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*CHAPTER 1:*

**RECONCILING MULTIPLE INSTITUTIONS:  
BARGAINING, LINKAGES, AND NESTING<sup>1</sup>**

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International institutions are rarely created in a vacuum. When new institutions are developed, they often must be reconciled with existing ones.<sup>2</sup> One approach to achieving such reconciliation is by nesting broader and narrower institutions in hierarchical fashion. Another means of achieving harmony among institutions is through an institutional division of labor, or "parallel" linkages. The challenge of institutional reconciliation is not, however, unique to the creation of new ones. In lieu of creating new institutions, policymakers might also modify existing institutions for new purposes. When doing so, they must also focus on issues of institutional compatibility. Moreover, bargaining over institutional modification is likely to be strongly influenced by existing institutions.

The post-Cold War era is likely to increase the difficulty of crafting and reconciling international institutions. Similar to the 1940s and 1970s era of changing relationships among major powers, current power shifts in the international system have created stresses for a variety of institutions. In particular, changing power relationship in the international security system, marked by the demise of the Soviet Union and the rise of China, has challenged the post-WW II consensus among Western powers. The future role of NATO and its relationship to the United

Nations and European institutions has become a subject of controversy. Within the Asia-Pacific area, the role of the U.S. and the possible need for security institutions has become a matter of debate. In the economic realm, long delays in the negotiation of the Uruguay Round and the creation of regional accords in trade such as NAFTA and APEC have fostered concerns about undermining the World Trade Organization. In the heavily institutionalized European arena, efforts to move toward monetary union have created dissension in the European Union. In short, the problem of institutional reconciliation, particularly through the nesting of institutions, is likely to become an increasingly important issue in international bargaining. Understanding this process is the central task of this volume.

Section I discusses some basic concepts related to conceptualizing institutions and provides examples of different modes of institutional reconciliation. I then develop the notion of an "institutional bargaining game" in Section II of this chapter. Specifically, I suggest that we can construct institutional bargaining games based on three elements: (1) the types of "goods" that are involved in the issue area of concern; (2) the "individual situation" of actors -- defined by their international power position, domestic coalitions, and politicians' beliefs, which influence actor's national positions;<sup>3</sup> and (3) the presence or absence of institutions within which bargaining takes place. By drawing on and developing theoretical ideas from different schools of thought about institutional change, I then show how these three elements will determine the structure of the bargaining game.

Set in motion by varying stimuli, these institutional bargaining games will generally result in differing payoffs for actors. Faced with undesirable payoffs, some actors may attempt to modify the bargaining game in which they find themselves. How actors might do so, and the

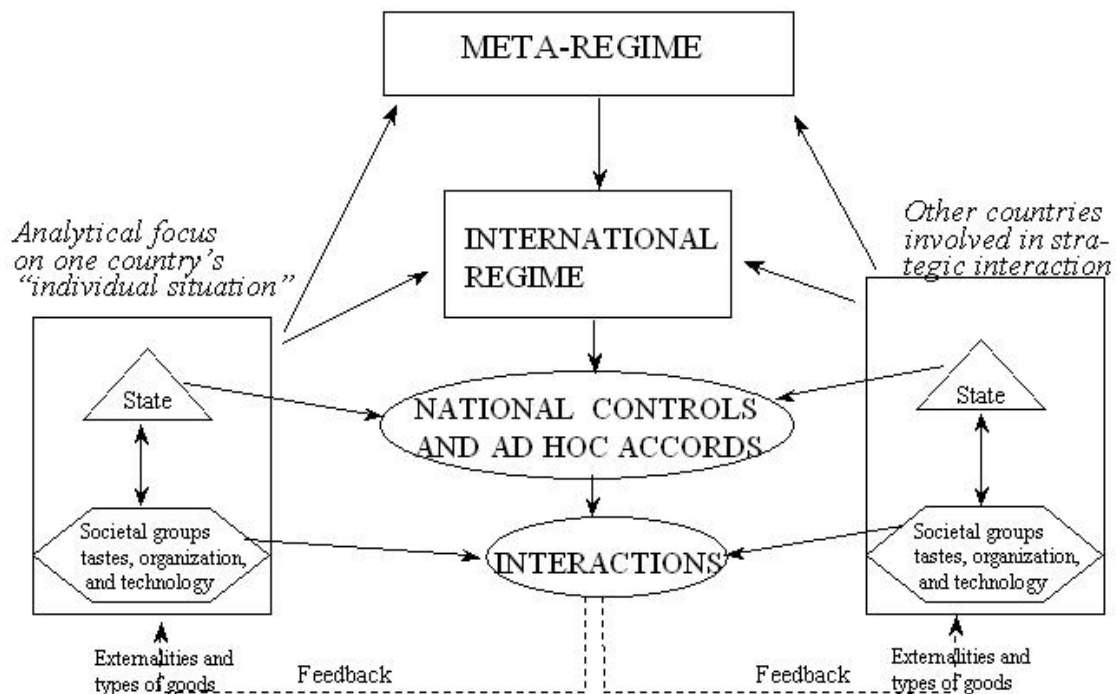
results of their actions, provides the locus for Section III. I show how actors might use power resources to manipulate the three elements of goods, individual situations, and institutions that define the institutional bargaining game. Although these three elements might be manipulated, in this book our primary focus will be on understanding actors' institutional game change efforts -- rather than on efforts to directly manipulate goods or individual situations.

Whether actors create new institutions or only modify existing ones, they must decide on the characteristics of the institution (multilateral or bilateral, and the strength and nature of the arrangements) and also must decide on a bargaining route to accomplish this end. Drawing again on existing schools of thought about institutional change, Section IV provides a theoretical rationale for these choices as well as the key question of how actors choose appropriate forms of institutional linkages. Thus, they must decide if institutions (or issues) will be subordinated to others, or reconciled by a division of labor among institutions.

In view of our emphasis on bargaining in the context of existing institutions, Section V reviews the book's empirical cases. These cases all have a European-related focus.<sup>4</sup> Europe has a history of institutional richness, beginning in the post-WW II era with the European Economic Coal and Steel Community, which then evolved into the complex European Union over time. In particular, Steve Weber's chapter examines questions of institutional constraints and deepening in the context of the crisis of the European monetary system. He looks at how the nested nature of institutions in this area prevented a collapse of the EMS. Institutional challenges have also arisen from the problem of integrating new members into the community, either on a case by case basis, or in a broader effort such as the European Economic Area (EEA). Cédric Dupont examines this failed institutional effort to bring together the EC and EFTA. In the security area,

we have seen an active role by NATO as well as the Conference on Security Cooperation in Europe (CSCE) and the Western European Union (WEU). How these different institutions might work together in coping with crises has yet to be resolved; they provide the subject of Beverly Crawford's chapter on the Bosnian crisis. Finally, Benjamin Cohen's study focuses on the interaction of the U.S. and European countries in the context of a combined economic and security crisis -- the 1973-4 oil crisis. In particular, he examines the difficulty of creating new institutions to address this crisis in the context of existing financial institutions. In view of our concern with institutionalized areas, the European arena provides an ideal setting to examine cases of institutional modification and reconciliation.

