

The Choice of International Institutions:
Cooperation, Alternatives and Strategies

Abstract: We develop a framework that explains the choice of institutions to address international cooperation problems. We begin with boundedly rational actors who make institutional choices based on the properties of the cooperation problem they face and the menu of international institutions available to them. If the institutional status quo offers an appropriate venue for the prevailing cooperation problem, then actors will either *use* a focal institution or *select* a readily available alternative; if no suitable venue is available in the institutional status quo then costlier and riskier strategies of institutional *change* and *creation* will be pursued. The framework further allows us to incorporate the impact of international organizations and governance arrangements on the menu for institutional choice, to combine elements of rationalist and constructivist institutional accounts, and to address distributional and power considerations inherent to the choice of international institutions. The paper contains many empirical illustrations and is followed by a companion paper that applies the framework to the ongoing development of international institutions for financial reporting.

Word Count: 13,250

I. Introduction

The Kosovo crisis confronted the Western allies with an urgent problem, for which a variety of institutional solutions were tried. The United Nations (UN) provided a clear focal point for coordinating an international response and UN Security Council Resolutions 1160 (March 1998) and 1199 (September 1998) addressed “the need to avert the impending humanitarian catastrophe.”¹ Because Russia and China were determined to block any resolution authorizing the use of force through the UN, however, the Western allies needed an alternative venue to coordinate more muscular joint action. They chose NATO even though the Kosovo mission went beyond that institution’s primary mandate to defend member states, who were not threatened by what was

¹ S/RES/1199, 23 September 1998, point 2.

basically a domestic Serbian affair.² However, the use of NATO was problematic not only in terms of international law³ but also in terms of NATO's own institutional arrangements. NATO's integrated command structure meant that any of the 19 Council members could veto any decision, including even individual targets. To circumvent this hopelessly inefficient arrangement for conducting a bombing campaign, participants agreed to "cast-aside some of the bureaucratic shackles that have limited NATO's flexibility" by delegating decision making to the Quints Group (US, UK, France, Germany and Italy). Later, when that arrangement proved still too unwieldy, the Quints Group approved targets and then allowed the US to decide target selection.⁴ Finally, the inability of European leaders to limit American influence reinvigorated European discussions regarding their need to create an independent European security organization—although the difficulty of crafting new institutions continues to impede such creation.⁵

The Kosovo example illustrates how in the anarchic but variably institutionalized international system, actors confront multiple institutional options.⁶ Which institutions do they choose (if any), and how and why do they do so? Framed in this way, institutional choice is more than just a starting point for analysis: it becomes the

² To be sure, NATO had already been used to enforce the Dayton Accords in Bosnia, but that was under UN authorization (UN Security Council Resolutions 1031 and 1203), as were its air verification operations over Kosovo (UNSCR 1199).

³ The selection of NATO over the UN was a clear violation of UN Article 53, as pointed out not only by Chinese and Russian critics but also by Secretary-General Annan. See "UN Secretary-General Kofi Annan on NATO Air Strikes March 24 1999" (Washington DC: US Information Service 1999); "Statement by the Chinese Ambassador to the UN, 24 March 1999" in P. Auerswald and D. Auerswald (eds.) *The Kosovo Conflict: A Diplomatic History Through Documents* (Cambridge, Kluwer International Law, 2000) p. 727, and; "Statement by the Russian President, 24 March 1999," *Ibid.* p. 737.

⁴ P. Webster, "Alliance general cleared to bomb at will," *The Times*, 3 April 1999. Disagreements within the Quints Group over escalation ultimately led the group to formally delegate control over intensification to Secretary-General Solana.

⁵ We thank Lora Viola for putting together the details of this example.

⁶ For an earlier analysis of institutional choice in the context of the former Yugoslavia, see Crawford 1998.

dependent variable, to be explained in the context of alternative options. Institutional IR theory has frequently addressed itself to explaining how given institutions operate and how they shape outcomes, but it has not systematically addressed the choice of institutions from among multiple extant and hypothetical alternatives.⁷ What explains the ways in which institutions come into play in international relations given multiple options?

Answering this question will integrate and advance the institutional research program. This paper begins that process by spelling out some general expectations about the conditions under which alternative institutional strategies come to be pursued. We assume that international actors are boundedly rational and choose institutional strategies in response to the cooperation problem being addressed and the institutional status quo. The greater the suitability of status quo institutional arrangements to the cooperation problem at hand, the more likely actors are to work within or with existing institutions. Conversely, the more deficient the institutional status quo, the more likely actors are to choose costlier and riskier strategies that transform the institutional landscape. Below we develop a series of more specific claims linking cooperation problems, institutional status quos and strategies.

We proceed in four stages. Part II briefly surveys standard approaches to cooperation and institutions. Part III defines and develops the key variables — cooperation problems, institutional status quos, and institutional strategies — used in our analysis. Part IV sets forth a series of conjectures about the relationships among these factors. Part V draws out the implications of this analysis for the institutional research

⁷ Duffield 2003.

program in international relations. In a companion article, (Financial Standards, 2006)⁸ uses this framework to trace the development of international financial accounting institutions. He shows how an institutional status quo that had persisted since the 1970s became highly contested as the nature of the cooperation problem changed in the 1990s. The resulting institutional outcome can then be explained in terms of our logic of boundedly rational institutional choice in combination with states' distributional interests and relative power.

II. Cooperation and Institutions

Cooperation under anarchy remains a guiding metaphor in IR theory.⁹ Absent the compulsion of (but also the protections provided by) a global Leviathan, how can self-interested actors reap gains that can only be realized through joint action? We decompose this into two questions. First, do actors cooperate? Second, if yes, do they institutionalize their cooperation? While recognizing the interdependence of these questions in practice, we present them as sequential choices in Figure 1.

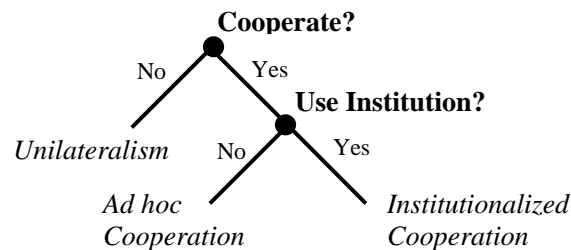


Figure 1: Standard Accounts of Cooperation

The three end points of this stylization (unilateralism, ad hoc cooperation, and institutionalized cooperation) are not outcomes, but labels for the strategies (No; Yes, No; Yes, Yes) being pursued. These strategies roughly correspond to those emphasized

⁸ We refer to the companion paper and its author as (Financial Standards, 2006) throughout this paper.

