what they want without transforming anyone's fundamental identity—a conjecture borne out by Europe's transition (discussed in some detail below) from monetary anarchy to a highly elaborate system of monetary governance.

[10] For a realist critique, see Mearsheimer 1994/95.

collective welfare; if all make the necessary behavioral adjustments, all benefit. While these behavioral adjustments might not look so beneficial to outsiders, for those on the inside—for the cooperators themselves—the move to a coordinated outcome is assumed to afford Pareto-improving gains, leaving all of them at least as well off as they were under the previous, non-cooperative status quo.

So far, so good. The problems come when cooperation fails to emerge spontaneously. Just as the fear of being exploited prevents the two prisoners in the prisoners' dilemma from cooperating to lighten their sentences, so too, neoliberals argue, the fear of exploitation can prevent groups of nations from coordinating their policies in ways that could leave each of them unambiguously better off. To be sure, any nation that anticipated being "suckered" could threaten to retaliate against its partners should the envisaged cooperative gains fail to materialize. In principle, then, the expectation of future reprisals and loss of reputation could itself be sufficient to keep everyone in line.[11] That's the good news. The bad news is that this Axelrodian path to cooperation can work only if each partner is able to distinguish the opportunistic behavior it seeks to deter from the cooperative behavior it wishes to encourage. This is where formal institutions enter the story.

1.1. The Information Argument

Of all those institutional functions that neoliberal theorists have identified as having a salutary effect on the prospects for cooperation, those involving the collection and distribution of information are usually considered most important.[12] Why? Because it is only when actors are able to distinguish cheaters from cooperators that they can be expected to dole out punishments (to opportunists) and rewards (to fellow cooperators) appropriately.

It is fair to say that Axelrod initially underestimated the importance of these informational requirements. After conceding that "recognition and recall" are both critical to the success of collective action, his book <u>The Evolution of Cooperation</u> quickly dismisses their practical significance, noting that the informational demands of strategies like tit-for-tat, which "respond only to the recent behavior of the other player," are so limited that even bacteria can fulfill them. "And if bacteria can play games," writes Axelrod (1984, 174), "so can people and nations." But while its informational requirements may be low compared to those of other strategies, even tit-for-tat requires the players who deploy it to be able to determine whether their partners have cooperated or defected in their most recent move of the game. This might not be difficult for bacteria, but for people and nations it can be quite a complicated matter. In fact, virtually all transactions between human agents entail some degree of privately held information.

That said, imperfect (or asymmetric) information is likely to pose a greater impediment in some situations than in others. In multiplayer games, for example, there is always a chance that one player will misinterpret defection by a second player as cheating when in fact the second player is merely retaliating against a third player for committing an

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[11] Axelrod 1984. See also Taylor 1987.

[12] See particularly Chayes and Chayes 1993, Keohane 1984, and Mitchell 1994.

unwarranted defection in a previous round.[13] And similar difficulties could arise in a strictly bilateral interaction. Suppose, for example, that effective control over the policy realm in question were to change hands within one of the parties to a bilateral agreement at some point after the game had commenced. In that event, the other party might find itself lacking vital information about how its new transaction partner had behaved in its prior dealings, and thus whether that new partner was likely to prove as reliable a cooperator as its domestic predecessors had been before their ouster.[14]

Enter institutions. In "noisy" environments like these, neoliberals suggest that international institutions can play a useful role in formalizing the initial terms of cooperation, monitoring subsequent behavior, and efficiently transmitting information about each party's past and present records of compliance. The upshot is that where international institutions exist and operate as intended—keeping each member state apprised of how its partners are behaving and, should there be an unwarranted defection, clearing up any ambiguity about the identity of the true culprits—international cooperation may not in fact be so difficult to achieve (or to sustain) after all.[15]

At first blush, this perspective would seem sufficient to account for the remarkable institutional developments of recent years. Delve beneath the surface, however, and the standard account quickly runs into problems. For even if one accepts the basic thrust of neoliberal institutionalist theory—that institutions facilitate collective gains by helping states overcome obstacles to cooperation—the powers delegated to today's international institutions often go beyond, sometimes well beyond, what many of the theory's original proponents had in mind.[16] The remainder of this first section tells the story of how some scholars, sympathetic to the logical structure and normative thrust of neoliberal theory yet disappointed by its inability to account for the rise of full-blown supranational governance structures, went in search of new theoretical tools.

1.2. The Incomplete Contracting Argument

Recognition of the yawning gap between (neoliberal) theory and reality has led in recent years to an exciting new round of theoretical innovations and refinements.[17] Often

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[13] Bendor 1987; cf. Oye 1986, 18-20.

[14] Downs and Rocke (1995) discuss some of the strategies that mutual-gains-seeking cooperators might use to surmount this particular source of uncertainty. Section 2 below offers further analysis of the relationship between domestic politics and the formation of international institutions, a topic which, as Downs and Rocke correctly note, does not fit comfortably within the unitary-actor framework of most international relations theory.

[15] Along these lines, Milgrom, North, and Weingast (1990) suggest that purely informational mechanisms may be able to sustain cooperation even in the extreme case where none of the players has ever encountered its current partner before or expects to do so again in the future.

[16] Very few of today's international institutions operate merely as collectors and transmitters of information. In addition to serving as watchdogs, passively monitoring compliance with whatever rules their member states have agreed to uphold, most of these institutions also empower supranational entities of one kind or another to modify these rules—or to clarify their "true" meaning—once they have taken effect. Inasmuch as a trend toward supranational governance may be said to exist, it has thus far been primarily a regional phenomenon; see, e.g., Haggard 1997 and Kahler 1995. A number of global regimes would also fit this characterization, however, the most visible examples being multilateral economic and financial institutions (e.g., the WTO and IMF) as well as security arrangements like the United Nations and, increasingly, the Organization for Security Cooperation in Europe.