**FIGURE 1: THE INSTITUTIONAL BARGAINING PROBLEM**



## I. THE ANALYTICAL FRAMEWORK: AN OVERVIEW

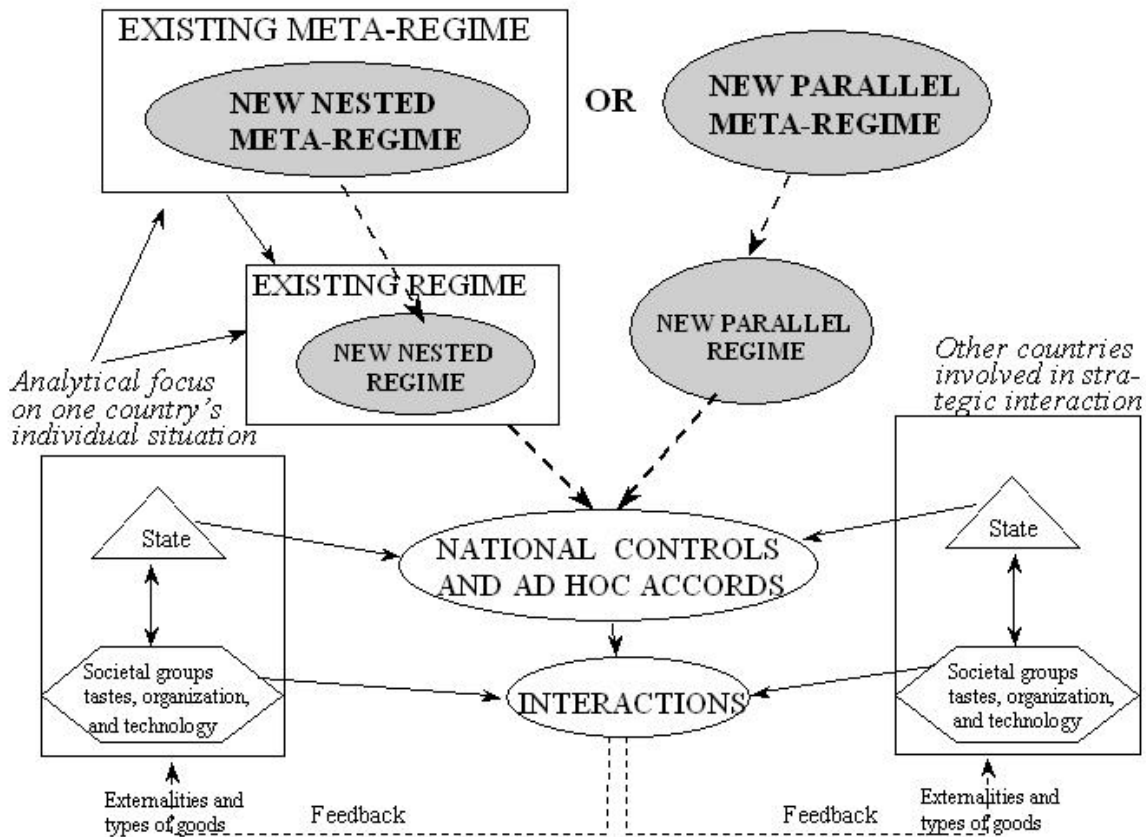
We begin with an overview of the institutional bargaining process to better grasp the specific question of institutional reconciliation. Figure 1 depicts the elements of the institutional bargaining problem. Before examining the key concepts in detail, we first review the elements in this figure. Starting with the center of the chart, we can distinguish between two aspects of institutions: meta-regimes and regimes.<sup>5</sup> Whereas meta-regimes represent the principles and norms underlying international arrangements, international regimes refer specifically to rules and procedures. Regimes can be examined in terms of their characteristics: their strength, nature, and scope. Strength refers to the stringency of the multilateral rules that regulate national behavior; nature (in an economic context) refers to the degree of openness promoted by the accord; and lastly, I use the term scope to refer to two aspects: (1) the number of issues incorporated in the regime, or issue scope; and (2) the number of actors involved (bilateral or multilateral), or institutional scope. In this book, we focus primarily on this latter question of institutional scope.

International regimes, whether multilateral or bilateral, are developed to regulate the actions of states. National actions can include unilateral actions or ad hoc bilateral or multilateral accords. These measures in turn affect the types and levels of interactions that we observe in particular issue areas. Examples of such interactions, which primarily result from nongovernmental activities by private actors, include trade, investment, or short-term capital flows.<sup>6</sup> These actions are affected by changing technology, tastes, and modes of organization. Such elements provide the driving factors behind the changing supply and demand of products

and services as well as the interaction that results from exchange among private actors within states.<sup>7</sup> In an apolitical world, we could imagine a closed loop with societal actors engaging in interactions without the presence of any types of governance structures -- be they national controls, ad hoc agreements, or institutions -- to influence these activities.

Changes in interactions will influence state and societal actors. Bargaining among states is generally stimulated by some type of *impetus*, which comes through significant changes in existing patterns of interaction as a result of changes in governance patterns or economic changes.<sup>8</sup> This often creates some type of *externality* or affects the provision of *goods*; states then respond to these changes in light of what I have termed their individual situations. The

**FIGURE 2: RECONCILING MULTIPLE INSTITUTIONS**



As this figure illustrates, actors must decide on how the institutions they adapt or create will be result is a bargaining game among states that takes place in either an institutional or noninstitutional setting. As noted earlier, our focus in this book is on cases of bargaining where institutions already exist. Thus, the next step concerns a decision on whether to use or adapt existing institutions, or to create new ones.

Whether institutions are adapted or newly created, our primary focus is on understanding how they might fit with existing institutions. Figure 2 illustrates this question graphically. reconciled with existing arrangements -- that is, through nesting or by parallel connections.

A few examples will illustrate these ideas. One can think about the problem of reconciling institutions from both an issue-area and a regional perspective.<sup>9</sup> Nested institutions in an issue-area are nicely illustrated by the relationship between the international regime for textile and apparel trade (the Long Term Arrangement on Cotton Textiles and its successor arrangement, the Multifiber Arrangement) with respect to the GATT. In the 1950s, continental European protectionist measures in textile and apparel trade were inconsistent with the GATT's objectives and eroded American efforts to bolster an open multilateral trading system. At the same time, in the early 1960s, President John F. Kennedy faced strong protectionist lobbying efforts from the cotton textile and apparel industries. In view of Kennedy's desire to promote a new round of tariff reductions, the U.S. Government found itself in a quandary. To cope with these competing pressures, it promoted the formation of a sector-specific international regime under GATT auspices. This "nesting" effort ensured a high degree of conformity with both the GATT's principles and norms as well as with its rules and procedures.<sup>10</sup> Although the textile regime deviated from some of the GATT's norms in permitting the discriminatory treatment of

developing countries, it did adopt and adapt the most-favored nation norm of this institution, treating all developing countries alike. Moreover, while allowing protection against imports, the textile regime remained at least partially consistent with GATT norms that fostered trade openness, by calling for the liberalization of restrictive measures over time.

For an example of the nesting of regional institutions, we can turn to the development of the Asia-Pacific Economic Cooperation grouping (APEC) in 1989 and its relationship to the GATT. APEC's founding members were extremely worried about undermining the GATT, and sought to reconcile these two institutions by focusing on the notion of "open regionalism." APEC members saw this as a better alternative to using Article 24 of the GATT, which permits the formation of free trade areas and customs unions, to justify this accord. Although the interpretation of "open regionalism" continues to be contested, the idea behind this concept was that while the members of APEC would seek to reduce barriers to goods and services amongst themselves, they would do so in a GATT-consistent manner. The options to achieve this consistency include dealing with non-GATT issues, or pursuing unilateral liberalization measures that would be open to all GATT signatories -- whether or not they are members of the APEC grouping.

An alternative mode of reconciling institutions would be to simply create "parallel" institutions that deal with separate but related activities, as exemplified by the GATT and Bretton Woods monetary system. In creating institutions for the post-WW II era, policymakers were concerned about a return to the 1930s era of competitive devaluations, marked by an inward turn among states and the use of protectionist measures. As a consequence, they focused on creating institutions that would help to encourage trade liberalization. By promoting fixed



exchange rates through the IMF and liberalization of trade through the GATT (following the ITO's failure), policymakers hoped that this parallel institutional division of labor would lead to freer trade. Also on an issue-area basis, an example of institutional modification and reconciliation involves the shifting roles with respect to lending by the Bretton Woods institutions: the International Monetary Fund (IMF) and the International Bank for Reconstruction and Development (IBRD, or World Bank). Whereas the two institutions had a clearer division of labor based on short-term vs. long-term lending as originally formulated in the 1940s, more recently this division has become fuzzier and a potential source of conflict.