⁹ The classic statement is Oye 1986.

respectively by offensive realism, defensive realism/decentralized cooperation, and mainstream institutionalism. Before building out from the bottom-right branch to elaborate the alternatives for institutionalized cooperation, we briefly review each of these standard accounts.

Unilateralism and *Ad Hoc* Cooperation

Unilateralism represents the absence of cooperation. It corresponds most closely to offensive realist theory, which derives from the structural fact of anarchy the core proposition that states seek not merely to be secure or to survive, but to maximize their relative power. Relentless power rivalry and relative gains concerns substantially inhibit cooperation.¹⁰ *Ad Hoc Cooperation*, by which we mean non-institutionalized bilateral and/or multilateral cooperation based on interest and convenience, is consistent with the defensive, modified structural and contingent variants of realism.¹¹ Similarly, decentralized cooperation theory, more commonly associated with the liberal tradition, builds on "evolution of cooperation" and "folk theorem" results to emphasize ad hoc cooperation. By showing that repeated play makes decentralized cooperation possible,¹² it identifies conditions such as favorable payoff structures, long time horizons and small numbers of players that promote cooperation¹³ as well as other factors, such as distribution, enforcement and uncertainty that impede cooperation.¹⁴

Institutionalized Cooperation and Beyond

Both modified structural/contingent realism and decentralized cooperation theory shade relatively quickly into the institutionalist node. Modified structural realism

¹⁰ Mearsheimer 2001; on relative gains see especially the articles in Baldwin 1993.

¹¹ Waltz 1979; Krasner 1983; Keohane 1983; Glaser 1994/1995. See also Barkin and DeSombre 2000.

¹² Axelrod 1984; Fudenberg and Maskin 1986.

¹³ Oye 1986; on the number of players, see also Kahler 1992.

¹⁴ Koremenos, Lipson and Snidal 2004, 6.

developed into neoliberal institutionalism, wherein regimes are partially decoupled from power and exercise autonomous causal effects.¹⁵ From the demonstration that decentralized cooperation can be sustained in anarchy, it is a relatively straightforward move to examine the ways in which institutions can respond to and shape this process. Cooperation theory thus turned naturally to consideration of the ways in which institutions could be used to promote and sustain cooperation under anarchy.¹⁶ In particular, the institutional design literature points to the variation in international institutions and the implication that different institutional arrangements are necessary to address different types of cooperation problems.¹⁷

This paper builds on existing literature in focusing on those institutions which are "explicit arrangements, negotiated among international actors, that prescribe, proscribe, and/or authorize behavior."¹⁸ But we move beyond traditional theories of "institutionalized cooperation" which implicitly focus on a single (optimal) institution to emphasize the potentially rich range of institutional alternatives available to states.¹⁹ Thus we focus on international institutional choice as an unfolding process regarding *which* institution to choose.²⁰ We analyze institutional choice in terms of institutional strategies ranging from the unproblematic "use" of an existing focal institution, to "selection" from a fixed but plural menu of institutional alternatives, to "change" of an

¹⁵ Krasner 1983; Keohane 1984.

¹⁶ Oye 1986; Axelrod and Keohane 1986; Stein 1990.

¹⁷ Koremenos, Lipson and Snidal 2004; see also Martin 1992.

¹⁸ Koremenos, Lipson and Snidal 2004, 2.

¹⁹ Others pursuing this agenda include Spruyt 1994, Lake 1999 and Mattli 2004.

²⁰ The institutional design approach generally looks at variation across institutions but not at variations in terms of the choice of a given institution from a menu of alternatives. Rational design, of course, does consider "which" institution (in terms of key defining properties) will be designed but it implicitly focuses either on the hypothetical "optimal" design or on explaining the properties of the prevailing equilibrium institution without explicit comparison to alternative institutions. For an exception, see Mattli 2004.

existing institution, to the “creation” of a new arrangement.²¹ These different alternatives make institutions objects of choice and politics and allow us insight into issues of power and distribution.

We depart from the standard institutionalist literature in two additional ways that we note here and expand on later. First, we substitute a weaker assumption of bounded rationality for the standard rationality assumption. In addition to being a more realistic assumption given the inherent uncertainty of institutional choice, bounded rationality provides a bridge towards some important considerations raised by constructivism. It also helps explain the protracted dynamics of international institutionalization, as opposed to the direct move towards optimal institutions that unbounded rationality might predict. Second, while states are typically central actors in international institutional choice, our analysis is open to the role of other actors. Many international institutions are created through IOs (“emanations”) and public-private or private governance schemes such as the International Standards Organization (ISO) and the International Accounting Standards Board (IASB), respectively, have become of increasing important in recent years. As we elaborate below, they can even shape the institutional menu available to states. Thus, while we primarily refer to states and IOs, our account applies to the full spectrum of actors populating the international system.

III. Cooperation Problems, Institutional Status Quos, and Institutional Choice

We develop an integrated framework that explains institutional choice in terms of the properties of the cooperation problem and of the institutional status quo. We argue that as the suitability of the institutional status quo for addressing a given cooperation problem increases, status quo-preserving strategies such as institutional use and selection

²¹ See Aggarwal 1998 for an analysis focusing primarily on change and creation.

are more likely; the lower this suitability, the more likely costlier and riskier strategies such as institutional change and creation become. Before developing this argument, however, we address a few conceptual preliminaries regarding the central elements of our analysis (cooperation problems, status quos, and strategies).

Nature of the Cooperation Problem

We begin with an exogenously given cooperation problem. We treat this as a new issue which has appeared on the international scene – recent examples would include climate change, avian flu, money-laundering – but it could be a long-standing problem that has recently become salient or that has changed over time. Given the impossibility of accommodating the full complexity of real-world dilemmas in our basic framework, and partly building from the "rational design" project, we identify some key (and tightly inter-related) elements of cooperation problems that affect the choice of institutional strategy.²²

Issue Characteristics involve the nature of the problem with respect to which institutionalized cooperation is being contemplated. This includes a potentially wide range of features that shape how actors respond: Is the issue (a variant on) one of long standing, or is it newly arisen? Did it emerge gradually, or suddenly? Is it a highly technical issue demanding expertise, or is it a highly political issue? Is it complex, or relatively simple? How high are the stakes raised by the problem?