[17] See, e.g., Dixit 1996, Garrett and Weingast 1993, Lake 1999, Moravcsik 1998, Pollack 1997, and

using the European Union as a reference point, contributors to this body of work draw extensively upon economic theories of hierarchy, organization, and firm structure, none of which take the institutional requirements for cooperation to be as easily satisfied as earlier IR scholars had envisaged. True, institutional agents may well be necessary to perform the tasks of monitoring compliance and identifying defectors. But as long as each cooperation partner is clear about what is permitted and forbidden, these tasks can be carried out fairly easily. To proponents of the new economics of organization, the real challenge lies in ensuring that the partners really are clear about what is permitted and forbidden—and at all times, not just at the beginning of the process.[18]

In international relations, questions about what it means to cooperate or defect are endemic. In part, this is because the individuals who negotiate international agreements are often guided by time-sensitive domestic political concerns, and so rush into deals without taking the time to set forth their terms as carefully as might be the case in less political environments. But some degree of imprecision or incompleteness is inherent in all agreements, at least all those intended to endure for more than a very short length of time. In a world of rapid political, economic, and technological change, it's simply not possible to determine ahead of time which types of conflicts and questions will arise over the lifetime of a long-term contractual relationship between two states. And even if it were, the contracting parties (i.e., the individuals who preside over the governments of these states) would not necessarily have the information, let alone the time, to specify appropriate responses for each one. Before deciding on an appropriate response, these parties would first have to consider whether the particular rule violation in question was the product of deliberate malfeasance rather than an inadvertent, and thus innocent, misreading of their agreement. Only in the former case—and perhaps not even then—would retaliation against the defector be warranted. Lacking any independent authority, neoliberalism's watchdog agencies would be unable to render such distinctions, leaving the door open for each party to the agreement to read its (ambiguous) provisions as it pleased.

Alternatively, the parties to an international pact or treaty could agree ahead of time that a particular set of collective decision-making procedures would be followed whenever a dispute over a particular clause or provision in the agreement needed adjudicating. Otherwise, an unstructured and open-ended—hence time-consuming—bargaining process would be necessary each time there arose a new set of circumstances not explicitly covered by the unavoidably indeterminate language of the agreement. In the course of trying to resolve these contractual ambiguities to everyone's satisfaction, international cooperation could quickly devolve into chaos.

1.3. The Multiple Equilibria Argument

Although the analytics and implications of the prisoners' dilemma continue to fascinate theoretically-oriented students of international cooperation, the last several years have seen the theoretical spotlight shift toward the related but analytically distinct coordination dilemma. Historically, much of the controversy between neoliberals and realists has centered around the issue of enforcement, with neoliberals proposing—and

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Yarbrough and Yarbrough 1992.

[18] Cf. Kreps 1990, Milgrom and Roberts 1992, and especially Williamson 1985.

realists disputing—various solutions to the problem. That the problem of enforcement emerged as a hot topic of debate was perfectly natural, for international cooperation is possible only insofar as the parties involved trust each other to keep their promises. Strictly speaking, however, the types of difficulties that arise in trying to ensure that all parties do in fact follow through are second-order problems. The initial problem is getting a group of would-be cooperators to make these promises in the first place. Why, in practice, might this prove to be a major hurdle?

One reason may be that some parties to the negotiations believe their future cooperation partners would reap a disproportionate share of any ensuing joint gains.[19] The world envisioned by many realists is one in which these kinds of relative-gains concerns are both serious and pervasive, and in which (as a result) security-conscious states encounter few opportunities for mutually beneficial deal making. Yet careful analysis of the coordination dilemmas highlighted in work by Stephen Krasner (1991) and others raises a different possibility: perhaps reaching agreement is difficult because states encounter too many, not too few, opportunities for collective gain.

Having belatedly come to appreciate the potential seriousness of this "multiple equilibria" impediment to cooperation, scholars of international relations are now moving energetically to explore its implications for supranational governance. Might supranational arrangements foster collectively desirable outcomes by limiting the number of potential equilibria? According to some analysts, institutions provide focal points along the lines previously suggested by Thomas Schelling.[20] Common sense suggests that this focusing role would be of greatest importance in situations similar to the battle-of-the-sexes-type scenario discussed in Krasner's 1991 study, in which the underlying preferences of each would-be cooperator differ.[21] Yet even if what these actors confronted were a "pure" coordination dilemma, it is still possible that they would be better off ceding agenda-setting powers—that is, the right to designate the initial terms of agreement—to a third party.

The point is sometimes illustrated with reference to the agenda-setting powers exercised by the European Commission, most transparently during negotiations over the landmark Single European Act of 1986. By the mid-1980s, all twelve member states of the European Community had recognized the importance of reinvigorating the integration process. Attitudes about what the "new" EC should look like nonetheless varied from one government to the next. On some accounts, it was in order to ensure that their competing visions would not prevent the process of integration from moving forward that Thatcher, Kohl, and other European leaders allowed the commission to dictate the integration agenda.[22] The result, thanks in large measure to the catalyzing effects of the commission's detailed directive on the internal market (the 1985 White Paper), was a pro-integration agreement that, while pleasing no one perfectly, was better than ceaseless intergovernmental wrangling and no agreement at all.

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[19] Grieco 1990.

[20] Schelling 1960, esp. chap. 4; cf. Young 1994, 110-11.

[21] Krasner 1991, 339-42. See also Martin 1992, Garrett and Weingast 1993, Morrow 1994, Fearon 1998, and Koremenos, Lipson, and Snidal 2001.

[22] See, e.g., Cameron 1992, Garrett 1992, and Pollack 1997.

2. Broadening the Debate: The "Power Politics" of Institutional Design

The interweaving of neoliberal theory and the new economics of organization is a relatively recent phenomenon, and as with all research endeavors in their early stages of development, a good deal of work remains to be done. Yet while most contributors to the literature see their task as one of deepening the paradigm and refining its core logic, the task of broadening the argument is, in my view, at least as important. To that end, this section asks what would happen if the powerful actors who set the institution-building process in motion had the capacity to impose their own institutional choices on other actors in the system. This scenario puts the members of the enacting coalition in the driver's seat, and everyone else "suffers what they must."[23]

2.1. The Importance (to the Enactors) of Insulating the New Equilibrium

For the sake of argument, let's assume that there is in fact a coalition of governments able to present their neighbors with a fait accompli—a set of institutional arrangements the latter will have to accept lest, in holding out for the status quo, they end up being shut out of the game altogether. Now the theoretical task becomes one of explaining why, despite their holding a dominant position, the actors who make up this powerful coalition might want to do their bidding through governance structures that afford non-coalition members some role, however institutionally delimited or circumscribed, in determining how unforeseen circumstances and conflicts would be dealt with. By doing this—granting their institution's relatively disadvantaged signatories some scope to mitigate their losses—the members of the enacting coalition would seem to be diminishing rather than increasing their own gains from cooperation.