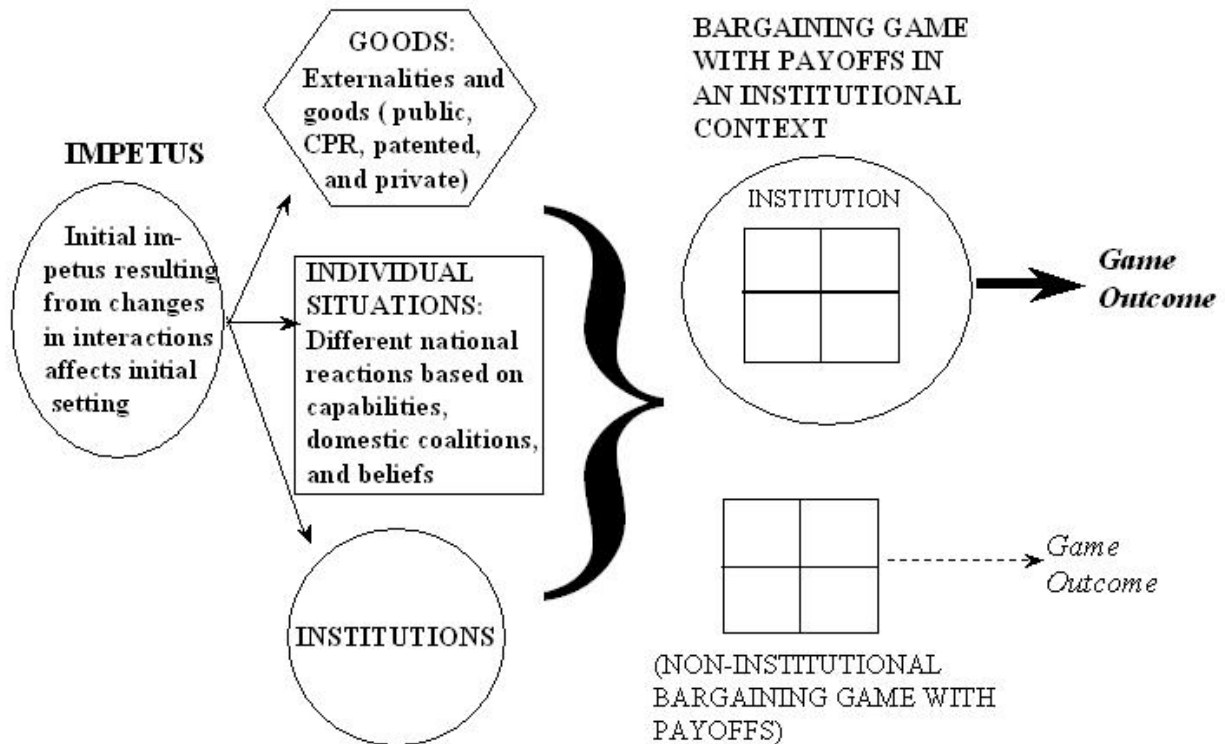
Finally, on a regional basis, one can see the development of the European Economic Coal and Steel Community and the Western European Union as parallel organizations. The first was oriented toward strengthening European cooperation in economic matters (with, of course, important security implications), while the WEU sought to develop a coordinated European defense effort.

We now turn next to a more specific discussion of the concept of an institutional bargaining game as an approach to examine the process of institutional transformation and reconciliation.

## **II. SPECIFICATION OF THE INSTITUTIONAL BARGAINING GAME**

The key task of this section is to describe the elements of goods, individual situations, and institutions that constitute an institutional bargaining game and then to show how they fit together to yield game payoffs. Figure 3 depicts the elements of the initial bargaining game, starting with an initial impetus that sets the game in motion.

**FIGURE 3: THE INSTITUTIONAL BARGAINING GAME**



### The Initial Impetus

In general, an initial impetus significantly alters the preexisting bargaining context. Examples include the oil shock of 1973, the breakdown of the Bretton Woods system in 1971, and the end of the Cold War following the collapse of the Soviet Union. An impetus to change can also come from both endogenous and exogenous changes that are less dramatic such as actions by currency speculators or electoral victories that shift actors' individual situations. These changes, which can be either directly related to the issue at hand, or affect the broader institutional context within which an issue is being negotiated, will create differing incentives for actors.

## **Goods and Externalities**

Initial shocks may either create a positive or negative externality on actors who are not immediate participants in the precipitating event. Alternatively, economic or political changes may stimulate or impede the provision of some type of "good", namely public goods, common pool resources (CPRs), inclusive club goods (or what I have termed "patented goods"), or private goods.<sup>11</sup> Differences among goods can be characterized along two dimensions: jointness, which refers to the extent to which goods are affected by consumption; and by the possibility of exclusion, which refers to whether noncontributors to the provision of the good can be kept from consuming it.<sup>12</sup>

In the case of public goods, actors face a collective action dilemma because all can benefit from the joint nature of the good (e.g., national defense). However, because exclusion is not possible, beneficiaries need not contribute to its creation or maintenance. In such cases, analysts have focused on the incentives for differently situated states to provide public goods. The classic representation of the provision problems for public good is the n-person prisoners' dilemma (PD): in such cases, cooperation can potentially help all players, but actors have a dominant strategy to defect and the good may not be provided.<sup>13</sup>

Common pool resource goods include global commons concerns such as fishery resources or goods where exclusion of noncontributors from consumption of the good is not feasible.<sup>14</sup> In such cases, providers of goods risk being exploited since they will not only end up paying for the cost of the good, but will also suffer from free riding that will diminish the good due to its lack of jointness. Thus, at least in principle, the provision of such goods will be a more

severe form of a PD.

Inclusive club goods, or "patented goods," refer to the case of goods that exhibit jointness (not diminished by use), but where exclusion is possible. Two examples of this type of good are the provision of satellite transmission of television and the use of scrambling technology to prevent noncontributors from accessing the good. Because of the benefits of having additional consumers of the good that one produces, we might expect that in the case of international institutions, actors will compete to have their institutional approach adopted as the standard by all participants to maximize their revenue possibilities.

Finally, private goods, which reflect the possibility of exclusion but not jointness, include the consumption of goods diminished by use. Individual actors will have an incentive to produce these goods and to charge according to their marginal cost of extension of these goods.

To better understand the implications of this basic characterization of the "type of goods" involved in an issue area, we also need to consider the effects of actors' individual situations and institutional context within which interaction takes place. Put differently, goods only give us a first cut into understanding the type of problems that actors face and their incentives: knowledge of the types of goods involved in the bargaining does not allow us to adequately determine specific payoffs of games because the position of national actors or the institutional setting may alter the bargaining problem. We now turn to these two elements.

### **Individual Bargaining Situations**

States are likely to have varying interests in the issue area within which bargaining takes place. While the factors that might affect actors' interests (and hence their payoffs) are nearly

endless, the most significant influence on national responses can be narrowed down to (1) an actor's international position, as defined by its issue specific and overall capabilities; (2) its domestic coalitional stability; and (3) elite beliefs and ideologies. The first of these elements refers to both the actors' position in the overall international system as well as to its relative capabilities in the specific issue-area under discussion. These factors will influence a state's objectives as well as its ability to secure its desired outcomes. The second element, a state's domestic coalitional stability, focuses on the incumbency expectations of government decisionmakers. This variable taps into decisionmakers' discount rates. For example, in debt rescheduling negotiations, domestically unstable governments are more reluctant to undertake sharp economic adjustment measures for fear that they will be ousted. Finally, elite beliefs and ideologies about the causal connections among issues and the need to handle problems on a multilateral basis will also influence the payoffs and actors' responses.

In earlier work,<sup>15</sup> I have used the factors of issue capabilities, overall capabilities, and domestic coalitional stability to examine their influence on actors' basic goals. I then constructed preference orderings for actors to set up games of strategic interaction in a noninstitutional context and solved these games for equilibria to predict the likely outcome of bargaining. In the essays in this volume, the authors do not formally specify a complete preference ordering for each actor to construct bargaining games. But they do systematically consider how these factors influenced state preferences and choices in setting up the initial bargaining game.

### **The Institutional Context**

As states attempt to secure their preferred outcomes, they will interact strategically,

possibly in the context of one or more institutions. Institutions should influence how actors interact, and may provide either focal point solutions for coordination games or may help states to overcome collective action problems.<sup>16</sup> Institutions are also likely to have important distributive consequences, and may influence actors' bargaining behavior by tying the hands of both other international and domestic actors.<sup>17</sup> More significantly, some analysts argue that international institutions may lead to fundamental changes in actors' basic interests and possibly facilitate greater cooperation.<sup>18</sup>

### **Constructing Institutional Bargaining Games**

We can now attempt to combine the three elements of goods, individual situations, and institutions to gain insight into different types of institutional bargaining games. Understanding how such games are constituted will also give us insight into the strategies that actors might subsequently pursue in an attempt to change the games in which they find themselves. It is worth noting that an exact a priori specification of the effect of the three elements on game payoffs -- absent a specific empirical issue -- is a difficult if not impossible task: instead, the discussion below focuses on some general considerations of the effect of different elements. Before examining specific hypotheses with respect to game construction, it is useful to briefly review some of standard schools of thought on the development of institutions.

Hegemonic stability theorists suggest that institutions reflect power balances, and argue that the demise of global-level institutions is an inevitable result of the relative decline of the United States in the international economic system.<sup>19</sup> The focus of this approach -- which I label neorealist institutionalism to differentiate it from realists who see no role for international

institutions -- is on the distributional consequences of international regimes or arrangements.<sup>20</sup>

In contrast to neorealist institutional approaches, neoliberal institutionalists suggest that institutions will be more robust. Based on transaction costs approaches, they theorize that because global accords help to foster cooperation among states and provide them with ongoing benefits, cooperation "after hegemony" can be sustained.<sup>21</sup> The essence of this argument is that states are able to reduce organizational and information costs through the use of institutions, particular when "issue-density" is high. One of the key functions of regimes is to reduce the costs that would come from having to negotiate a host of bilateral agreements with other states.<sup>22</sup> Moreover, regimes also help to provide information to the participants, with their secretariats or staff keeping track of the actions of member states.