Interests (including time preferences) determine the structure of institutional choice and bargaining problems. Our analysis does not focus on the strategic setting per se (e.g., PD-enforcement problems versus Coordination problems) but on the overall

²² See Koremenos, Lipson and Snidal 2004, 13-20. We draw on them for a number of the elements of a cooperation problem but our emphasis on issue characteristics and on the distribution of capabilities (power) is different from theirs. We are grateful to Barbara Koremenos for valuable suggestions.

efficiency gains from cooperation and the corresponding problems of distribution.

Dealing with institutions at a fairly abstract level, we connect efficiency and distributive concerns to institutional choice through the capability of different actors to affect outcomes. Finally, while states are central actors, our analysis also potentially covers nonstate actors such as firms and NGOs, and we pay special attention to the role and interests of IOs.

Uncertainty (and risk) is a third central variable affecting institutional choice. While the rational design project emphasizes several types of uncertainty – about the state of the world, about behavior and about preferences – we focus here on uncertainty about the state of the world coupled with uncertainty about the impact of alternative institutional choices.²³ The importance of uncertainty in institutional choice also leads us to a bounded rationality approach in place of the optimizing approach (where uncertainty is subsumed under risk) which is more standard in the international cooperation literature.

Transactions costs, including search and bargaining costs, play an important role in institutional choice. We argue that use of existing institutions is privileged in part because of its inherently lower costs whereas more adventuresome policies of institutional change and creation occur only when significant additional costs (and risks and uncertainty) can be justified.

Finally, we characterize cooperation problems in terms of *group characteristics* including the number of actors as well as their heterogeneity in terms of capabilities.

While number is fairly straightforward, its impact comes through the difficulty of large-n

²³ See also Abbott and Snidal (2004) who address uncertainty about domestic politics (i.e., about a state's own preferences) in addition to other forms of uncertainty. They emphasize institutional arrangements whose primary purpose, in the first instance, is to reduce uncertainty so that more concrete steps towards cooperation can be instituted.

collective action and therefore may depend on the extent to which prior institutional developments, leadership, or other factors attenuate the collective action problem.

Capability heterogeneity is especially important when one or a few actors are sufficiently powerful that they can overcome the collective action problem. Also note that preference heterogeneity, which lies at the intersection of group characteristics and interests, is especially consequential when it generates distributional problems.

The nature of the cooperation problem thus includes a wide range of factors that have been important elements in the development of cooperation theory. Because our focus is on the nature of institutions and of the resulting strategy choices, we treat the cooperation problem as a set of background variables -- bringing them in as appropriate and necessary for our discussion of institutional choice. That inevitably means our analysis is complicated, but it would be a false parsimony to suppress or ignore the role of these other factors.

Status Quo Institutions

Because we are interested in the choice of institutional strategies, we focus on situations where the status quo is at least moderately institutionalized. We define the institutional status quo as the set of pre-existing institutions potentially relevant to an emergent cooperation problem. We expect this set generally to be non-empty: few cooperation problems arise within an institutional “vacuum”²⁴ We also focus on the relatively formal institutions “above the line” in Table 1, ranging from the broadest-based international organizations to legalized agreements (whether or not managed by an IO), but we exclude informal institutions “below the line” such as norms and customary

²⁴ Aggarwal 1998, 5; Raustiala and Victor 2004, 296. The main exception is where prior institutions have been destroyed by war (e.g., Ikenberry 2000).

principles. Again, although we focus on IOs, status quo institutions could also include public-private or private governance schemes.

General purpose IOs that cover Multiple Issues (UN, OECD, WB)	
Issue specific agencies, sometimes inside other IOs (FAO, WHO, WTO)	
Legalized Agreements managed by an IO (FATF, OECD Anti-Bribery)	
Legalized Agreements without delegation (Helsinki Final Act, Nonbinding Forest Principles)	
<hr/>	
Informal Institutions – not included (Norms, Customary International Law)	

Table 1: A Rough Typology of Institutions

In characterizing the variety of institutional environments, we focus on the number of extant institutions and a few of their most relevant properties.

We begin with the *number* of institutions in an issue-area. Some issue areas are densely populated with institutions, others relatively (or absolutely) barren. To the extent

that the issue-area is refined geographically (e.g., North Sea fisheries, rather than just fisheries) or substantively (e.g., marine oil pollution, rather than the environment), this will influence the effective number of extant institutions constituting the status quo. Moreover, the number of potentially relevant institutions depends not only on “objective” factors such as substantive issue coverage, but also on the norms, perceptions and strategic choices of actors.²⁵ We address these issues in greater detail below.

Relevant properties represent the second main dimension along which we characterize the institutional status quo. We have in mind the extent to which the design features of available institutions recommend them as solutions to the cooperation problem at hand. We focus on *membership* rules and *scope* (in terms of the issues covered by the institution) as design features that are centrally important to institutional choice.²⁶ These attributes substantially determine whether an institution lies in the relevant status quo at all, since the cooperation problem is defined in terms of joined sets of actors and issues. Briefly, the parties to a cooperation problem must comprise at least part of the membership of an IO for it to form part of the status quo. And the scope of the IO’s mandate must at least partially include the issue being addressed.

Of particular importance in our discussion of status quo institutions is whether there exists a “focal” institution which is widely accepted as the “natural” forum for dealing with a particular cooperation problem. We have in mind a single institution with substantially correct basic properties given the cooperation problem at hand, such that it

²⁵ For a discussion of the importance of cognitive factors in determining linkage among issues see Haas (1980).

²⁶ In the spirit of cumulation, we draw on the rational design project (Koremenos, Lipson and Snidal 2004) for these two basic design rules. See also Aggarwal 1998. Other institutional design features (control, centralization and flexibility) identified in that project are also important and may need to be taken into consideration in specific empirical settings.

represents a logical “first stop” for institutional choosers. We elaborate in Part IV on the characteristics that might confer “focalness” on a venue. For now we merely note that whatever its origins, the existence of a focal institution has important consequences for institutional strategy.

There is wide variation across cases in the status quo level of institutionalization of international life. The fit between issues and institutions may fluctuate substantially over time as existing issues change and new ones arise.²⁷ Some emerging issues fit “naturally” into an existing focal institution; others might be handled in any of several institutional forums; while still other emerging issues do not fit readily into any existing arrangement. Institutional fit may well vary within issue-areas across the institutional dimensions that we focus on: an institution that is suitable on one dimension, such as membership, may be less suitable on another dimension, such as scope. Finally, while we take the initial institutional landscape as largely exogenous, it can also be influenced by the actors – especially by international governance institutions themselves – as we elaborate below.

