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Excerpt
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PART ONE

COOPERATION AND VARIATION

ONE

International Cooperation Across Time and Space

"[M]orality after all is not founded upon self-sacrifice, but upon enlightened self-interest, a clearer and more complete understanding of all the ties that bind us the one to the other. And such clearer understanding is bound to improve, not merely the relationship of one group to another, but the relationship of all men to all other men, to create a consciousness which must make for more efficient human co-operation, a better human society."

– Norman Angell, 1912 (cited in Keegan 1999: 11–12)

Economic relations between nations have grown increasingly cooperative in the last 200 years. Countries now depend on one another for staples, intermediate products, and consumer goods to an extent unimaginable 250 years ago. This cooperation rests on an extensive network of international organizations, less formal regimes, and treaties among states. Such institutions as the World Trade Organization (WTO), European Union (EU), North American Free Trade Area (NAFTA), and Southern Cone Common Market (MERCOSUR) play a central role in managing these international trade relations. As a result, we live in a highly institutionalized global economy.

Though its highly institutionalized form today dates only to the 1940s, extensive economic cooperation has been an important feature of international life since the middle of the nineteenth century. Scattered trade treaties appeared even earlier, including the Methuen Treaty between England and Portugal (1703), the Vergennes Treaty between England and France (1789), and the Ottoman capitulations (see Chapter 12). Such treaties have increased in density since then, often in a series of spurts or waves.

Despite this extended history of economic cooperation, most studies of cooperation have limited themselves to events since World War II. This narrow focus is unfortunate. This last half-century has been exceptional in many ways, characterized by postwar reconstruction, the Cold War, centralized networks of formalized international organizations, and American leadership. Too many scholars have treated this context as if it were typical.

A lack of historical perspective means that many observers have feared the end of cooperation – first, at a time of declining American power in the 1970s and 1980s, and second, at the end of the Cold War in 1989–1990. Neither prediction came true. Similarly, many observers today believe that the political backlash against globalization today will threaten existing economic cooperation. This prediction will also be proven false, I believe.

This book represents a long justification for this more optimistic prediction. Perhaps paradoxically, its optimism about cooperation comes from studying *non*cooperation – or, more precisely, from studying variation between cooperation and noncooperation. Common forms of domestic politics, trade reciprocity, and decentralized international institutions can sustain globalization. The post-1945 pattern of globalization undergirded by the Cold War, military alliances, and all-encompassing institutions is by no means necessary for politically sustainable globalization. The bottom-up theory of trade cooperation developed here shows that domestic politics can provide the foundation for a stable international trade regime, a regime that is fairly resistant to economic shocks.

To understand both cooperation and noncooperation in trade, this book examines a historical period abundant in both: the "nineteenth century" of 1815–1914. This period also provides an interesting historical analogy for today. Though the media, pundits, policy wonks, and scholars all note the supposedly unprecedented scope of globalization today, one could argue that globalization in 2000 was no greater than in 1900, for example (see Bordo, Eichengreen, and Irwin 1999 for a critical review). This certainly varies by issue – globalization is probably greater today on most dimensions, but not in trade or the migration of people. The nineteenth century therefore provides an excellent subject for understanding these processes and a possible historical analogy for the twenty-first century (cf. O'Rourke and Williamson 1999). The period is especially relevant for thinking about economic cooperation in the twenty-first century, when the security underpinnings of the post-1945 system have largely fallen away.

This book seeks both a theory of trade cooperation and a fuller account of the nineteenth century trade regime. Together, theory and historical analogy can improve our understanding of the twenty-first century. Although intended as a general theory of trade cooperation, the book also provides an explanation of nineteenth-century trade cooperation on its own terms. Dialogue between theory and history plays a central role in the exposition.

Analytically, this book develops a theory of trade cooperation from the bottom up, moving from domestic politics to the relations between states and then up to the international system as a whole. It begins with the interaction between domestic groups and political leaders in Part II, using the theory of political support. Political-support theory provides a tool with which to examine how a variety of political factors, including a state's fiscal institutions and level of democracy, cause tariff levels to vary from one country to another. Though following conventional accounts in many parts, Chapters 2–5 also provide evidence and analysis contrary to common claims in the trade policy literature. For example, Chapter 4 shows that heavy reliance on tariffs for government revenue does not necessarily provide a constraint forcing the state to choose high tariffs, for revenue might be maximized at relatively low tariff levels. Chapter 5 revisits the literature on democracy and free trade, showing that democracy need not be associated with more liberal trade policy because democratization may empower protectionist voters.