Imagine, however, that one of enacting coalition's relatively disadvantaged partners were to be suddenly turned out of office by a political party whose leaders were much less approving of the institutional arrangement they had inherited. Or, to take it one step further, imagine that one of the enactors themselves were to be ousted from office and succeeded by an anti-institution party or coalition. In either of these cases—but especially in the latter—the original group of enactors would have a serious problem on their hands. For these (new) regime losers might well conclude that their continuing participation in the arrangement would leave them absolutely, not just relatively, worse off, and that their best course of action under the circumstances would be to withdraw from the regime altogether—or to use the threat of doing so as a means of forcing the regime's other members to dramatically restructure its internal design and operation.

Could the enactors really be pushed around in this fashion? Not as long as they retained their earlier positions of dominance. But, as noted earlier, the power initially enjoyed by the members of the enacting coalition would always be somewhat tenuous; the enactors are merely governments, after all, and governments do not last forever. Nor would any of the original enactors be able to appeal to a higher international body—a world court, for instance—in the event that their regime was to be taken from them and reengineered to serve a set of objectives that they themselves did not fully support.

To be sure, tampering with the enactors' regime would not be an entirely costless activity, and the enactors could be counted upon to try to make these costs—the price

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[23] "The strong do what they can; the weak suffer what they must" (Thucydides 400 BC).

their opponents would pay were they to exercise their exit options—as high as possible. Below I suggest a few ways the enactors might go about this. For now, though, I want to emphasize the flip-side of the enactors' problem, which, from an institutional design standpoint, is the more important. For just as the prime movers would have a stake in raising the penalty for opting out of their regime, so, too, would they have an interest in reducing their successors' costs of staying in the regime.

This suggests a quite different explanation for the "incompleteness" we observe in so many cooperative interstate arrangements. Why don't the creators of these arrangements fully specify their terms of cooperation ex ante? The standard explanation is that the creators, being boundedly rational, are simply unable to devise a complete contract. But this is not the only possibility. From a political standpoint, an incomplete regime may actually be preferable. By fleshing out the terms of cooperation ahead of time, the creators would be denying future opponents of the regime (who might one day include the initial prime movers' own domestic successors) any opportunity to moderate its terms, reformulating—or simply reinterpreting—them in ways intended to make their continued participation in the arrangement somewhat less burdensome than it would otherwise be. It is for this reason, I would suggest, rather than out of the more narrowly-construed efficiency considerations emphasized by previous scholars, that the contractual terms embodied in many of today's regional and multilateral institutions take the more flexible forms they do.[24]

2.2. Extending the Logic

That's not the end of the story, though, since the most flexible arrangements would be ones in which each party could interpret the rules however it wished. Indeed, dropping the costs of compliance to zero—making it possible for signatories to renegotiate the terms of a treaty from the ground up (Koremenos 2001)—would provide the enacting coalition with the greatest protection against its regime's would-be destroyers. At the same time, however, this would come at the price of completely eliminating the benefits that accrue to members of the enacting coalition itself.

In fact, the enacting coalition would almost never need to pay this price; in most cases, simply moderating the costs of participation would suffice. Why? Because institutions—all institutions—have a way of generating their own societal constituencies.[25] Some of this is automatic: expectations adjust to the new reality, costs are sunk, nature takes its course. In the absence of major interventions, however, constituency building typically proceeds slowly, occurring over decades rather than years or months. This, of course, poses something of a problem for the prime movers, who would like their new institutional creation to be surrounded as quickly as possible with a broad-based, ever-expanding coalition of friends and supporters. Given the immediacy of their concerns, the prime movers would want to pursue every available means of expediting this "natural"

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[24] Although government turnover is the internal threat upon which I have been focusing thus far, within-government preference shifts are certainly also possible (see, e.g., Stokes 1999). Like the threat of government turnover, then, the possibility of radical policy U-turns is something a new regime's creators would presumably want to take into account. See Rosendorff and Milner (2001) for a related perspective.

[25] As, for example, the GATT generated a constituency among export producers. See, e.g., Destler and Odell 1987.

constituency-building process.

What <u>are</u> the available means? One strategy would be to delay the full implementation of the new arrangement, thus preventing the bulk of its costs from kicking in until after the dust had settled and societal expectations had already begun to adjust. Trade agreements often take this form, with allowances for step-by-step implementation and phased-in concessions granted to especially sensitive sectors or even whole countries. In addition, the prime movers could make use of the bully pulpit, launching an aggressive publicity campaign directly linking their new set of institutions to values and principles embraced by large segments of their societies and the larger global community. Here, too, the purpose would be to enlarge the pool of potential stakeholders, thereby tempering the destructive zeal of regime opponents who might one day be in a position to subvert the new institutional status quo.

Finally, and perhaps most importantly, the members of an enacting coalition could make a special effort to hasten the launch of their new organizational creations. There would certainly be costs to hasty action, as indeed there would be costs to all the insulation devices discussed here. Setting an early date for passage and ratification of a new treaty would mean limiting the amount of time available for scrutinizing alternative proposals, and hence for allowing the enactors to determine exactly which scheme would stand the best chance of advancing their interests. These costs, however, would need to be set against the benefit to the prime movers of getting something "out there" as quickly as possible, even if that something did not accord quite as closely with their underlying preferences as another institutional arrangement that might have been chosen. The sooner their new structure was up and running, the sooner would citizens, interest groups, and other elements of civil society begin developing a vested interest in its perpetuation—and the greater, therefore, its prospects of withstanding a future decline in the enacting coalition's power.