Institutional Choice

Institutional choice denotes the collective choice over institutions – not individual actor strategies over institutions but their aggregate outcome. We emphasize how exogenous and structural factors shape the collective outcome. Of course, collective choice depends on individual strategies and our discussion always takes those into account implicitly and usually explicitly. For example, when we discuss how distributional issues make use of a focal institution less compelling, the underlying logic is that the actors who fare poorly have incentives to upset the focal institution and, if they

²⁷ Baumgartner and Jones 1993; Baumgartner, Jones and MacLeod 2000.

have the capability, will push the issue into an alternative, changed or newly created institution. Similarly, collective choice may depend on non-material factors such as shared understandings of the appropriateness or legitimacy of putative focal solutions.

While unilateralism and *ad hoc* cooperation are always potential strategies for institutional circumvention in the anarchic international system, we focus on situations where joint action through institutions is "on the table." Thus our analysis builds on the "institutionalized cooperation" branch of Figure 1. Often there is a focal institution; sometimes there are multiple obvious alternatives available. If all extant options are unsatisfactory, then one of them can be changed to handle the problem or a new institution can be created.

We depict a stylized collective institutional choice process in Figure 2. While the graytone part of the tree is a reminder that the background alternatives of anarchy are omnipresent in international politics, we emphasize the variety of choices for institutionalized cooperation represented by the dark line parts of the decision tree in the box.²⁸ These options can be most fruitfully understood in relation to one another, sometimes as synchronic alternatives but more typically as successive steps in a sequential institutional choice process.

²⁸ For a different account of related issues see Aggarwal 1998.

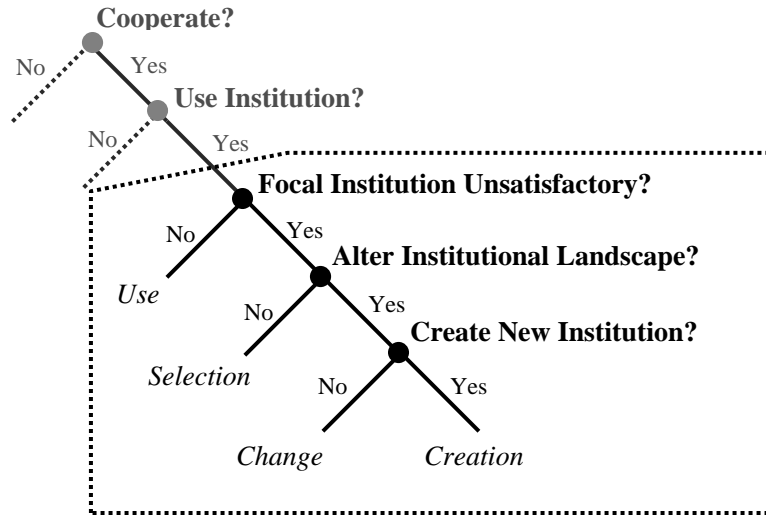


Figure 2: Choices within Institutionalized Cooperation

We organize our discussion around the four institutional strategies portrayed in Figure 2. By institutional use we mean the relatively unproblematic activation of a single existing institution. When the avian flu problem arose, for example, states quickly moved to deal with it through the WHO.²⁹ This is linked tightly in our account to the existence of a “focal institution” which provides a satisfactory solution to the cooperation problem at hand.³⁰

By contrast, sometimes two or more institutions are plausible competitors to handle a cooperation problem. These multiple options pose the problem of institutional selection, the choice of one option from a fixed but plural menu of alternatives. Trade disputes involving North American states might be brought before either the NAFTA or the WTO.³¹ This process comes closest to traditional conceptions of “forum shopping”³²

²⁹ Garrett 2005.

³⁰ We use the word “satisfactory” because we do not assume that institutions are optimal.

³¹ Busch 2005; Ortiz Mena 2005.

³² For recent analyses of forum shopping in IR and international law see Alter & Meunier 2005, Busch 2005, Davis 2003, Helfer 2004; Ortiz Mena 2005.

and (Financial Standards 2006) shows that it is also prevalent in the development of international financial accounting standards.

Institutional change entails significant modification of an existing institution. The EU has been changed a number of times to address a set of changing and evolving problems. We focus especially on changes to an institution's membership as well as its substantive or functional scope.³³

Finally, institutional creation involves the design of entirely new institutions. Familiar examples involve the initial creation of large scale IOs like NATO or the UN, but these are relatively rare events. More typically, creation occurs on a more modest scale through new institutional arrangements governing relatively smaller issues and sometimes connected to and even rooted in existing institutions.

While we set forth these four choices as distinct alternatives, they overlap and coexist in practice. For example, the inclusion of Trade-Related Intellectual Property (TRIPs) provisions inside the WTO simultaneously represents a case of institutional change (undertaken to the GATT via the Uruguay Round) and of selection (of the GATT/WTO versus the World Intellectual Property Organization (WIPO)).³⁴ Similarly, institutional choice in financial accounting standards occurred in linked stages, with an initial and relatively uncontroversial institutional selection followed by a distributionally-linked and contested strategy of change.³⁵ Distinguishing change and creation may also prove difficult in practice, not least because both operate according to a broader logic of institutional design. Finally, there is an intrinsic connection between the strategies insofar as they are dynamically linked in the choice sequence that states face. But while

³⁴ We are grateful to Christina Davis for drawing this example to our attention.

³⁵ (Financial Standards 2006).

the lines between these alternatives are therefore not perfectly clear in practice, for analytic purposes we define the categories as clearly as possible: selection in terms of “picking” an institution from an unaltered institutional landscape, change in terms of “modifying” an arrangement previously in place, and creation in terms of the establishment of an institutional arrangement that is relatively autonomous from preexisting institutions.

Finally, although our analysis emphasizes institutionalized cooperation (inside the dashed box of Figure 2), the possibility of abandoning institutionalized cooperation (the graytone part of the tree) is always a possibility, especially for powerful states. Such “off-the-path” alternatives help shape institutional choices by providing states with threats of abandoning institutionalized cooperation. However, such threats are not always credible since even powerful countries usually have incentives to change or replace institutions rather than abandon them. Thus the United States could safely withdraw from UNESCO -- an organization that did not matter to it -- but it probably would not bear the cost of withdrawing from the United Nations. Thus we focus on “on-the-path” choices but recognize the ever-present importance of outside options.