Exogenous events, such as changes in world prices, disturb the equilibrium found in the political-support model and lead countries to raise or lower their tariffs. The effects of global changes can be complex because states respond not only to economic change but also react to one another's responses. For example, France's response to the Great Depression of 1873–1896 reflected not only the decline of world agricultural prices but also the move to protectionism in Germany and other countries, whose own choices affected world prices as well as one another.

These reactions between countries play a critical role in the overall theory of trade cooperation developed in Part III. States normally react to one another by doing the opposite – foreign protectionism breeds home liberalization, while foreign liberalization leads to home protectionism. As a result, global free trade cannot come from one country's "leadership," nor can general trends such as economic globalization produce uniform liberalization. Only international cooperation can produce mutually beneficial reductions in trade barriers, by which home liberalization is contractually linked to foreign liberalization.

To understand this, I examine the conditions that make cooperation more or less likely. The basic rule is that low-tariff countries are more likely to cooperate than are high-tariff countries. For this reason, the conditions that favor cooperation tend to be the same set of variables that affect a country's autonomous tariffs. Improving terms of trade, for example, makes tariffs go up and trade cooperation less likely. Heavy reliance on tariffs for government revenue often inhibits cooperation as well as leads to higher autonomous tariffs. Still, some specific effects vary. For example, democracy unambiguously encourages reciprocal trade liberalization, despite having ambiguous effects on unilateral trade policy. These chapters show the importance of separating the effects of these variables on autonomous tariffs from their possibly contrary effects on trade cooperation.

Though changing economic and political conditions may make countries either more or less likely to cooperate, once they have signed a trade treaty this cooperation will be relatively insulated from changes in these same conditions. As a result, cooperation can weather economic disturbances that would have led to protectionism without such cooperation. This stabilizing effect remains even if trade treaties make relatively small tariff concessions.

Cooperation also changes the incentives for other states. If discriminatory, outsiders who had been reluctant to cooperate may find it in their interests to join a network of cooperators. For this reason, after examining the two-country cooperation problem, I analyze general features of the global political economy as a whole in Part IV. The norm of most-favored nation (MFN) plays a leading role in the analysis, determining how cooperation between two countries affects their cooperation with outsiders as well as cooperation by other parties. Perhaps surprisingly, MFN makes cooperation more difficult and the concessions in trade treaties less deep. However, a network of MFN treaties – if it discriminates against outsiders – does make countries excluded from the network more eager to join it.

Thus, past cooperation helps structure further cooperation. This takes the theory to a systemic-level analysis of cooperation, norms, and regimes. A trade network, like the bilateral cooperation within it, can also weather economic storms that would have led to protectionism without it.

In summary, economic and political variables affect trade policy in a single country, the relations between pairs of countries, and system-wide patterns of interaction in this bottom-up theory of cooperation. The mode of analysis, moving from domestic politics up to regimes, resembles that found in some constructivist theories of international relations, though it is firmly rooted in rationalist theory. This bottom-up approach differs considerably from traditional approaches to international behavior among realists and liberals, who tend to begin with states acting in the international system, seeing domestic politics mostly as a confounding factor in their theories. The book's overall approach is rooted in the liberal institutionalist tradition in international political economy but, like Helen Milner's *Interests, Institutions, and Information* (1997a) and some other books, turns that tradition on its head by beginning with domestic politics.

Theories of International Cooperation

Explaining cooperation is a salient part of the study of international relations, and this focus helps make the field different from the study of domestic political systems. Whereas domestic politics takes place within some institutional framework set by a state with a monopoly over the legitimate use of force, international cooperation occurs between sovereign nations. For this reason, states must monitor and enforce cooperation themselves, without recourse to third-party enforcers. This concern with enforcement has pointed research toward looking at how states monitor compliance and how they improve information about compliance and about one another's preferences (Axelrod 1984; Keohane 1984; Koremenos, Lipson, and Snidal 2001; Lipson 1984; Martin 1992; Oye 1986; Pahre 1994, 1995a, 1999: Chapters 7–9; Stein 1983, 1991; Yarbrough and Yarbrough 1986). Much of this research finds that three variables explain the success or failure of cooperation: "mutuality of interest, the shadow of the future, and the number of players" (Axelrod and Keohane 1986: 227). Each variable makes enforcement easier or the incentive to cheat less.

This research has provided the foundational language for thinking about international cooperation. Because much of the literature poses the problem of cooperation as part of a theoretical critique of Realism – which more or less denies that meaningful international cooperation exists – it has given less attention to the nitty-gritty questions of data collection and hypothesis testing. For example, the shadow of the future is very difficult to measure (but see Chapter 8). It also has more ambiguous effects than scholars suspected at first. Research suggests that a high shadow of the future might make cooperation less likely by magnifying the distributional effects of a bargain (Fearon 1998; Snidal 1985a,b, 1991). A state will negotiate harder for a good deal if it believes this bargain will affect its payoffs for a long time to come, though the possibility of regular renegotiation tempers this problem somewhat (Koremenos 2001).