2.3. Power Politics and Institutional Variation

If my analysis to this point is correct, we should not be surprised to find regional and multilateral institutions being designed and engineered by a small subset of their founding members—the ones who were initially, if only temporarily, the most powerful. Might these actors' interests in congealing their distinctive preferences influence the types of governance arrangements they engineered, predisposing them toward more elaborate—and more flexible—supranational structures than they would otherwise prefer?[26] This, I have argued, is exactly what one ought to expect.

Not that considerations of this kind would always be germane, of course. Nor, even when power-entrenching motivations were germane, would they necessarily dominate the different motivations and incentives that institutionalist scholars are used to discussing. Even if the fragility of an enactor's new institution—the prospect that it might one day lose control of its own creation—did weigh heavily in its mind, the opportunism and coordination problems emphasized by previous scholars could weigh even more heavily. There is certainly no reason to assume that because power-politics considerations are salient in a particular case, other considerations must therefore be irrelevant. My point is

[26] The term "congealing" is borrowed from Riker 1980, 445.

simply that the new institutionalism's theoretical equation may be missing, or at least has neglected, a very important set of explanatory variables. But these omitted variables—whether the enacting governments' cooperative agenda is well- or poorly-received by their domestic opponents "back home," whether the political parties representing these opponents stand a realistic chance of assuming office in the near future, and so on—are variables, not constants. As such, the model allows for considerable variation in institutional outcomes: the "threat" of domestic political turnover could be less threatening in some historical periods or geographic regions and more threatening in others.

Take the case of Asia, a region where, for the moment at least, the supranationalization phenomenon discussed in this article would seem to be occurring at a decidedly slower pace than it is in other parts of the globe, with what little cooperation there is in the region taking place, as Joseph Grieco and others have noted, through "strictly inter-governmental accords with little aspiration to significant forms of supranational authority" (Grieco 1997, 169; see also Aggarwal 1995; Crone 1993; and Haggard 1995). Why is this? The explanation given by Grieco is that Asian countries are uniquely sensitive to relative gains. Drawing on the logic of institutional design presented here, I would offer a different explanation. Insofar as Asian regimes have historically lacked the "governance" features that one finds in a NAFTA or an EU, it is, I would suggest, because the political protection provided by these more flexible governance arrangements was simply not required. After all, these regimes were initiated by political elites who enjoyed comparatively high levels of political stability and encountered little or no significant (i.e., politically salient) domestic opposition.

The lesson here is that the insulation incentives discussed in this essay may be stronger in some parts of the world than in others, in which case one would expect to find corresponding differences in each region's preference for supranational delegation. In addition to varying by region, however, certain institutional features may also vary by issue or policy area. It is often assumed, for example, that left- and right-wing parties diverge on matters of security policy less than they diverge on questions of economic, social, or environmental policy. If this is true (and I think it is), it suggests a parsimonious explanation for the greater completeness of most security arrangements. While other preferences display considerable partisan-induced variation, security preferences remain fairly constant as one moves across the ideological spectrum. As a result, the potential for significant government-to-government variation in how the "national interest" is perceived tends to be lower in the security realm than in other areas of policy. And because domestic political uncertainty is lower, the attractions of institutional flexibility and delegated (hence indirect) authority are correspondingly weaker.[27]

3. Institutional Engineering and the Cooptation of the French Socialists: The System Worked

Is there a power politics of institutional design and, if so, how might its internal logic differ from that of other institutionalist arguments more familiar to students of international relations? Having provided some of the analytical groundwork necessary for

[27] This line of analysis suggests one of many interesting avenues for future research. On the institutional politics of NATO, see McCalla 1996.

answering these questions, I want now to supplement this theoretical discussion with a brief analysis of one of the most important developments in the history of regional monetary relations: the inauguration of the EMS in 1979 and its transformation into the monetary union we see today.

3.1. A First Cut

If the analyses offered by Ludlow (1982) and others are correct, sometime around 1977 the two prime movers behind the EMS—President Valéry Giscard d'Estaing in France and Chancellor Helmut Schmidt in Germany—developed a mutual interest in stabilizing the franc-mark exchange rate.[28] The fact that both leaders stood to benefit from a Franco-German exchange rate agreement did not mean that such an agreement would be struck, however, or, if struck, that it would necessarily be adhered to. Looking at the situation from the standpoint of France, some analysts have suggested that Giscard's optimal strategy would have been to uphold such an agreement until—but only until—the inflationary expectations of French workers had begun to adjust to what they perceived as the new "franc fort" reality.[29] Under standard assumptions, a franc devaluation at that point would have permitted Giscard's supporters to enjoy the benefits associated with an undervalued currency—increased demand for French exports, faster output growth, and the like—without at the same time having to endure the higher rates of wage inflation normally produced by a depreciating currency.

There would also be a downside, however. By breaking his promise with Schmidt, Giscard would have signaled to the French public that his future pronouncements, whether on economic policy or any other matter, were not to be trusted. Making matters worse, a surprise devaluation in France would have exacerbated inflationary pressures in Germany, no doubt prompting a retaliatory response from authorities at Germany's central bank (with whom Giscard and Schmidt were both involved in a repeated game). By provoking a Bundesbank-engineered economic slowdown in Germany, Giscard's defection might well have ended up dampening, not stimulating, foreign demand for French exports.

Following this line of reasoning, one could conclude that exchange rate coordination among sufficiently farsighted European governments was not really so difficult to achieve after all. Given that beggar-thy-neighbor exchange rate policies offered no lasting advantage to the would-be defector (France)—and they certainly did not benefit the exploited party (Germany)—a Franco-German exchange rate agreement would have been self-enforcing. By this logic, however, a simple treaty should have sufficed. Why, then, did the French and German architects of the EMS go to the trouble of establishing a quasi-legislative supranational governance structure?

Recall that for cooperation to emerge within the context of an iterated prisoners' dilemma, each player has to believe that a defection in the current round of the game will be met with retaliation in some future round.[30] In practice, however, this condition is

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[28] On the politics surrounding the creation and early years of the EMS, Ludlow's book remains the definitive work. Also see De Cecco 1989, Frieden 1994, Gruber 2000, Heisenberg 1999, McNamara 1998, Moravcsik 1998, Oatley 1997, and Woolley 1992.