Finally, institutional innovation and change has been examined with a focus on the role of expert consensus and the interplay of experts and politicians.<sup>23</sup> New knowledge and cognitive understandings may lead decisionmakers to calculate their interests differently. For example, politicians may use linkages to create new issue packages in international negotiations to form international regimes.<sup>24</sup> This focus on types of linkages, combined with ideas developed here, helps us to significantly increase our understanding of the dynamics of institutional change.

Turning now to the specific question of game construction in view of goods and individual situations, the neorealist institutionalist school hypothesizes that hegemonic powers will be willing to provide public goods and allow free riding because of purely economic calculations (as when an owner of a large number of ships pays for a lighthouse). Put differently, we should expect actors' payoffs to vary as a result of their differing positions, possibly changing the nature of the game as initially suggested by the goods involved. Lisa

Martin presents an example of this by showing how a prisoner's dilemma game turns a "suasion" game when a hegemon is present.<sup>25</sup> Because of this transformation, resulting from differing individual situations, the outcome of the game will be unilateral provision of public goods by the hegemon. Hegemons might also be willing to make economic sacrifices because of linkages to overall security concerns.

Alternatively, rather than a benevolent hegemon which provides public goods, we might also see aggressive powers that form institutions to monitor potentially shirking actors, or simply use power directly by threatening free riders. Public good provision might also be possible with small numbers of actors, rather than only in cases of hegemony.<sup>26</sup> What might the public good provision game look like with two players? While one might argue that the game would still remain a PD, given the jointness of the good, it seems more reasonable to consider the game as one of Chicken: each actor would like the other to pay for the good, but the joint nature of the good means that free riders will not impair one's own consumption of the good. The exact form of the game in this case will depend on the size of each of the two players as compared to the overall cost of providing the public good.<sup>27</sup>

In the case of common pool resources, as noted above, the problem of provision and maintenance of such goods is more severe than for public goods because of the lack of jointness. Following the logic of the relationship between individual situations and public goods, we would expect the resulting games for hegemonic and bipolar provision in the CPR case to mimic the games involved with provision of public goods. However, in view of the lack of jointness, both the suasion and chicken games will have worse payoffs both for cooperation and defection, thus potentially making it more difficult for actors to come to agreement on the development of



such goods. Yet this pessimism on the likelihood of provision may not be fully warranted. While the lack of jointness inherent in CPRs make it less likely that a hegemon would be willing to provide the good, this very "crowding" may actually stimulate the provision of CPRs as compared to public goods. Hegemons in CPR cases will be more likely to encourage joint provision of goods through coercive means. Thus, possible free riders may be brought into the fold since their nonparticipation in provision has direct consequences for the supply of the good. If they are then forced to pay for the good in question, the hegemon's initial investment and maintenance costs will be lower.

Drawing on neoliberal factors, I would also argue that CPRs should clearly stimulate group activity in monitoring and possible sanctioning in an institutionally thick context because of the negative implications involved in free riding. Thus, there is likely to be more active participation by all members, and the good may therefore be less likely to be eroded over time. And finally, drawing on a cognitive perspective, actors may redefine their interests in view of the potential benefits of cooperation and be less likely to shirk in the provision of CPR goods.

With respect to private vs. patented goods, I would hypothesize that the strong benefits that accrue to actors from the provision of patented goods will stimulate competition to provide the good. Thus, in an institutional setting, if benefits can be gained by "selling" the good to possible new adherents to an institution, we should see competition among groups of states to encourage nonparticipants to join their arrangement. The game in this case would look much like a coordination game, with each party vying to have its own institutional form adopted. In the technology standards area in a private setting, attempting to set up one's own standard as the national or global standard to subsequently reap benefits from this choice parallels this

institutional hypothesis.

In sum, as suggested in this section, bargaining among actors -- based on the games defined by goods, individual situations, and institutions -- yields payoffs that are likely to vary for the actors involved in the initial negotiating game. For example, as Cohen's chapter notes, France and the U.S. responded quite differently to the 1973 oil shock because of differences in their individual national situations. Initially, they split over how the crisis should be addressed. Subsequently, as Cohen's chapter notes, they also disagreed over the appropriate type of institutions and the relationship among them that might be used to cope with this shock.

To this point, we have considered the factors that interact to create a static bargaining game. Faced with the payoffs that result from their initial strategic interaction, states may simply accept the outcome of their bargaining. But the game may not simply "end" at this point: indeed, actors are likely to make efforts to alter the bargaining game in which they find themselves to improve their payoffs in a new game structure.<sup>28</sup> It is to this latter possibility that we now turn.

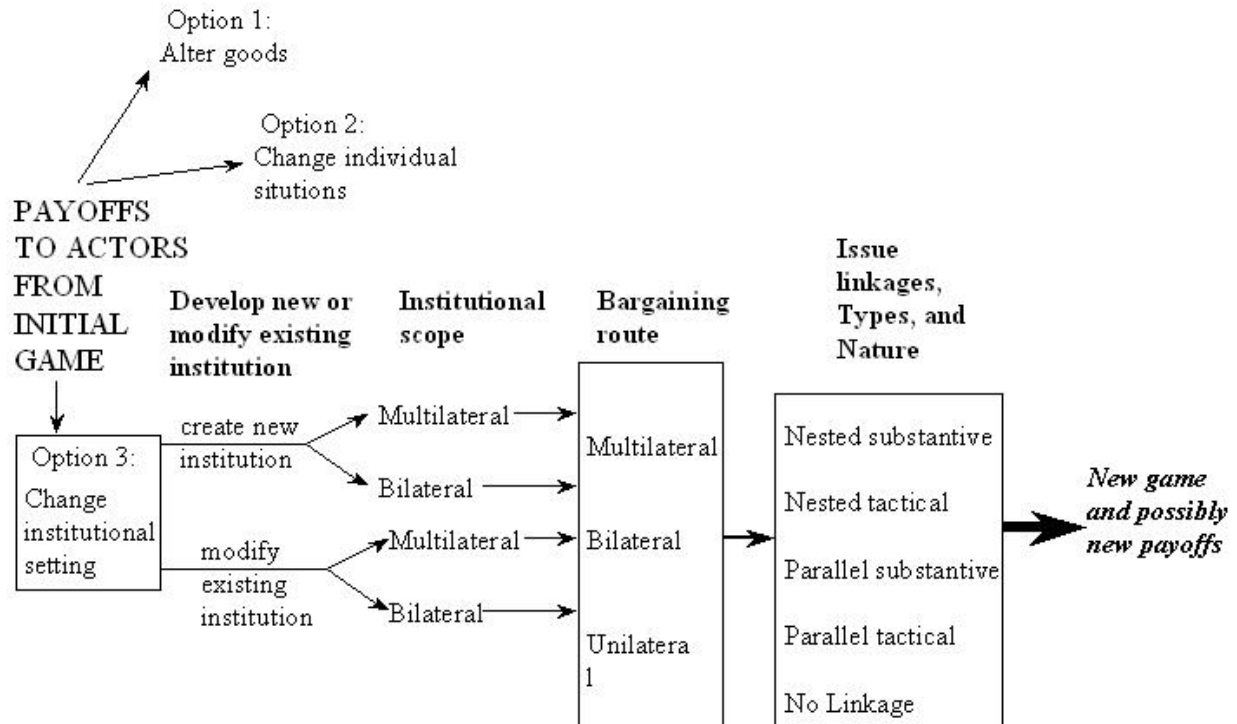
### **III. ACTORS' OPTIONS AND INSTITUTIONAL OUTCOMES**

When will actors make efforts to promote game change? Logically, they consider their existing payoffs in the current bargaining game and compare these with their projected payoffs from instituting some form of game change. To make this calculation, states evaluate their ability to secure more favorable outcomes by assessing their own power resources in light of their own individual situation and that of their opponent(s). The relevant power resources that they might use include material capabilities, either issue specific or overall, appeal to like-minded allies, and

institutions as a power resource.<sup>29</sup>

Figure 4 identifies the choices that actors might make in the initial bargaining game in an effort to improve their payoffs.

**FIGURE 4: INSTITUTIONAL GAME CHANGE EFFORTS**



As this figure illustrates, actors have three options. First, they can attempt to directly manipulate the types of goods involved in negotiations, say by forming an alliance that excludes other actors. Second, they can alter either their own or their opponent(s)' individual situations. These could include such efforts as overthrowing governments, building up one's own capabilities in specific issue areas, or attempting to change the views of decisionmakers in other countries. Third -- and the primary focus of this book -- they can change the institutional context within

which actors are operating. It is worth keeping in mind that such institutional change strategies may indirectly influence the goods involved in the negotiations and may well change actors' individual situations.