The Dynamics of Institutional Choice

We take a slightly unconventional approach in developing our analysis of the problem of institutional choice presented in Figure 2. Although we treat our actors as strategic, we start with the decision theoretic problem facing a “representative actor” thinking through its institutional strategy. This allows us to start with situations in which all actors are roughly similar (e.g., in interests and capability) and hence have the same

institutional preferences.³⁶ We use this as a baseline against which to evaluate the consequences of differences in interests and capabilities in bargaining among states. When different actors prefer different institutional arrangements (e.g., for distributional reasons) then the outcome will depend partly on the relative power and strategies of different actors and partly on the relative difficulty of achieving alternative institutional outcomes. An example is that states initially selected the International Accounting Standards Committee (IASC) as an institutional solution to dilemmas surrounding establishment of financial accounting standards but, upon learning more about its distributional implications, powerful states transformed that body into the International Accounting Standards Board (IASB) that better serves their interests.³⁷

We also use a slightly unconventional depiction of actors as boundedly rational.³⁸ Actors turn to institutions when the underlying problem is complex and cannot be managed through ad hoc arrangements. Moreover, institutions usually govern long run circumstances which cannot be fully anticipated so that the choice of institutional rules – especially ones that involve substantial change to the status quo or delegation of authority to IOs – create great uncertainties of their own.³⁹ This is especially true in highly

³⁶ Of course, a key difference between decision theory and game theory is that a decision theoretic actor directly chooses its preferred outcome. In a game theoretic setting, outcomes are not individually accessible so that even if all actors prefer something (e.g., joint cooperation over joint defection in Prisoners' Dilemma), the preferred collective choice is not assured. We discuss this in terms of collective action problems below. Finally, note that while the representative actor assumption implicitly emphasizes joint efficiency gains and obscures important distributional issues, it is also a useful simplification for problems like Prisoner's Dilemma where there can be substantial distributional differences. Nevertheless, we use the assumption only as a baseline against which to introduce distributional and power considerations below.

³⁷ (Financial Standards, 2006).

³⁸ The classic statement of bounded rationality is Simon 1957. Bounded rationality emphasizes the limited ability of decision-makers to solve complex problems and argues that they solve such problems through heuristics such as satisficing or search routines. Thus bounded rationality entails a joint statement about the nature of the actors and of the problem they confront. See also Jones 1999.

³⁹ Note the seeming paradox here. Institutional choice involves substantial uncertainty but, once adopted, institutions often reduce uncertainty among the actors.

technical areas (such as financial accounting) that involve specialized expertise. In these circumstances, bounded rationality is a more realistic assumption than that actors have full knowledge of the problem or the “optimal” institutional outcome. Bounded rationality can also indirectly capture constructivist and sociological insights regarding choice as guided by norms, culture and organizational processes in addition to instrumental goal-seeking.⁴⁰ Finally, bounded rationality is less idealistic than standard institutionalist views (in the sense that actors do not always find the optimum) and more attentive to the limits of decision-makers. Therefore, we assume boundedly rational actors (satisficers) who have a limited view of the available alternatives and cannot always look all the way down the tree.

The bounded rationality assumption leads to a novel interpretation of institutional choice along the tree in Figure 2. In standard decision theoretic analysis (and optimal design theory), actors are synoptic searchers (optimizers) able to canvass the whole range of possible institutional strategies in light of their knowledge of the entire payoff structure.⁴¹ They fold the decision tree back from its terminal outcomes to determine their best institutional choice given the available alternatives.⁴² Unlike optimizers, boundedly rational satisficers fold the tree forward, considering alternatives further down the tree only when earlier options fail to satisfy a threshold requirement for institutional acceptability, defined either in cost-benefit (consequential) or cultural (appropriateness) terms. They seek satisfactory institutional solutions, not perfect ones.

⁴⁰ Barnett 1998; Checkel 2005; Odell 2002; Schimmelfennig 2001; Weaver 2005.

⁴¹ The institutional design literature implicitly uses a synoptic approach in evaluating the existing equilibrium as representing a roughly optimal outcome in terms of design features (Koremenos, Lipson and Snidal 2004).

⁴² See Stokey and Zeckhauser (1978: Chapter 12) for a standard account of backward-unfolding of decision trees. Although outcomes are not portrayed in Figure 2, they could be represented by payoffs at terminal nodes, with the names of strategies moved instead to their respective terminal branches.

Bounded rationality has different implications for actors' willingness to undertake more adventuresome institutional choices than do stronger rationality assumptions.⁴³ It introduces a strong status quo bias into our predictions, with use and selection expected to be more prevalent than change and creation. Synoptic optimizing agents treat alternatives such as creation and change as risky alternatives characterized by probability distributions over (known) possible outcomes. If there is risk aversion and a significant probability of failure (with lower payoffs than use or selection) then rational actors will not venture further down the tree to change and creation. In general, however, change and creation would be predicted more frequently under an optimizing model than under a satisficing model. This distinction between degrees (or types) of rationality, then, offers leverage on the conditions under which we should expect full-fledged institutional change and creation versus institutional choice based on "ordering from the menu" offered by existing status quo institutions.⁴⁴

Using this "forward-folding" approach, and taking institutionalized cooperation as given (i.e., working within the box in Fig. 2), we can then stylize a sequential choice process involving a series of questions about institutional choice. The first is whether an existing (focal) institution offers a satisfactory solution to the cooperation problem at hand. If so, the actor will pursue a strategy of institutional use.⁴⁵ "If it works," US Ambassador John Bolton has recently said of the UN, "we'll use it."⁴⁶ If there is no focal

⁴³ Our analysis could be developed in terms of stronger optimizing assumptions, including considerations of costly information search and risk. However, bounded rationality does not necessarily lead to the same consequences as pure rationality with risk (Bendor, Kumar and Siegel, 2004) although we do not explore those differences here.

⁴⁴ Jacoby 2004.

⁴⁵ Pure satisficing might not even involve this much scrutiny of the alternatives, although the emergence and salience of a new issue probably would entail some. However, if an entrepreneurial IO pioneered an issue successfully, states might never consider the issue of alternative venues.