[29] See, e.g., Melitz 1988.

[30] For applications of the theory of repeated games to issues concerning monetary and exchange rate policy, see Kydland and Prescott 1977, and Barro and Gordon 1983.

likely to hold only insofar as the players are familiar with the histories of their current partners. Thus one could argue that all of the European governments that participated in the EMS negotiations had an interest in prespecifying, as clearly and precisely as possible, the standards by which their future behavior would be judged.

Drafting the EMS treaty was itself, in this view, a kind of "cooperative device."[31] Though necessary, however, it was not sufficient, for the EMS charter was sure to be incomplete. Without a well-developed body of rules for dealing with unforeseen contingencies and special circumstances not specifically covered by the treaty—the onset of a recession in one member country but not in any of the others, for example—there would be nothing to stop each EMS signatory from interpreting the treaty differently, creating a crisis that could lead to a breakdown of the entire system.

To address this problem, the founders of the EMS could have stipulated that all disputes concerning matters of treaty interpretation be settled through open-ended intergovernmental negotiations. This is not, however, what the founders did. Instead, they specifically required that all such disputes be adjudicated by "a common procedure" (Article 3.2). The effect of this provision was to take these disagreements out of the hands of individual member governments and transfer them to a higher collective decision-making structure. Which structure? The one the founders had in mind was the European Monetary Committee, a permanent body made up of the deputy governors from the central banks of each EMS signatory, senior representatives from member countries' finance ministries, and two representatives of the European Commission. Once the EMS charter came into force, this body assumed responsibility for determining whether prevailing economic conditions warranted a readjustment of exchange rates and, if so, which EMS signatories would be permitted to devalue and by how much.[32]

The fact that EMS signatories were willing to adhere to a predesignated set of collective decision-making procedures has been described as "a revolutionary development [touching] at the very heart of monetary sovereignty."[33] What inspired this dramatic departure from past practice? The answer given above—a straightforward application of new institutionalist reasoning—may seem incontrovertible. Surely the actors who designed the EMS could anticipate that a simple exchange rate agreement would not be fine-grained enough to cover all possible contingencies and that, in all likelihood, signatories of the regime would use the resulting ambiguities (particularly during periods of crisis and instability) as a pretext for driving down the value of their currencies. Indeed, it was precisely to prevent this sort of thing from happening—or so, as suggested above, one might plausibly argue—that the "principals" who drafted the treaty decided to empower a higher-level "agent." Had it not been for the expectations-clarifying role of the European Monetary Committee, many of the regime's signatories would have taken every opportunity

[31] Fratianni and von Hagen 1992, 129.

[32] Technically, of course, an EMS member state whose request for a devaluation was denied by the European Monetary Committee could go ahead and devalue anyway; the committee's decisions were authoritative only insofar as national governments chose to honor them. Refusing to comply, however, would have meant exiting the system and thus forgoing any benefits of participation or (of greater salience to governing officials in Italy and the UK) incurring the costs of exclusion. Either way, it was an extremely risky move, and one that for well over a decade EMS member governments were loath to undertake.

[33] Tsoukalis 1989, 63.

to free ride (knowing they could do so without patently violating the letter of the original treaty) and, wracked by compliance problems, the EMS would have met an early death.

3.2. A Closer Look

As superficially compelling as it is, this line of analysis suffers from at least two serious weaknesses. The first is that it views the designing of the EMS as a collective endeavor when, as Ludlow's account makes clear, it was dictated by two individuals—the president of France and the chancellor of Germany. To be sure, the fact that Giscard and Schmidt did not go out of their way to consult their European counterparts would not have mattered if their European partners had held similar preferences. But in Italy and the United Kingdom, at least, these partners did not hold similar preferences. In fact, governing elites in Italy and the UK were decidedly unenthusiastic about the EMS, a regime whose creation they did not initially support and to which they consented only after France and Germany's go-it-alone capabilities had rendered it a fait accompli.[34]

Granting that Giscard's and Schmidt's institutional preferences counted for a lot more than those of their counterparts in Italy or Britain, how well does the previous analysis do in explaining the former? Were the two EMS enactors as intent on lowering the ambiguity and information barriers to successful collective action as the above account implies? Perhaps, though this requires us to believe that the regime's French and German sponsors were just waiting for the right opportunity to defect from their initial agreement. In fact—and this is the second big problem with the "first cut" new institutionalist account I have just been elaborating—there was little for either leader to gain by double-crossing the other.

Take the German chancellor. With the Bundesbank maintaining its tightfisted control over Germany's money supply, it would have been pointless for Schmidt even to try to deviate from the path of low inflation. For thus provoked, the Bundesbank would have been only too quick to raise German interest rates, as indeed it had done in 1973, the last time a German government had tried to enact a large fiscal stimulus. As for Giscard, his free-rider incentives were only slightly greater—he was, after all, a conservative. It's true that in 1976 his administration had been moved to withdraw the franc from the Snake, the forerunner to the EMS in which France had been (intermittently) participating since 1972. By the end of 1976, however, Giscard had come to appreciate the limitations of franc depreciation as a strategy for stimulating economic growth.[35] As long as French workers remained unwilling to moderate their wage demands—a safe bet given the militancy of France's labor movement and anti-labor orientation of the government—a continuously depreciating franc would have exacerbated the very inflation problem that Giscard and his newly-appointed prime minister, Raymond Barre, had been working so urgently to redress.

But this raises an interesting question: Given how averse they both were to inflation, why didn't the regime's French and German prime movers draft a more complete,

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[34] As it was, Britain did not enter the regime until 1990, and even then its government did so with considerable ambivalence. For the Italian perspective, see De Cecco 1989, Frieden 1994, Gruber 2000, and Spaventa 1980.

[35] See, e.g., de Boissieu and Pisani-Ferry 1998.