Given our emphasis on institutional strategies to alter games and influence bargaining outcomes, actors seeking to make game changes must make several additional decisions. Specifically, they must (1) decide if they would be better off by creating a new institution or modifying the existing one(s); (2) choose the characteristics of the institution that they want (and specifically, for our interests, the institutional scope); (3) select the bargaining route they want to follow; and (4) decide whether to engage in issue linkages, and if so, the type and nature of these connections.

### **Creating New or Modifying Existing Institution(s)**

When faced with unsatisfactory payoffs, states may seek to develop a new institution. For example, as noted, when several states in the Asia-Pacific became worried about the prospects for a successful conclusion to the Uruguay Round of trade negotiations, but at the same time did not wish to undermine the GATT, they decided to pursue the formation of APEC within a GATT umbrella. Actors could, of course, decide that a new institution is not warranted. In this case, they may bargain within the context of the existing institution or institutions of the initial bargaining game and promote modifications through, for example, the development of new linkages.

## **Characteristics of Institutions: Institutional Scope**

If a state decides to pursue the formation of a new institution, it must decide on its institutional scope: bilateral (such as the Canada-U.S Free Trade Agreement) or multilateral (for example, APEC). It must also decide on the institutions specific characteristics with respect to the strength and nature of the arrangements. But if a state decides that a new institution is undesirable, it could still work to modify it, possibly by changing its institutional scope (as with the expansion of the Canada-U.S. Free Trade Agreement to include Mexico). The next stage in the process is to decide on an appropriate bargaining route.

## **Bargaining Route**

As indicated in Figure 4, states may choose to bargain multilaterally, bilaterally, or take unilateral actions to achieve their ends.<sup>30</sup> Turning first to the bargaining route within an existing institution, although multilateral negotiations in a multilateral institution are common, states can also pursue bilateral and unilateral strategies -- despite the existence of a multilateral institution. For example, even though the U.S. was involved in the Uruguay Round trade negotiations, it continued to discuss specific issues with Japan on a bilateral basis and took unilateral actions with respect to other states using specific GATT provisions.

What about the use of different bargaining routes for the creation of a new institution? In the case of multilateral arrangements, multilateral strategies can include coalition building efforts. States can also use bilateral and unilateral strategies by "imposing" agreements on other states through either bipolar cooperation or hegemonic imposition. By contrast, if the institution in question is a bilateral one, it is less theoretically obvious how states might pursue a

multilateral bargaining route. An example of this could be where actors engage in multilateral negotiations, and then decide on an appropriate bilateral regime for a subset of the states involved. The emerging regime guiding relations between the PLO and Israel, resulting from negotiations in a multilateral forum, would seem to fit this notion.

### **Issue Linkages and Institutional Reconciliation**

The final decision node in Figure 4 concerns an actor's decision to link either issues or institutions in negotiations. In addition to choosing whether or not to engage in linkage formation, they must also make two other choices: the type of linkage (nested or parallel) and the nature of the linkage (tactical or substantive).<sup>31</sup>

We have already given detailed consideration to the concepts of nested and parallel linkages. This distinction taps into one key dimension of the linkage issue. Will parallel linkages among issues or institutions be perceived as forced owing to power plays, or as a logical division of labor that ensures compatibility among issues or institutions? And will a hierarchy of institutions be driven by power considerations or an accepted ranking of goals among the participants? To address this latter consideration, we must look at the nature of linkages. The notion of linkage nature reflects the intellectual basis for the issue connection. If two issues are seen to be unrelated but become tied together in negotiations, this can be considered a power-based connection or tactical link. By contrast, if the issues exhibit some intellectual coherence, then the linkage can be labeled substantive. Figure 5 presents the alternatives under different conditions.

**FIGURE 5: THE DYNAMICS OF ISSUE-LINKAGE**

LINKAGE TYPE	OBJECTIVE REALITY	TARGET DECISION MAKERS' PERCEPTIONS	BASIS FOR ISSUE CONNECTIONS	OUTCOME
Substantive link	Connected	Connected	Knowledge	(1) Stable issue-area
Failed substantive link (perceived as tactical)	Connected	Unconnected	Power	(2) Temporary solution to externalities
Tactical link	Unconnected	Unconnected	Power	(3) Unstable issue-area
Failed tactical link (perceived as substantive)	Unconnected	Connected	Misunderstanding	(4) "Contingent" (to unstable issue-area with knowledge change)

In the first case in this chart, we have a case of substantive linkage, which will likely result in the creation of a stable issue-area and most likely a stable institutional arrangement. This outcome arises from bargaining whereby one actor convinces the other (i.e, the "target") of the impact of externalities involved in a particular set of negotiations, and is able to convince its counterpart that issues are logically packaged. As we shall see, substantive linkages should lead to more stable institutions because actors are more likely to accept this type of issue packaging as a logical connection between or among issues.

The second type of manipulated linkage, "failed substantive linkage", is more

complicated. Here, even though experts agree that two issues are interconnected (e.g. access to markets for trade and the ability to service debt), policymakers in the target country do not recognize the issues as substantively linked. Instead, they perceive the issues as only tactically related.<sup>32</sup> Without changes, even though the target actor treats the issues as connected, this will prove to be only a temporary solution to the externalities problem. Such a situation may provide hope for the actor trying to establish the link (the "linker"). When the policymaker's initial reaction is a rejection of substantive connections among issues, experts in both countries may play a prominent role in swaying decisionmakers' opinions. Thus, over time, with changed causal understanding, we may see a move to substantive linkage based institutions.

The third type of link, tactical linkage, may foster even greater conflict. This method of connecting issues is a pure power play. If it is used as a positive inducement, it can diminish conflict. But if used as a stick, tactical linkages will create sharp conflict in negotiations and will most likely lead to unstable agreements or institutions.<sup>33</sup>

Finally, in the last case, misperceived tactical linkages, policymakers in the target country see the issues as substantively linked -- even though they are only linked tactically. Although the target decisionmakers' own experts will attempt to dissuade their policymakers from accepting the linkage, target decisionmakers may agree to some type of joint agreement and consider the issues in question as a package. Clever manipulation by the linker could produce considerably more favorable outcomes than might otherwise be the case. But because it is based on a misunderstanding, this is an unstable situation and will lead to unstable institutional formation. Indeed, if and when the target comes to realize that the connection was tactical in nature, the bargaining connection will shift to a potentially unstable one that will only endure as



long as the linker maintains its superior power.

### **Institutional Outcomes**

We can now look at the possible outcomes resulting from efforts to either modify or create and reconcile institutions on the one hand, and the types and nature of linkages on the other.<sup>34</sup> In each of the two rows of Figure 6, the top and bottom entries (separated by dotted lines) reflect a convergence and divergence of perceptions on linkages, respectively.

#### **FIGURE 6 ABOUT HERE**

Modifying Existing Institution(s). We can begin our discussion by focusing on the first major row -- a decision to modify existing institution(s). There are two possible types of linkages that we must consider, in addition to the possibility of no linkages.

The first example (1) reflects a case of nested substantive linkages. The relationship of issues in the IMF under the Bretton Woods system were clearly ordered. Fixed exchange rates were the crucial concern. Within that context, gold provided the basis for backing the dollar. The dollar played several key roles including the numeraire, the intervention currency, and the like and there was widespread agreement on this structuring. By contrast, in the second case, the EMU convergence targets for debt, government spending, interest rates, and inflation, have proved controversial. The Germans and some others see this as a natural economic connection between the higher level objective of monetary union and the subordinate goals necessary to achieve smooth progress toward fixed exchange rates in the Union. But some Southern European members of the EU have exhibited considerable skepticism about this claim (2), viewing the connection as a tactical effort by the Germans and other Northern Europeans to