⁴⁶ Frederick Kempe, "The UN's Bolton Moment," *Wall Street Journal*, 29 November 2005.

institution or if a seemingly focal institution is unsatisfactory or illegitimate -- something satisficers may discover only after a period of use -- they move to the next node in the tree to consider whether alternative institutions provide a sufficiently suitable solution to a cooperation problem.⁴⁷ This is the strategy of selection, i.e., the choice of one institution from a fixed but plural menu of alternatives. If there is no suitable alternative institution, actors consider the possibility of adapting an existing institution to deal with the problem by pursuing the strategy of institutional change. If no existing institution can be satisfactorily adapted, institutional creation is the only remaining alternative.

Although we focus on the ultimate institutional choice, we would also expect differences in search procedures down the tree under bounded versus optimal rationality. Individual optimizing predicts direct (one-step) movement towards institutional outcomes, although these may be complicated by problems of bargaining and equilibrium selection in the collective case.⁴⁸ By contrast, bounded rationality predicts a search process only when the status quo is unsatisfactory and, even then, implies a bias towards the next available alternative regardless of whether an alternative further down the tree would produce a better outcome. Thus we would expect to see a sequential pattern of institutional choice where actors first try an immediate solution, and move on to intermediate solutions only if and when that proves unsatisfactory. Further movement is similarly sequenced and limited by the bounded nature of the actors.⁴⁹

⁴⁷ Again, John Bolton has recently suggested as much with respect to the UN. See Colum Lynch, "Bolton Admonishes UN," *Washington Post*, 23 November 2005.

⁴⁸ For a detailed analysis of why institutional change is difficult and incremental change more likely even under rational optimizing, see Abbott and Snidal (2005).

⁴⁹ The degree of boundedness may also vary along this sequence. As long as an issue is dormant, actors may choose "use" without engaging it; as circumstances change, actors may awaken to the importance of an issue and, as they become more attentive, move to "selection", "change", or creation. But actors still remain bounded, though less so, at these higher levels of activation. Boundedness may also vary across actors according to their capabilities and domestic circumstances (e.g., interest groups pressing the issue).

Differences in power and interest will also affect movement down the tree. Actors with greater capability are also generally more inclined to substantial institutional action when the status quo is unfavorable. In part, this may be because they have better information about more adventuresome institutional choices (i.e., are less bounded). They also are better able to absorb the risks inherent in them. In addition, their participation helps overcome the collective action problems inherent in bigger institutional changes and they may be able to shape new arrangements to maximize their own payoff. However, more powerful actors often are already favored by the status quo institutions and, in those cases, will be reluctant to abandon them. This relation between the distribution of capability and the distributive properties of alternative institutions is crucial in the more detailed analysis of institutional choice.

Finally, this section has treated international institutions as objects of choice but they are also actors that make choices. Sometimes IOs behave with substantial independence and autonomy.⁵⁰ When we discuss institutional choices in more detail, we will also consider the role that institutions may have in shaping the institutional menu available to states.

IV. Explaining Institutional Choice

To understand the dynamics of institutional choice, we employ the forward-folding (satisficing) decision model to examine the factors which push actors farther down the decision tree. We proceed sequentially down the tree, as would bounded actors, offering conjectures about the properties of cooperation problems and the institutional environment that favor progressively more dramatic institutional choices.

Thus we do not see actors as either fully bounded or synoptic but as lying somewhere between according to their circumstances.

⁵⁰ Abbot and Snidal, 1998; Barnett and Finnemore, 1999, 2004; Haftel and Thompson 2006.

We emphasize the key decisional and institutional factors, although we discuss these in the context of other variables and interactions among variables that also affect institutional choice. The points we cover are summarized in Table 2, which the reader may wish to consult for a preview of what follows.

General Factors

Two general factors shape institutional choice. First, decisional costs – including transactions and bargaining costs – increase down the tree. For a given cooperation problem, the use of a focal institution is usually the least costly resolution if the institution is agreeable.⁵¹ Selection is costlier, since it requires consideration of (and possibly bargaining or debating over) multiple alternatives and therefore represents a more “roundabout” method for the production of collective choices.⁵² Change and creation entail additional costs associated with a modification of the institutional landscape itself, although which of these two is most costly might depend upon particular circumstances, including the willingness of an existing institution to be changed.⁵³ This general relationship of increasing decisional costs serves to limit movements down the decision tree.

Second, risk and uncertainty increase the further one proceeds down the tree along the use-selection-change-creation path. Risk and uncertainty increase both because the impact of these increasingly dramatic institutional choices is harder to anticipate, and

⁵¹ Indeed, “use” captures the standard view that institutions lower transactions costs (Keohane, 1984; North 1990) but which also presupposes that the institution is given. The development of institutions (e.g., “change” and “creation”) often entails high transactions costs – even if the ultimate institutional choice lowers transactions costs for further interactions.

⁵² Goldberg 1974; Majone 1989, 96.

⁵³ Where existing organizations have a stake in the status quo and some ability to raise the costs of changing it, à la bureaucracies in Moe's (1990) account, change will be more costly than creation (see also Mann 1984; Pierson 1996; Pollack 1997). We capture this separately by considering the attitude of existing IOs to different institutional choices.

because the politics of collective choice are inherently less predictable as the scope of choice increases down the tree. Insofar as actors are risk (or uncertainty) averse, for example because they face domestic re-election constraints, we expect this to promote safer strategies of use and selection over riskier strategies of change and creation.⁵⁴

Again, our use of a bounded rationality approach emphasizes that states do not have full knowledge of various institutional consequences and are inclined to stick with the devil they know provided available outcomes are above some threshold.⁵⁵

Variations in the interaction between uncertainty and distribution under different levels of rationality warrant special mention. Under high levels of rationality, cooperation is relatively easy when distributional differences are outweighed by joint efficiency gains, but when distributional differences loom large then cooperation is impeded by difficult bargaining problems. Uncertainty and bounded rationality may mitigate or aggravate the impact of distributional considerations. If efficiency gains are large relative to distributional issues, bounded rationality may impede actors from achieving what would be relatively easy cooperative gains under full rationality. Conversely, when distributional considerations are large, uncertainty may facilitate cooperation or, alternatively, create incentives for actors to forge distributively fair institutions rather than bargain over distributions they cannot anticipate. Thus in the companion analysis of financial accounting standards we see that initial ignorance of distributional considerations -- coupled with a concern to avoid a financial crisis --

⁵⁴ Duffield 2003, 418.