Snake-like agreement explicitly prohibiting the signatories of their regime from devaluing their currencies? It is certainly not that Giscard and Schmidt were incapable of doing so. And, indeed, had they endowed the EMS with a tighter, less flexible set of rules, they could have avoided many of the "realignment uncertainty" problems that were to surface later on, fueling unwarranted speculation and instability within the financial markets.[36] These potential gains notwithstanding, however, the architects of the EMS opted for a more open-ended institutional arrangement. The question is why.

3.3. A Power-Politics Perspective

Drawing on my earlier inquiry into the power politics of institutional design, I would argue that an important impetus for their decision was their expectation that one day soon their own power would wane and a new political actor—including, quite possibly, an EMS loser—would emerge to take their place. To be sure, Germany's involvement in the EMS was at little risk of being terminated by a future German government.[37] In France, however, Giscard's low-inflation, tight-money orientation was anything but secure. Even before the outbreak of the second oil crisis in 1978-79, many observers were skeptical that the conservative president would be able to fend off his Socialist challenger, François Mitterrand, in the next presidential election.[38]

Were Mitterrand to succeed in capturing the presidency, his natural inclination would be to end France's participation in the EMS. In so doing, he would of course be forgoing any credibility bonus he might have enjoyed by virtue of continuing to link the (weak) franc to the (strong) D-mark. On the other hand, Mitterrand shared the view of most other Socialist leaders at that time that the costs of obtaining this bonus far exceeded any potential benefits. Nor was this view entirely without foundation. Given the left's well-known aversion to austerity, it was safe to assume that the transitional phase during which inflationary expectations in France converged to those in Germany would extend over several years, if not decades, during which thousands of French workers would be forced out of their jobs. It is hardly surprising then that France's two left-wing parties failed to support the EMS initiative when it was first proposed in 1977. Had these parties captured a majority of seats in the parliamentary elections held the following year (as pre-election polls predicted they would), it is quite likely that that Giscard's proposal would have been rejected—perhaps resoundingly so—in which case the European Monetary System might never have seen the light of day.[39]

It is true that critics of the EMS could also be found in other countries—most

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[36] Fratianni and von Hagen 1992, 146-53. This last point was often cited as an argument for EMU; see, e.g., Padoa-Schioppa 1986.

[37] Even if the chancellor's own Social Democratic party were to be turned out of office, its coalition partners, the neoliberal Free Democrats, were likely to remain a vital part of any new governing coalition, as were the conservative Christian Democrats. Both parties were supportive of the EMS.

[38] Public support for the French left, and particularly for the Socialists, had increased dramatically over the course of the 1970s. Given the personal popularity of their leader (whom Giscard had defeated in 1974 by only the slimmest of margins) and the steady rise in France's rate of unemployment, the possibility of a Socialist victory in the next presidential election, which was scheduled for 1981, had to be taken seriously indeed.

[39] Ludlow 1982, 85.

notably, again, in Italy and the UK.[40] Yet only in France did opponents of the regime have the potential to single-handedly bring about its demise. Had President Mitterrand decided to pull the franc from the system, as he very nearly did in the early 1980s (Cameron 1989), the Italian lira and British pound would have been certain to follow, and the regime would have effectively ceased to exist. Nor was this scenario only of concern to the regime's supporters in France; the possibility of a French pullout was also a source of acute concern to the regime's sponsors in Germany, many of whom feared that a future return to a system of freely floating exchange rates would cause the deutsche mark to appreciate rapidly against the franc, forcing up the price of German-produced goods and services in some of Germany's leading export markets.[41]

As they set about designing their new cooperative framework, Giscard and Schmidt thus had to take particular care not to load it down with rigid, Snake-like rules and structures that France's left-wing opposition parties would be only too quick to abandon if, as seemed increasingly likely, they were one day to gain control of the French presidency, the National Assembly, or both. Although there would be some loss in terms of disciplining inflation, a looser institutional structure would have the virtue of extending their new arrangement's lease on life. Hence the view shared by governing officials in both France and Germany—and embraced (not surprisingly) by their counterparts from Italy and the UK—that "however strict the system might eventually become, flexibility, and more particularly provisions for changes in exchange rates, would have to be written into the arrangement from the beginning."[42]

But while the EMS afforded its member states a degree of flexibility not enjoyed by signatories of the Snake, its institutional structure was not—because it did not need to be—so malleable as to permit a newly-empowered Socialist administration to escape the need for austerity altogether. Rather than permit each member state to decide for itself whether it was deserving of special dispensation, Giscard and Schmidt transferred authority over all EMS realignment requests to a collective decision-making body, the aforementioned European Monetary Committee, whose decisions were meant to be arrived at by consensus. There was thus no guarantee that a member state's devaluation request would be granted. As it turned out, the EMS opponents of greatest concern to the regime's two architects did not fare as poorly under the arrangement as they might have under a newly-reconstituted Snake. Still, though the French Socialists did (wisely) refrain from withdrawing the franc from the system, in the end the deck remained firmly stacked against them.

4. Changing Money: From the EMS to a Common Currency

The EMS treaty's elevation of exchange-rate changes into matters for collective decision making and adjudication was to utterly transform European monetary relations

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[40] Gruber 2000, chap. 8.

[41] These concerns are discussed in De Cecco 1989, Gruber 2000, and Heisenberg 1999.

[42] Ludlow 1982, 159; see also Padoa-Schioppa 1986. Had it not been for their fear of provoking West Germany's central bank (whose president was initially inclined toward the status quo), the evidence suggests that President Giscard and Chancellor Schmidt would have introduced even greater flexibility into the regime than they did. See Kaltenthaler 1998, chap. 3.

over the 1980s and 1990s, culminating in the 1999 debut of the euro, Europe's long-awaited common currency. But while this new currency can be seen as an outgrowth of the EMS and the bold, if not "revolutionary" (Tsoukalis 1989, 63), transformation it brought about, there are important differences between the terms and institutions of Europe's new monetary union and those of the older regime it has now supplanted.

Of particular interest, for present purposes, are the new regime's more restrictive provisions concerning parity realignments. Realignments are illegal, the new rules stipulate, now, always, and forever. This is quite a departure from the EMS, whose explicit allowances for parity readjustments made for what was, in many ways, a more forgiving monetary regime.