**FIGURE 6: LINKAGE BARGAINING AND INSTITUTIONAL ADAPTATION**

Linkage Type					
Nested Linkage		Parallel Linkage		No Linkage	
Substantive	Tactical	Substantive	Tactical		
<b>Use or Modify Existing Institution or Institutions</b>	1. Stable hierarchical link between issues within existing institution or between institutions <i>Role of dollar, gold, and exchanges rates in IMF</i>	3. Contingent, hierarchical link between issues within existing institution(s) (to independent or conflict with power change) <i>Security Council vs. General Assembly role in the UN</i>	1. Stable, intra- or cross institutional link between related issues  <i>IMF and World Bank</i>	2. Contingent, intra- or cross institutional link between issues (to independent with power change) <i>Voting power and economic standing criteria in IMF</i>	Institutionally-based negotiations on single issue <i>GATT dispute settlement body</i>
	2. Temporary hierarchy between issues within existing institution(s) (target perceives link as tactical link) <i>Southern Europe view of EMU convergence criteria</i>	4. Unstable, hierarchical link between issues within existing institution(s) (if target perceives link as substantive link) <i>Commodity fund aid within Lomé convention</i>	2. Temporary, intra- or cross institutional solution to externalities (target perceives link as tactical link) <i>Services &amp; manufactures in Uruguay Round (LDC view)</i>	4. Unstable, intra- or cross institutional link between issues (target perceives link as substantive link) <i>Special and differential treatment for developing countries in the GATT (LDC view)</i>	
<b>Create and Reconcile New Institution with Old Institution or Institutions?</b>	1. Stable, hierarchically compatible institutions for related issues <i>WTO-APEC</i>	3. Contingent, hierarchically compatible institutions for issues (to independent or conflict with power change) <i>APEC-EAEC connection</i>	1. Stable, compatible inter-institutional link for related issues <i>IMF and BIS connection</i>	3. Contingent, inter-institutional compatibility for issues (to independent with power change) <i>GATT vs. UNCTAD role in global trade negotiations</i>	Independent institutions (no concern for compatibility) <i>World Health Organization and ITU</i>
	2. Temporary, hierarchically compatible institutions for issues (if target perceives link as tactical link) <i>MFA within the GATT (LDC view)</i>	4. Unstable, hierarchically compatible institutions for issues (if target perceives link as substantive link) <i>Global Environmental Fund and World Bank (LDC view)</i>	2. Temporary, inter-institutional compatibility between issues (target perceives link as tactical link) <i>GATT-UNCTAD Trade Development Center (LDC view)</i>	4. Unstable, inter-institutional compatibility for issues (target perceives link as substantive link) <i>Financial Support Fund and the International Energy Agency (French view)</i>	

control their economic policies.

The next case (3) provides an example of a tactical linkage. Almost all states recognized that the decisionmaking structure with the dominance of the Security Council over the General Assembly in the United Nations was a tactical consideration based on the power of the major players in the system. The fourth case of nested linkages (4) contains an example of aid to Lomé convention members for commodity price stabilization. From the perspective of the poorer members of this agreement, this is a substantive connection to stabilize markets. But from the perspective of many EC members, this was simply a tactical exchange tied to political and economic interests in maintaining the Lomé agreements.

Moving across the chart to the case of parallel linkages, the relationship between the IMF and World Bank provides a good example of parallel substantive connections with respect to financial assistance. In the Bretton Woods system, the IMF was to engage in short-term lending to help countries facing balance of payments difficulties to adjust. Meanwhile, the World Bank would provide longer term loans to help improve the functioning of countries' economies. The second case, the connection between services and manufactures in the GATT Uruguay Round, provides an example of differing views involving negotiations within an existing institution. Whereas the U.S. saw this connection as a substantive one, many developing countries argued that this was merely a tactical ploy, and that services had no place in GATT negotiations. In the end, the negotiation proceeded on two separate tracks, but there was an implicit connection between the two.

Moving to tactical parallel linkages, the notion of weighted voting is clearly seen as a power based decision. In the IMF, countries are allocated voting shares based on economic

criteria. While the indicators of economic wealth have come under increasing challenge, there is little question that this linkage is tactical in nature. Finally, in this set, calls for special and differential treatment for the developing countries have been seen as a tactical concession to facilitate trade liberalization by the developing countries. Thus, developed countries have repeatedly made special provisions in negotiating rounds -- dating back to the Kennedy Round and now in the Uruguay Round -- that allows for delays in the implementation of WTO provisions. By contrast, this effort has been viewed by many developing countries as a substantive logical connection deriving from their relatively uncompetitive position.

In this row, the last example reflects a case of no linkage. The GATT dispute settlement body provides a forum for the resolution of issues without linkages to other concerns. In an ideal setting, these institutional mechanisms are to deal with the specific issue brought up for resolution by member states, without connections to other issues.

Reconciling New and Old Institutions. We next turn to the second half of Figure 6. I have already discussed the WTO and APEC connection as one that explicitly argued for a new arrangement in the Asia-Pacific that would be consistent with actors higher level concerns about continuing trade liberalization through the GATT. The bottom of this first cell presents a case of what some view as substantive nesting being perceived by others as tactical. The nesting of the MFA within the GATT was seen by developing countries to be a tactical ploy to restrict their imports, and the claims of GATT consistency were argued to be a sham.

Moving to the next column, we have a case of tactical linkages. In this example, the connection between APEC and the East Asian Economic Caucus (EAEC), all parties recognize

that this linkage exists because of pressure by Malaysia to create a separate grouping that would exclude North Americans and Oceania. Although some lip service is paid to the notion that this grouping is substantively connected, no one really thinks this is a credible view and nearly all see this as a tactical connection.

Finally, as an example of a tactical link being perceived as substantive, we can consider the case of the Global Environmental Fund and its connection to the World Bank following the Rio environmental summit. From the developing countries' point of view, the promise of aid was a natural logical connection to broader financial aid organizations such as the World Bank. But developed countries have a more jaundiced view of this linkage, and generally see it as a tactical payoff to get developing countries to reduce harmful emissions.

The third column in this row addresses the use of parallel substantive linkages. When the IMF was created in 1944, there was initially seen to be conflict with the BIS. But within a few years, the relationship between the two stabilized in a division of labor that actors have accepted as logical. Turning first to an agreed substantive linkage in the first cell, consider the cooperation between UNCTAD and GATT on trade enhancement. In this case, GATT's interest in trade liberalization was compatible with UNCTAD's focus on promoting exports -- at least in the minds of developed countries. These two institutions have been partially reconciled through the formation of a Trade Development Center,<sup>35</sup> although developing countries remain more skeptical about this connection and perceive it more as a tactical linkage.

The fourth column examines the case of parallel tactical linkages among institutions. The decision to create UNCTAD and its relationship to the GATT in the various trade rounds has been seen by all countries as a tactical development resulting from developing countries's

pressure to create a forum for their interests. While negotiations continue in the GATT, UNCTAD often serves as a forum in which developing countries can get advice on how to improve their bargaining skills and obtain information about the issues involved. The fourth case concerns an example of a parallel tactical link that is perceived as substantive. As the chapter by Benjamin Cohen notes, when the U.S. proposed the Financial Support Fund as a tactical linkage to encourage development of the International Energy Agency, the French saw this as a substantive link connected to helping countries facing balance of payments difficulties.

Finally, the last column in the table presents an example where no effort is made to reconcile institutions. Put differently, this is an example of a case of the persistence of independent institutions with no effort to make them compatible. An example would be the World Health Organization and the International Telecommunication Union, which traditionally have dealt with quite disparate issues.

The discussion of possible outcomes as a result of linkage types and institutional formation is now complete. We now consider the causal factors that explain bargaining paths and outcomes.

#### **IV. HYPOTHESES ON GAME CHANGE EFFORTS AND INSTITUTIONAL RECONCILIATION**

What factors will determine decisionmakers' choices on whether to pursue institutional change strategies to influence bargaining games? And how will they decide if institutions should be reconciled? Because of the considerable overlap between the arguments about modifying vs. creating new institutions, I discuss the hypotheses by group with respect to institutional

innovation, institutional scope, bargaining strategies, and reconciliation through different forms of linkages.

### **Modifying Existing versus Creating New Institutions**

One of the key issues in choosing whether to alter existing or create new institutions relates to the goods that are involved in the negotiations. For example, to prevent free riding that might take place with public and CPR goods, neorealist institutionalists point to the possible role of institutional strategies in altering the nature of the good. An example of this is the decision by major powers to prevent developing countries from free riding due to the MFN norm of the GATT. Thus, in the Tokyo Round, only those countries who signed onto specific codes (subsidies, government procurement, etc.) were given the benefits of liberalization entailed by these codes.<sup>36</sup>

Focusing on transaction costs, if an existing institution is providing valued goods, it might be possible for actors to link the provision of goods in one arena with the provision of goods in another arena. Thus, given the organizational and informational benefits of an existing institution, actors may be reluctant to "free ride" in another area for fear of undermining the existing institution. With respect to new institutional creation and reconciliation, particularly in a nested context where goals in the new institution are subordinate to higher level concerns in a broader institution, a similar incentive for actors to work together to provide public goods or CPRs may exist. That is, in view of their higher level objectives, actors may be willing to risk cooperation in light of possible defection because of their concerns for meeting their higher level goals.