⁵⁵ We do not emphasize the distinction between risk (probabilities over known possibilities) from uncertainty (unknown possibilities and/or probabilities). However, this distinction underlies the difference between bounded and optimizing approaches and provides important avenues for future theorizing.

facilitated early agreement on the IASC. But as participants became better-informed of its distributional consequences, that led to intense competition to reform the IASC.

These general factors (costs and risk/uncertainty) reinforce the status quo bias built into our account of institutional choice.⁵⁶ All other things being equal, institutional use is expected to be the most commonly pursued strategy, selection next most common, and change and creation least common. Starting with use as the default institutional choice and examining alternative strategies as (potentially very important) deviations moves our analysis toward a fuller account of institutional choice in IR. Thus we organize our discussion around the institutional status quo, including the possible role of IOs in affecting costs and risks, and the nature of the cooperation problem, including distributional and capability (or power) considerations. Our focus is implicitly on states as the primary choosers of international institutions (as they are) but the analysis can also be interpreted in terms of NGO, firm and IO strategies when applicable. Finally, while discussion is organized around relatively consensual (efficiency) choices by actors moving down the decision tree (or not), the importance of differences among actors is captured in the discussion of the distribution of interests and capability.

Criteria for Institutional Use

Status Quo Conditions. Institutional use requires the existence of a focal institution in the status quo, which raises the question of when a status quo institution is likely to be focal. Most obviously, this will hold where an existing institution has worked well for similar problems (defined both functionally and subjectively) in the past. The focal institution needs to have the correct basic properties – especially in terms of membership and scope but also whatever other institutional design features are necessary

⁵⁶ Abbott and Snidal (2005) offer a detailed discussion of why there is a status quo bias in general.

– to address the problem at hand. This accounts for why the World Health Organization (WHO) seems an obvious first stop for global human health issues associated with avian influenza⁵⁷ Questions of appropriateness and framing also matter: An example is how the World Bank staff has wielded its technical expertise in crafting loans to gain autonomy from its member states and to implement its preference for financing projects rather than payments imbalances. These preferences remove the Bank from the institutional status quo, thus leaving the IMF to serve as the focal institution for payments issues.⁵⁸ Whether reinforced by past successes, promoted by norm entrepreneurs, instantiated by organizational cultures, or simply shared by epistemic communities, norms also influence which institution is seen as appropriate for addressing any given problem.⁵⁹

IOs can influence their own “focalness” for a problem. On the one hand, an entrepreneurial IO may take the lead in identifying an issue, proposing solutions and presenting itself as the “natural” place for the international community to address it. Thus International Committee of the Red Cross (ICRC) founder Henry Dunant originated the idea of treating battlefield medical personnel and the wounded as noncombatants and created the ICRC to promote and address the issue.⁶⁰ On the other hand, an IO that might otherwise seem focal for a problem might resist handling it --perhaps because the problem is too difficult and the IO wishes to avoid failure, or because the new issue will interfere with its existing operations. Finally, complex problems are sometimes

⁵⁷ Garrett 2005.

⁵⁸ Chwieroth 2005.

⁵⁹ Hafner-Burton and Pollack 2000, 2002.

⁶⁰ Finnemore and Sikkink 1998, 896-897.

addressed by arrangements based on a consortium of existing institutions, such as the "regime complex" surrounding plant genetic resources.⁶¹

Focal institutions have important advantages for tackling new issues. They avoid the start-up costs of institutionalization and bring related expertise to the problem. They also incorporate established political arrangements for convening actors to solve a problem, and they may implicitly set aside other considerations (e.g., by circumventing new bargaining over distributional issues) that make cooperation more difficult. The focal institution is not necessarily optimal for addressing the new problem but, given the higher costs and uncertainty of institutional alternatives lying further down the tree, actors have an incentive to accept "good enough" solutions rather than to seek perfect ones.⁶²

Cooperation Problem. The nature of the cooperation problem also shapes the relative attractiveness of institutional use. Issues that arise incrementally out of earlier ones already successfully dealt with by the focal institution would seem the likeliest candidates for use. Focal institutions will be used especially when stakes are low and it is not worth incurring the additional costs of more elaborate institutional choices. Short time horizons favor use since alternative strategies entail delays inherent in (re)defining the institutional framework itself. Finally, the collective action problems of pursuing alternative institutional strategies make use the "default strategy" as the number of actors increases. In summary, institutional use is most likely when the existing focal institution offers a satisfactory solution to a new problem as compared to the more costly and uncertain institutional alternatives further down the tree.

⁶¹ Raustiala and Victor 2004.

⁶² Aggarwal 1998, 24.

Distributional considerations and contestation over “focalness” also influence the decision to use an institution. Mild distributional problems encourage actors to coordinate around (use of) a focal institution to obtain the efficiency gains of cooperation without being caught up in distributional battles over institutions. But when distributional considerations loom large, “losers” will contest and try to circumvent the focal institution whereas “winners” will try to maintain it. The ability to do so depends on the distribution of capacity. Powerful actors, especially those with “go-it-alone” power,⁶³ may be able to disrupt the focal institution and force movement to their preferred alternative institution down the tree. Less powerful “losers” will be unable to force such change even in coalition, as illustrated by the inability of the Group of 77 to exact significant institutional change in the major international economic institutions.⁶⁴ By contrast, winners are advantaged by the focalness and stability of existing institutions so that weak winners may prevail over somewhat stronger losers given the costs and risks of more dramatic institutional change.⁶⁵

In sum, we expect "use" to represent the modal institutional choice in IR since it allows actors to gain the benefits of cooperation on a new issue without engaging in more costly forms of institutional choice.⁶⁶ Use is the default choice of bounded actors and we have identified factors that militate in favor of this strategy. Where these conditions fail to hold, actors will consider moves further down the decision tree to alternative – but costlier and riskier – institutional possibilities.

⁶³ Gruber 2000.

⁶⁴ Krasner 1985.

⁶⁵ Are powerful or weaker states more likely to seek institutional change? On the one hand, the institutional status quo is likely to already favor the powerful; on the other hand, powerful actors will have the largest say in institutional change and creation. Thus rising powers should be more likely to pursue institutional change and declining powers to support status quo institutions.

⁶⁶ See also Aggarwal 1998, 24.