It is true that EMS realignments were always conditional upon the approval of the European Monetary Committee. As a result, the earlier regime was not entirely forgiving. Nor, for that matter, is Europe's current monetary regime entirely rigid and inflexible.[43] Still, while the signatories of EMU continue to engage in collective decision making, one of the key issues over which their EMS predecessors used to deliberate—whether or not an adjustment in a newly-disadvantaged member government's exchange rate parities was warranted as a means of preserving the integrity of the system—has now been taken off the table. Might the logic of institutional design elaborated in this essay help us make sense of any of this? Why did the architects of EMU think they could get away with a simpler, less accommodating monetary structure?

Perhaps it was because they did not see any die-hard, anti-EMU opponents looming on the political horizon. By this logic, the French government's coming to terms with fixed exchange rates and tight money—a begrudging acceptance that began in 1983 and increased steadily thereafter—was of decisive importance.[44] To be sure, the EMU initiative did meet with strong criticism from French politicians on both the left and the right. But with the exceptions of the country's Communist party and the far right Le Pen faction, the target of France's anti-EMU backlash was less the single-currency regime itself than the deficit-cutting measures that the French government was required to undertake in order to qualify for membership in the first wave of joiners. In Germany, meanwhile, the idea of moving to a single currency was strongly and consistently embraced by Chancellor Kohl. And though many German citizens viewed the idea with suspicion, party leaders across Germany's political spectrum came out in favor of it anyway.[45]

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[43] Suppose, for the sake of argument, that the expansionist-minded leaders who presided over France's economy during the early 1980s were to reclaim their positions at the helm of the French government today, after France has already committed itself to EMU. In theory, a new left-wing French government hell-bent on stimulating aggregate demand could still use its influence in the Governing Council of the new European Central Bank (ECB) to seek a reduction in European interest rates. In practice, however, France's central bank governor would get to cast but one vote on the Governing Council, and the ECB's six-member Executive Board (without whose support it would be difficult to gain the necessary majority) would probably not be very receptive to French proposals calling for a dramatic expansion in the European money supply. In short, the adoption of the euro as France's national currency has removed what was once a major—and, for those on the French left, a politically invaluable—source of monetary flexibility.

[44] For further analysis of Mitterrand's (belated) embrace of monetary union, see Moravcsik 1998, 404-17.

[45] There are a number of reasons for this. One is that the country's political elites viewed the symbolism surrounding the passage and ratification of EMU as a means of reassuring Germany's European neighbors, as well as the United States, that "unification would not be the harbinger of a bellicose remilitarization" (Garrett 1994, 58). See also Kaltenthaler 1998, chap. 5.

Here, then, is a parsimonious explanation for the monetary union's relatively restrictive institutional framework. Why was this framework acceptable to the French and German governments in the late 1990s but not the late 1970s? The answer is that this time around (in contrast with the earlier EMS experience) the Franco-German enactors encountered no internal opposition—or at least none with any realistic prospect of wielding political power. Consequently, the pivotal players behind the EMU initiative did not feel the same need to soften their regime, as Giscard and Schmidt had softened theirs, in hopes of discouraging their successors from disrupting the regime at some point in the future.

5. From Anarchy to Organization: The Hidden Face of Power

In this chapter I have tried to lay out the core elements of a broader, more nuanced theory of institutional design. This broader perspective shares the neoliberal premise that (some) international institutions really do "matter," in the sense of playing a more-than-trivial role in sustaining long-term cooperation among self-interested states. It also recognizes the importance of grounding the study of institutions, even epiphenomenal ones, in rational choice foundations. Yet whereas many of our existing institutionalist models view the institution building process as a collective endeavor, the reality—and the starting point for the power-politics model sketched out here—is that some participants in this process often wield disproportionate influence over the final outcome. While everyone in the collectivity may be taken into account to some degree, there is no reason to suppose that everyone will be taken into account to the <u>same</u> degree. The preferences expressed by those collectivity members who are the least unhappy with the non-institutionalized status quo—or who (like the two EMS architects Giscard and Schmidt) have the capacity to remove that status quo from the set of feasible alternatives—will almost certainly carry greater weight. That being the case, I have suggested that we focus our analytical attention on the distinctive problems and dilemmas confronting these pivotal actors.

And, indeed, logic suggests that the kinds of problems and dilemmas confronting these more powerful actors <u>would</u> be distinctive. Of particular concern to this pivotal subgroup of governments—the members of the enacting coalition—would be the emergence within their new cooperative arrangement of new actors who dislike it (at least in its present configuration) and who might even want to destroy it. For though the prime movers who make up the enacting coalition fully expect to benefit from the institutions they establish, those same institutions may not look so beneficial to the officials who assume office after the enactors themselves have left the political stage.

The fact that an institution need not be conducive to the interests of all of its members presents the original coalition of beneficiaries with a particularly challenging institutional design task. Why? Because now, rather than merely deterring opportunists or establishing focal points, the institutions devised by the "winners" must also reduce the natural inclination of their enemies to sabotage their institutional structures (or redirect them toward very different purposes) should they, the "losers," ever find themselves in a position to do so.

Which kinds of cooperative arrangements and institutions would meet these criteria? The answer offered here is straightforward: The kinds of structures most likely to survive the coming to power of one (or more) of the losers are those that explicitly allow for subsequent revisions in the initial rules of the game, albeit with the proviso that these be determined not unilaterally, with each member government deciding for itself how to interpret the relevant articles or provisions, but supranationally—which is to say, through negotiations that take place in accordance with a well-defined set of collective decision-making principles and procedures. Insofar as supranational regimes of this kind are becoming more prevalent, it is primarily, I have argued, because the winners who engineer them believe that their more accommodating structures will have the effect of mitigating the losers' destructive ambitions while still affording the enactors enough gains to make the enterprise worth their while.

Of direct relevance here are arguments dating back to the 1950s and 1960s about the exercise of influence through agenda control. As was noted in the introduction to this volume, an important contribution to this earlier debate was the simple—in retrospect, too simple—definition of power put forward by Robert Dahl in his famous 1957 article, "The Concept of Power." Actor A exercises power over actor B, argued Dahl, to the extent that A succeeds in getting B to do something that B would not otherwise do. Attention immediately turned to the question of means: How, exactly, is A able to pull this off?