Cognitive perspectives do not directly address the problem of overcoming collective action problems to secure provision of public goods or CPRs. Instead, cognitivists point to the possibility that as a result of learning, it may be possible to achieve some convergence of interests. Of course, such convergence is hardly guaranteed; states might simply better understand that their interests are in conflict! But we might extend cognitive thinking on how institutions might be used to deal with the provision of goods. How might growing cognitive convergence overcome the problem of free riding that is inherent in the provision of public goods -- even when actors have common interests? I would argue that we can think of this problem in the context of thick interactions among states. In such a case, the convergence of interest would likely facilitate cooperation among states along standard neoliberal lines. A second cognitive effect on the provision of goods is the possibility that changes in knowledge may lead to changed understanding of the goods involved: this might mean that states could better understand how to exclude free riders, or that their initial estimate of the type of good involved in the negotiations was not really of the type that they initially thought. Such changes do not *a priori* point to a greater likelihood of cooperation in the provision of goods. As noted above, actors may simply realize that the supply problem was more difficult than they had initially estimated, and be less likely to cooperate.

Excluding the creation of an institution *de novo* and noninstitutional bargaining, actors can either use or modify existing institutions or develop new ones and reconcile them with existing arrangements. From a simple inertia perspective, we would expect that actors' first instinct will be to utilize or modify an existing institution to their advantage, rather than to pursue development of a new institution -- both from a neorealist and neoliberal institutionalist



perspective.<sup>37</sup> New institutions are expensive to create. Thus, if actors can achieve their objectives by simply modifying an institution, this will likely be the preferred course. Of course, if the institution has repeatedly failed to "deliver the goods" -- even with modifications, then institutional innovation will be the logical option.

Beyond these standard arguments, we can hypothesize that an important constraint on the innovation of new institutions will be the degree to which existing institutions in which an issue might be resolved are deeply embedded among other institutions. Thus, if actors see existing arrangements in which negotiations might take place as substantively connected to other arrangements, either in nested or parallel fashion, this will influence prospects for new institutional creation.

### **Institutional Characteristics: Institutional Scope**

Institutional characteristics will be affected by several factors.<sup>38</sup> With specific respect to our interest in examining the issue of multilateralism vs. bilateralism, we would expect different predictions from neoliberals vs. neorealists. Neoliberals would expect that multilateralism would be the preferred avenue to reduce transaction costs and provide the widest dissemination of information. By contrast, from a neorealist perspective, unless an actor is exceptionally strong, it might prefer bilateral over multilateral arrangements to maximize its leverage.<sup>39</sup>

Second, the choice of a multilateral versus a bilateral institution will be affected by the type of institutions that already exist. Thus, for example, I have argued that the norm of multilateralism in the GATT strongly constrained the formation of the Short and Long Term Cotton Textile Agreements in 1961-2. This outcome can be explained as the result of actor

concerns about institutional nesting, and fear that bilateral and unilateral actions would undermine this GATT norm -- independent of the benefits of reducing transaction costs through a multilateral arrangement.<sup>40</sup> By contrast, without strong substantive linkages among issues, the decision between a multilateral or bilateral institution will be more influenced by transaction and control considerations.

Third, the question of the choice between a multilateral or bilateral approach to institutional formation can be considered from a more cognitive perspective. In a volume edited by John Ruggie,<sup>41</sup> a number of scholars argue that this choice derives from the preferences of states who fundamentally believe in the value of organizing the world system on a multilateral basis. Thus, they are not concerned with the number of states involved in an activity, but rather with examining state commitments to norms of collective action. In doing so, these analysts go beyond the neoliberal institutionalist view of multilateralism as simply a means for reducing transaction costs.

### **Bargaining Route**

To achieve their ends, actors can pursue either a unilateral, bilateral, or multilateral route. The classic argument in this regard is a neorealist institutionalist one, with the view that hegemonic states will be tempted to develop regimes. Other work in this genre has shown that like-minded states may be able to cooperate on a bilateral or multilateral basis to secure regimes, and need not always fall victim to collective action dilemmas.<sup>42</sup>

Less has been directly written about reconciling international institutions. Although we would expect power considerations to still be important, material power usage in this case will

be constrained by existing institutional power resources. Appeals to norms and rules could play a significant role in this instance, particularly when actors agree upon the substantive nesting of issues. In addition, I would suggest that the presence of a highly institutionalized regime will also constrain actors efforts to develop a new institution for bureaucratic reasons. The bureaucracy and secretariat of extant organizations will be likely to oppose the formation of a new institution. In addition to direct resistance from the bureaucracy, it is likely that states will have vested interest groups that benefit from the organization. Thus, these pressure groups and domestic bureaucratic groups are also likely to resist institutional innovation.

### **Linkages and Institutional Reconciliation**

With respect to linkages, specifically parallel versus nested connections, I propose several hypotheses. Within an existing institution, from a cognitive perspective, decisionmakers' choices will depend on their understandings of the relationships among issues. For example, if they perceive inherent spillovers and connections among issues, and believe that there is a hierarchical relationships among issues, they will seek to make nested connections. Otherwise, it would be easier to cope with spillovers through a division of labor -- through parallel connections.

In reconciling new and old institutions, or significantly modifying old ones, the choice of whether to support parallel or nested institutions will depend on the existing institutional environment. If institutions already exist, actors contemplating institutional innovation must decide how important it is to reconcile institutions. If one is developing narrow issue-area or regional-based accords, and the issue's salience is low relative to broader issue-area or regional

arrangements, actors will make strong efforts to nest the new institution within the broader one -- even if there is no clear substantive connection among issues. Thus, we should also expect to see consistent goal ordering, and hence nested institutions, when threat is high. By contrast, if issue area or regional institutions are crucial to actors, they may be willing to risk conflict with other institutions by developing parallel arrangements.

Turning to substantive versus tactical linkage issues, when actors do not share a cognitive consensus on the relationships among issues, tactical linkages will be related to power based efforts to assert the superiority of some issues or to deny the hierarchical ordering of connections proposed by other actors. On the specific question of differences between modifying existing institutions versus wholly new institutional reconciliation, we should expect it to be more difficult to achieve a clear cognitive consensus in the latter case. Whereas the question of cognitive consensus will apply to connections between individual issues in the case of minor institutional modification, in the case of new or significantly modified institutions, actors must actually agree on the relationship between different large packages of linked issues in an institutionalized form. This is likely to be a more difficult problem because of the number of issues involved, and would suggest that the nesting of wholly new and old institutions will be more difficult than simply modifying old arrangements.<sup>43</sup>

### Summary

In summary, this section has presented several hypotheses on the evolution of institutional bargaining games. In drawing on existing approaches to understand institutions, as well as elaborating on undeveloped strands of thinking, my objective has been to allow us to

explore choices about creating new institutions, institutional scope, and bargaining routes. Ultimately, our focus is on trying to tap into the logic of decisionmaking that underlies actors thinking about reconciling international institutions, either through nesting or parallel connections. Taken together with the ideas on construction of institutional bargaining games presented in Section II, the empirical chapters explore the utility of this approach in better understanding the development and reconciliation of institutions in practice.

## **V. THE LAYOUT OF THE PAPERS**

While the cases included here are not a scientific sample chosen from a population of all cases of crafting international institutions, they do provide sufficient variety to examine the plausibility and insight gained from using the approach discussed here. Two of the chapters, one by Steve Weber on the EMS and EU and the other by Beverly Crawford on the interplay of security institutions in the Bosnian case, focus on examples of modifying relationships among existing institutions. They also provide examples of relative success and relative failure in reconciling different institutions. The other two chapters, by Cédric Dupont on EC-EFTA relations and Benjamin Cohen on the Financial Support Fund, consider how efforts were made to create new institutions and reconcile them with existing arrangements. These two chapters also show the difficulty in successfully reconciling institutions, particularly on a nested basis. In total, these four studies provide ten "cases" in the sense of separate identifiable bargaining efforts. They also focus on both regional and issue-area concerns to more fully capture these two aspects of the institutional reconciliation problem.

Each of the cases follows a similar format. The authors begin by examining the impetus

that stimulated bargaining efforts. They then consider the initial game that the relevant actors found themselves in, and then turn to game change bargaining efforts through the use of international institutions. In examining the process of institutional formation, the authors consider and weigh the role of the theoretical elements that influence the process of bargaining. In concluding, each author draws some lessons about the bargaining process in terms of the formation or modification of institutions, and specifically examines the pitfalls in efforts to nest institutions.

Steve Weber's essay examines the evolution of the EMS. He specifically focuses on the 1993 crisis when both the British pound and the Italian lire left the EMS. Weber argues (in contrast to the majority of other scholars' accounts of this crisis), that the deep nesting of the EMS within the EC, exemplified by the nested substantive linkage to Maastricht, prevented the EMS from undergoing total collapse. He shows how options to end the EMS through a free float of EC currencies, or a bilateral French-German fast track EMU, were rejected in favor of continued exchange rate coordination through the EMS. Ironically, the end result of the crisis from Weber's viewpoint was not a weakening of the EU, but rather its strengthening as member states successfully overcame the exchange rate crisis.