The second variable, the number of actors, is theoretically suspect (see Lohmann 1997; Pahre 1994, 1995a). Increasing the number of players may make international cooperation more likely, not less likely, by reducing each player's incentive to cheat. Including many states also increases the number of players available to punish a cheater. In addition, states facing a large-n environment can construct networks of bilateral cooperation to achieve multilateral ends (Lipson 1985).

The last independent variable in cooperation theory, mutuality of interest, is simply another way of saying that states' preferences affect their willingness to cooperate (cf. Moravcsik 1998).[1] It is notoriously difficult to specify these preferences independently of the outcomes they are trying to explain, as Duncan Snidal (1986) argued forcefully. The researcher must figure out a state's interests in cooperation while studying that cooperation itself, a research design that flirts with the fallacy of *post hoc, ergo propter hoc*. By looking at a single example of cooperation, case study methods face these inference problems in an especially severe form. Alternatives include specifying preferences deductively, and studying a large number of cases. I do both in this book.

Because of these problems, the major propositions of cooperation theory largely fail to explain variation in cooperation. This failing comes in part from this literature's rhetorical origins. Because it confronted the neo-Realist belief that international cooperation is unimportant, cooperation theory concentrated on explaining the *existence* of significant international cooperation (Axelrod 1984; Oye 1986 *inter alia*).[2] This approach analyzed a plethora of problems that might require international cooperation, including incomplete information, international market imperfections, inadequately specified property rights, power maximization, transactions costs, joint income maximization, and domestic political objectives (Conybeare 1987; Keohane 1984; Kindleberger 1973; Krasner 1976; Lake 1988; Milner 1997; see also Abbott and Snidal 1998 and Koremenos et al. 2001). Many theoretical elaborations of the theory have also focused on existence-type problems such as whether states might want to link two or more issues when cooperating, or whether multilateral cooperation makes sense (see Lohmann 1997; McGinnis 1986; Pahre 1994; Sebenius 1983; Tollison and Willett 1979).

These studies have been limited by their theoretical *problematique*. To show that Realism was wrong, it sufficed to argue abstractly that some class of problem demanded international cooperation, and then to show empirically that such a case existed in the real world, and that states did cooperate in such circumstances. Existence claims (Pahre 2005), and not

[1] Most scholars have assumed that increasing the benefits of cooperation makes cooperation more likely (Milner 1997a: Chapter 2), overlooking the fact that greater benefits also make cheating more likely. One solution is to look at a state's share of costs relative to benefits (Pahre 1999: Chapter 7).

[2] One exception, illuminating in itself, is the literature arguing that cooperation is easier in economic matters than in security affairs (Jervis 1983; Lipson 1984). A second exception attributes variation in economic cooperation to variation in security ties: the so-called relative gains theory (Grieco 1990; Morrow 1997; Morrow et al. 1998, 1999; Pahre 1999: Chapters 7–9; Snidal 1991; Stein 1984). For a thorough historical study of this question in this period, see Harvey (1938), who rejects these claims for most dyads.

studies of how the variables varied, thus dominated the arguments. For example, I am aware of no studies comparing a case in which two states enjoyed complete information about one another with another case in which they did not. Similarly, some scholars assume that transaction costs or power maximization are ubiquitous in international relations and therefore do not vary (i.e., Grieco 1990; Keohane 1984). Without variation in the independent variables, then, we can hardly be surprised that this literature overlooked variation in the dependent variable of cooperation.

By failing to look at variation between cooperation and noncooperation, most cooperation theory has also not considered the real possibility that the reversion point, the outcome when cooperation breaks down, might affect the likelihood of cooperation. If the reversion point is unattractive, states have a greater incentive to cooperate so as to avoid it; if the reversion point is not too bad, states are less likely to cooperate. Because reversion points are important, any study of cooperation must begin with trade policy in the absence of cooperation. Domestic politics also affects this reversion point, and understanding this effect requires greater attention to the domestic politics of trade. This provides the central task for Part II.

States also threaten to return to the noncooperative outcome in order to receive a more favorable treaty. These distributional issues have recently joined enforcement and monitoring issues as a central concern in cooperation theory (see Fearon 1998; Garrett 1992; Garrett and Tsebelis 1996; Krasner 1991; Oatley and Nabors 1998). Most distributional problems in trade policy rest on domestic political concerns. Customs unions and free trade areas (Milner 1997b), and discriminatory policies such as Super 301 actions all reflect domestic political demands. Studies that explain such discrimination therefore need to consider domestic distributional concerns as well as foreign policy considerations.