On one side of the debate were early proponents of pluralist theory, including Dahl himself. At the risk of oversimplification, pluralists held that the key to A's getting B to alter its behavior was A's greater ability to mobilize a coalition in support of its preferred policy alternatives and, in so doing, obtain their passage into law. Other scholars criticized pluralists like Dahl for concentrating exclusively upon A's ability to defeat B in head-to-head contests between each other's preferred alternatives. The best known argument for broadening Dahl's conception of power remains that of Peter Bachrach and Morton Baratz (1962). According to Bachrach and Baratz, a less visible, but no less pervasive, way of exercising influence is for A to deny B the opportunity to vote for alternatives that would undermine A's interests were they to be adopted:

> Of course power is exercised when A participates in the making of decisions that affect B. But power is also exercised when A devotes his energies to creating or reinforcing social and political values and institutional practices that limit the scope of the political process to public consideration of only those issues which are comparatively innocuous to A. To the extent that A succeeds in doing this, B is prevented, for all practical purposes, from bringing to the fore any issues that might in their resolution be seriously detrimental to A's set of preferences. (Bachrach and Baratz 1962:948; cf. Schattschneider 1960)

In raising the possibility that actors may be able to exert their will without resort to first-face coercive threats (the "Compulsory" cell in the upper-left-hand corner of Barnett and Duvall's power matrix), the model of power set forth here bears a strong resemblance to the notion of agenda control elaborated by Bachrach and Baratz. There are differences, to be sure. In practice, for example, scholars sympathetic to Bachrach and Baratz's approach have tended to focus on the ways in which agenda setters limit the choice set by changing the underlying preferences of other actors—or, as Bachrach and Baratz put it in the passage quoted above, by "creating or reinforcing social and political values" (see, e.g., Baumgartner and Burns 1975; Gaventa 1980; and Lukes 1974). This is also the central idea behind Barnett and Duvall's concept of "Productive Power." In contrast, the conception of global governance outlined in this chapter holds fundamental preferences and payoff structures constant.[46] The preferences of the "state" may change, responding as they do (in well-functioning democracies) to electoral outcomes, but the preferences of the individuals and parties vying for office within states remain the same as they ever were. A government that starts out preferring the non-institutionalized status quo will continue to prefer that status quo even if its predecessors have effectively removed it from consideration. The fact that a "loser" joins an institution does not imply that it has been converted into a "winner." It may simply, and quite rationally, be choosing the least costly course of action available to it.

The deeper question, of course, is why there are not more alternatives (e.g., the status quo) in the loser's choice set. And here the answer suggested by my argument is perfectly compatible with Bachrach-and-Baratz-style arguments about the strategic manipulation of the agenda.[47] Just as Bachrach and Baratz's voter is forced to choose between X and Y when it really prefers Z, here the enacting coalition's successors must choose between joining or opting out of an institution they never much liked and would never have created themselves had they been standing in the shoes of their predecessors. In both cases the loser's ultimate choice is rightly viewed as a function of actions taken by the winners: the losers see themselves as victims of a "power play."[48] But the parallels with the second-face conception of power run deeper still, for these power plays are not overt, as they are in the pluralist models criticized by Bachrach and Baratz, Schattschneider, and others. The institutional enactors in my story achieve their objectives neither by outvoting their opponents à la Dahl nor by engaging in the blatant acts of coercion and intimidation that animate traditional realists. As the agenda-control literature reminds us, there are other, less transparent (but potentially no less effective) means of exercising power.

That this is so raises the possibility that power politics, though frequently hidden from view, may be fueling much of the international cooperation and institution building we have recently been seeing across Europe, North America, and the developing world. And this, in turn, underscores the need for new ways of thinking about the relationship between state power and global governance. And yet, while the world around them may be undergoing extraordinary change, most scholars remain quite content with the theoretical status quo. In their view, what is needed is not a full-scale theoretical reorientation; it is a synthesis of the (rational choice) theories we already have. As one widely-cited review of the EMU literature concludes, "The efficiency considerations that are the economist's bread and butter, the self-interested political behavior whose analysis comes naturally to

[46] As noted earlier, this de-emphasis of identities, preferences, and the like has both an analytical and an empirical motivation. See footnote 9.

[47] A similar argument underlies Marxist theories of exploitation (see, e.g., Cohen 1979 and Elster 1983). When workers submit to capitalist institutions, it is not because anyone holds a gun to their heads. It is because their employers exercise exclusive control over the resources necessary for human survival, a privilege they enjoy as a result of having earlier, and in some cases quite fortuitously, accumulated sufficient quantities of capital. For Marxists, workers are indeed better off selling their labor power, but that is only because the alternatives with which they are presented—unemployment, impoverishment, starvation—would be even worse.

[48] This is not, of course, the only possibility. In theory, the losers could also be victimized by broader technological or systemic changes that the winners themselves played little or no direct role in bringing about. See Gruber (2000) for a more complete discussion of this point.

the political scientist, and the institutional approach that has gained increasing favor under the banner of 'the new institutionalism' need to be blended to provide a balanced picture of the integration process."[49]

This blending is already well underway. Indeed, for all the acrimony between neoliberals and realists, members of the two dominant schools of international relations theory have spent the last several years laying the foundations for an elegant, higher-order synthesis, one that takes the diverse strands of a larger rational choice literature on cooperation and institutions and fashions them into the single analytical framework outlined in this chapter's first section. But are we really any closer to providing the "balanced picture" everyone claims to want?

The problem with current research is not, Europe's recent experience with monetary integration would suggest, that our theories are too disparate. The real stumbling block is that these theories have been put to use in understanding only one side of the globalization and political integration story—the side having to do with collective action, efficiency, and mutual gains. If we want to understand the other side—the one concerning winners and losers, zero-sum conflict, and the struggle to achieve and maintain power—we must first discard the analytical biases that have led international relations theorists to consistently overlook it.

[49] Eichengreen, Frieden, and von Hagen 1995, 6.

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