The paper by Beverly Crawford deals with the response of European states to the end of the Cold War and subsequent civil war in Yugoslavia. She shows how the weakness of the meta-regime underlying existing European security institutions prevented them from coping with the break-up of Yugoslavia and the war in Bosnia. As a result, Germany pursued a policy of unilateral recognition of Croatia and Slovenia, which undermined joint European coordination efforts. The end result was the entry of the U.S., Russia, and NATO as key actors in the Bosnian

crisis -- culminating in the Dayton Plan and an institutional division of labor. She argues that the fragility of this effort lies in the lack of consensual agreement among the Western powers on any norms beyond the procedural one of multilateralism. The chapter thus highlights the difficulty in modifying relationships among existing institutions when the broader institutions themselves are poorly institutionalized.

Cédric Dupont's chapter considers the interaction between the EC and the EFTA countries as they sought to create a new institution -- the European Economic Area -- to address the dual challenge of rising competition on world markets and dramatic political and economic changes in Central and Eastern Europe. The new institution was supposed to give EFTA countries better access to the Single Market (that is private goods) to preserve the EC inclusive club good from crowding-out effects, and to take care of pan-regional stability in Europe, a common pool resource. Dupont shows why the EEA failed to fulfill its initial mandate. He argues that although there was a strong basis for a substantive nested linkage of the existing institutions inside the new one, the salience of the EC precluded such smooth nesting. EC countries resisted giving too many privileges to EFTA countries, forcing the development of an asymmetric institution that EFTA countries, under severe domestic pressure, had no reason to stick with. Without their support, the new institution could not provide the common pool resource of pan-regional stability, leaving the EC with not only growing demands from Central and Eastern Europe but with almost all EFTA countries knocking at their door.

The last empirical chapter, by Benjamin Cohen, also examines the eventually unsuccessful efforts to develop a new institution -- the Financial Support Fund (FSF). This fund was promoted as part of a broader American effort to form the International Energy Agency as a

countercartel to the OPEC oil cartel. The case highlights the differing views of the United States and France with respect to the appropriate response to the oil crisis. It shows how the U.S. used tactical linkages in an effort to secure its preferred outcome and then managed to negotiate an agreement to create an FSF as an OECD facility that was to be firmly nested within the IMF system. Cohen then discusses how changing economic conditions, combined with a lack of domestic consensus and growing conflict between the IMF and OECD, led to a stillborn FSF. The end result, for reasons elaborated on in his paper, was a failed effort to successfully nest this new institution within the existing IMF system.

Although the specific findings of this volume and individual chapters are detailed at length in the concluding chapter, an important message clearly emerges from the empirical studies: the substantive nesting of institutions can be highly desirable to provide institutional stability and diminish conflict. Yet as the authors show empirically, it is not easy to achieve such nesting, particularly in the context of the development and reconciliation of wholly new institutions. Thus, it is likely that decisionmakers will be forced to cope with increasingly difficult challenges in the post-Cold War era as existing institutions come under stress. Our hope is that this volume will help to better understand some of the obstacles they are likely to face.



## ENDNOTES

1. For financial support, I am grateful to the Center for German and European Studies at the University of California. Some of the theoretical ideas in this paper were developed while I was a Visiting Fellow at the East-West Center in Honolulu, whose hospitality I greatly appreciate. For comments on earlier versions of this paper, I am especially indebted to Cédric Dupont, and thankful to Muthiah Alagappa, Pierre Allan, Christopher Ansell, Benjamin Cohen, Beverly Crawford, Paolo Guerrieri, Ernst Haas, Guy Holburn, Robert Keohane, Sumner La Croix, Aija Leiponen, Jeff Macher, Steve Weber, and Yaacov Vertzberger. Kristine Davidson, Sylvia Donati, Nick Bizziouras, and Trevor Nakagawa provided able research assistance.
2. I use the term institution to refer to the combination of a meta-regime and regime. For a discussion of these terms, see Section I.
3. See Aggarwal (1989) and (1996) on both the concepts of individual situations as well as parallel and nested linkages (discussed below).
4. For an insightful discussion of the prospects for European institutions after the cold war see Keohane, Nye, and Hoffman (1993).
5. See Aggarwal (1985). Zacher (1987) and (1996) uses the distinction developed in this work in his analysis of regimes.
6. In security matters, we could examine weapons flows, the movement of fissionable materials, and so on.
7. This emphasis on private actors does not of course, rule out, the direct exchange of goods and services by states themselves, but merely reflects the primary mode of exchange at this level.
8. Societal actors can, of course, also affect other states directly, but I have not shown these links here for sake of simplifying the charts and presentation.
9. See Oye (1992) for a good discussion of regionalism. Also see Gamble and Payne (1996) and Lawrence (1996), among others.
10. See Aggarwal (1985) for a discussion of nested systems and institutions in the context of sectoral arrangements. Also see Aggarwal (1994) for analysis of institutional nesting in a regional context in North America and the Asia-Pacific region and APEC's options. The term nesting has been used by Barkun (1968) to examine hierarchical systems.
11. For a discussion of these four types of goods and actors' motivations to provide them, see Aggarwal (1996). On common pool resources in particular, see Ostrom (1990). For an earlier

insightful discussion of types of goods see Snidal (1979). The best summary of the literature on goods is by Cornes and Sandler (1996).

12. See Snidal (1979).

13. Hardin (1982).

14. For a good discussion of CPRs and international institutions, see Keohane and Ostrom (1994).

15. See Aggarwal (1989) and (1996).

16. See Stein (1983), Snidal (1985a), Axelrod and Keohane (1985), and Martin (1992), among others.

17. See Aggarwal (1985) and below on the use of institutions to control other actors. For additional discussions, see Krasner (1991) and Knight (1992).

18. See, for example, Haas (1980).

19. There is an extensive literature on this subject. See, among others, Kindleberger (1973), Gilpin (1975), and Krasner (1976).

20. I have not seen this term used before. Moravcsik (1992) does point to the difference between realist and liberal conceptions of institutions, but does not use the term neorealist institutionalism.

21. The term "after hegemony" is the title of a book by Robert Keohane (1984) that provides the best exemplar of the Neoliberal Institutional perspective. Keohane draws upon the work of Williamson (1975) in discussing transaction cost approaches.

22. Keohane (1982) and (1984).

23. See E. Haas (1980) and P. Haas (1989), among others.

24. E. Haas (1980).

25. Martin (1992).

26. See, for example, Snidal (1985b).

27. See Aggarwal and Dupont (forthcoming) on a more formal treatment of the relationship between goods, individual situations, and institutions.

28. See Aggarwal (1996) for a discussion of game change efforts in debt rescheduling. For applications to other issue areas, see Aggarwal and Allan (1994). While from a game theoretic standpoint, the choices that actors make in subsequent bargaining rounds are simply choice points in an elaborate extensive form bargaining game, the notion of "game change" efforts provides a useful metaphor. This idea allows us to distinguish between the repeated play of the game within existing constraints, and efforts to improve one's payoffs by modifying the constraints themselves.

29. For a discussion and use of these power resources in different bargaining situations, see Aggarwal and Allan (1983), Allan (1984), and Aggarwal (1996). From a neorealist perspective, Waltz (1979) discusses the options of self-help and appeals to alliances as options for states.

30. On the use of unilateral, bilateral, and multilateral approaches, see Diebold (1952), p. 36.

31. For a discussion of tactical and substantive linkages, see Oye (1979), Stein (1980), and E. Haas (1980), among others. Building on Haas's contributions in particular, I elaborate on the nature of linkages in Aggarwal (1996) from which a portion of the following discussion is drawn.

32. Haas (1980) refers to what I term "failed substantive" and "failed tactical" linkages as "fragmented" linkages, but does not distinguish between the two different types identified here.

33. See E. Haas (1980) for a discussion of this type of outcome.

34. For ease of presentation, I have left out the type of institution and the bargaining strategy that actors might pursue to accomplish their ends.

35. Another example, mentioned earlier in this chapter, is the parallel substantive link between the IMF and World Bank.

36. See Krasner (1979) and Grieco (1990) on this issue.

37. On this issue, see Keohane (1984) and Haggard, Levy, Moravcsik, and Nicolaidis (1993), p. 181.

38. For a discussion of the factors that influence the strength and nature of regimes, see Aggarwal (1985).

39. For a discussion of these ideas, see among others Diebold (1952), Keohane (1984), and Gilpin (1987).

40. Aggarwal (1995).

41. See Ruggie (1992).

42. See Snidal (1985b).

43. One could argue that institutions may contribute to tight and accepted packaging of issues. If this is the case, then the problem should be no more difficult than in new institution creation.