Domestic Politics and International Cooperation

While the effects of the international system on international cooperation remain a dominant concern in the literature on international political economy, theoretical research has not rested with traditional cooperation theory. Recent years have seen substantial research on how domestic politics affects international relations, increasingly using theories from comparative politics to explain trade policy and cooperation (i.e., Gilligan 1997; Mansfield, Milner, and Rosendorff 2000, 2002a; McGillivray 2004; Milner 1997a; O'Halloran 1994; Pahre 1997, 2001a; Schonhardt-Bailey 2006; Verdier 1994).

The literature on two-level games has gained particular prominence in this area. Robert Putnam (1988) first distinguished a "Level I" game between two governments from the "Level II" game between each government and any relevant domestic actors. Intentionally synthetic, the two-level literature responds to the eclecticism of many domestic-level theories in political science by attempting to combine the insights of systemic- and domestic-level theories.

Since Putnam, much of the literature has developed typologies of how foreign policy affects domestic politics or vice versa. For example, the nonformal literature has examined bargaining tactics, such as mobilizing foreign interest groups, changing foreign domestic political agendas, making side payments, or using international negotiations to avoid blocking actors at home (Friman 1993; F. Mayer 1992; Milner 1997a; Paarlberg 1993; Schneider 2000; Schoppa 1993). Like other literatures reviewed earlier, this one has developed a valuable theoretical language. At the same time, it has tended to emphasize both theoretical and empirical existence claims instead of examining variation between cooperation and noncooperation.

Instead of cataloging forms of influence, formal theorists in the two-level tradition have focused on how rational negotiators anticipate domestic actors' reactions. Many claim that domestic politics normally makes international cooperation less likely because a domestic legislature with ratification powers might reject an agreement (i.e., Iida 1993; Milner and Rosendorff 1996, 1997; Mo 1994, 1995; Schneider and Cederman 1993; but Pahre 2001a). Such obstacles become more likely as the difference between executive and legislative preferences increase, a difference known as the degree of divided government (Pahre 2006). Trying to satisfy an unpredictable legislature under conditions of uncertainty may also force an executive to maintain a hard-line stance abroad, preventing cooperation with foreigners (Milner 1997a).

While having a legislature with ratification power may make cooperation less likely, the two-level framework in its present state of theoretical development is of limited usefulness for explaining cross-national differences. It assumes that the executive and legislature have different preferences, but the reasons for these supposed differences are often misleading. In many countries, the legislature and executive do not have systematically different preferences because one branch of government chooses the other. In a pure parliamentary system, for example, the legislature chooses the executive, presumably selecting an executive with preferences near its own (Pahre 1997). In many dictatorships and monarchies, the executive chooses the legislature, and executives continue to play a role in choosing the members of many upper houses even in modern democracies. For these reasons, making any assumptions at all about the divergent preferences of an executive and legislature is likely to do violence to many cases and to be irrelevant for many others. In many cases we need model only a single actor, who chooses the other.

Such an actor lies at the center of the approach in this book, which studies the political incentives of a single political leader seeking to maximize support from domestic groups (see Chapter 3). I then consider variation in institutions and ratification problems as extensions of the basic model, with a legislature independent of the executive. Chapter 9, in particular, adds a two-level framework to the basic model. This modeling strategy, starting with a single politician and then adding executive-legislative relations, helps uncover the extent to which these complications explain variation in international cooperation.

In the theory of political support, an individual politician – and not interest groups, voters, legislators, or public opinion – makes policy. This politician seeks votes and other political support from as many groups as possible, balancing interests against each other. Focusing on the leader who supplies policy, instead of the groups who demand it, leads to some counterintuitive results. One surprising result is that gaining wealth makes a group *less* influential. As a group gains wealth, its marginal utility of wealth declines, so at the margin additional support from that group becomes less valuable to the political leader. Instead, the politician will give some policy reward to a weaker group that will value it more highly at the margin. As a result, political-support theory finds that leaders choose policy that compensates those people who are harmed by exogenous change, such as changes in the world economy. They pay for this compensatory policy by drawing off some of the benefits that would otherwise have gone to the "winners" from change.

To show how this balancing or compensatory mechanism works, most of this book is devoted to analyzing the domestic politics of trade when nations do not cooperate. Indeed, Chapters 3–5 could be classified as studies in comparative foreign policy more than international relations, for they examine the domestic sources of trade policy in a single state. Again, I argue that the noncooperative outcomes, analyzed in these chapters, critically affect cooperation and therefore must be part of our analysis. By proceeding in this way, the theory of political support helps bring together an explanation of both noncooperative trade policies and trade cooperation. Its bottom-up approach moves from the domestic institutional setting for trade policy to the interaction of states, international cooperation, and then international norms and regimes.