Criteria for Institutional Selection

Status Quo Conditions. Institutional selection is likeliest when multiple extant institutions could handle the problem, but none is “focal.” First, multiple institutional alternatives might occupy the same issue space. This is the case when private actors seek to resolve internet domain name disputes: they confront four separate venues within which to do so, all of which fulfill the same functions (albeit often with starkly different results for complainants and defendants).⁶⁷ Second, different, jurisdictions might partially overlap with respect to a given set of issues and actors. This is most likely where actors have densely institutionalized relations across a number of issues that are functionally, technically, geographically, normatively or politically linked to the issue at hand.⁶⁸ Finally, the focalness of an existing international institution for an existing issue can be undermined by competition from other institutions seeking to take on this issue, perhaps at the behest of states that fare badly under the prevailing institutional arrangement. UNCTAD originated as an effort by less developed countries to counter international economic institutions they perceived as biased toward developed country interests. (Financial Standards, 2006). describes the 1980s institutional status quo for financial accounting standards as offering four alternative venues – the UN, the OECD, the EU and the IASC – each plausibly suitable for handling cooperation dilemmas arising at that time in that issue-area.⁶⁹ As with use, norms of appropriateness may also guide the selection process, opening or foreclosing selection possibilities.

IOs themselves may take the initiative to shape states' alternatives -- either by resisting attempts to employ them or actively pursuing a role in the emerging issue. This

⁶⁷ Mueller 2001.

⁶⁸ Aggarwal 1985, 1998; Young 2002; Alter and Meunier 2006.

⁶⁹ (Financial Standards, 2006).

may be driven by organizational imperatives to expand or by norms emanating from their internal cultures or because new issues are a better or worse “fit” with their organizational structure.⁷⁰ With multiple institutions in the status quo, this may lead to inter-institutional competition on the supply-side, though there are also many examples of “peaceful coexistence” among jurisdictionally overlapping institutions.⁷¹ On the demand side, individual actors may “forum shop” to locate the issue in an institutional arrangement that favors them distributionally.⁷²

Cooperation Problem. The contours of the cooperation problem shape the decision to select or to move still further down the decision tree. Selection is most likely with moderate stakes sufficient to justify the additional search, transactions and bargaining costs of institutional selection, but not so great as to motivate strategies of change or creation. Similarly, time horizons need to be long enough to justify a more “roundabout” strategy, but not so long as to warrant the more time-consuming and still more costly processes of change or creation. Finally, selection processes are manageable even with moderately large numbers of actors since the limited number of alternatives simplifies collective action and bargaining problems.

Distributional differences can also lead to institutional selection. As noted, a prime reason for the absence or breakdown of a focal institution is that some actors are dissatisfied with its distributional consequences and have sufficient capability to reject it. This leads to efforts to locate the issue in alternative institutions and raises selection

⁷⁰ For example, Abbott and Snidal (2002) discuss why the “hard law” WTO was not as suitable a forum for dealing with international bribery as was the “soft law” OECD. Chwieroth (2005) similarly documents how changes in the World Bank’s organizational culture shaped states’ opportunities to select it for their balance of payments financing.

⁷¹ Werle 2001.

⁷² Baumgartner and Jones 1993; King 1997; Davis 2003; Jupille 2004; Mattli 2004.

problem corresponding to traditional conceptions of forum shopping. Such efforts will be most successful when led by powerful actors, as the United States has done with the “Bolton strategy” of increasing competition with the UN.⁷³ An existing institution will provide an acceptable outcome if it offers enough of what the powerful state could achieve through outside options such as unilateralism while avoiding the possible disruptions of such action. But if the available alternatives have markedly different distributional consequences and none represents a mutually acceptable bargaining compromise, then the politics of selection will be intense and the focalness of the original institution may be undermined even if efforts to select an alternative venue (initially) fail.

In sum, selection is advantaged insofar as shopping for solutions to the cooperation problem from among existing institutional arrangements involves satisfactory (expected) benefits, where use does not. The move from use to selection is in some ways a small one, since both strategies operate within the institutional status quo. The remaining strategies of change and creation, by contrast, demand additional investments in institutional production and bring greater risks and uncertainty. As a result, we expect that such strategies will only be pursued after states have had fairly unsuccessful experiences with the available status quo institutions.

Criteria for Institutional Change

Status Quo Conditions. Sometimes the status quo includes no institutional alternative that can deal effectively with the cooperation problem at hand, while an existing institution might be modified to address it.⁷⁴ Such institutional change will

⁷³ Ruth Wedgwood, “Give the United Nations a Little Competition,” *New York Times*, 5 December 2005, p. A23.

⁷⁴ Normally we think of this as a problem that no existing institution has all necessary features to address some problem. For example, there might be no institution that both encompasses the right membership *and*

occur when there is an institution that is substantially but not satisfactorily congruous with the cooperation problem at hand. For example, it may have suitable issue scope but need to be modified in the membership dimension, or vice versa.⁷⁵

An important factor shaping the prospects for institutional change is the relation between change and the effectiveness of the designated institution for its current tasks. If the proposed change impinges on existing functions -- perhaps by straining limited organizational resources or because the appropriate arrangements for handling the new issue are inconsistent with those appropriate for its current issues -- then institutional change is a less attractive alternative. This concern has surfaced with respect to proposals to use the WTO to handle "trade-related" issues such as human rights and the environment that some fear will interfere with its effectiveness on traditional trade issues.

For these and other reasons, IOs themselves might be active players in processes of institutional change. In some cases, IOs may position themselves in new areas of operations. This may result from a desire to expand organizational goals --as with the "creeping competence" of the EU--or from a "battle of ideas" within an IO where internal norm entrepreneurs successfully redefine an organization's purpose.⁷⁶ In other cases IOs will actively resist incorporation of the new issue (with, in this case, attendant changes to its architecture, scope or membership) if it is not consistent with its organizational culture or will interfere with its activities. Nielson and Tierney systematically demonstrate the ways in which the World Bank's culture intervened first to resist and then, under member state pressure, to embrace organizational changes

possesses the appropriate enforcement mechanism. But it could also be the case that a candidate institution has too many features (e.g., it has the right membership but they don't want a strong enforcement mechanism for the emergent issue).

⁷⁵ Wallander 2000.

⁷⁶ Pollack 1994, 2000; Hafner-Burton 2005.

designed to permit greater sensitivity to the environmental implications of Bank lending.⁷⁷

Cooperation Problem. When will cooperation problems lead to institutional change? It requires a relatively high stakes cooperation problem to justify the costs and risks of institutional change, as where an important new issue with significant domestic consequences arises abruptly on the policy agenda. Time horizons also have to be relatively long to justify the longer process of change. Finally, actors must be willing to tolerate some risk to open the Pandora's Box of change, though this is presumably mitigated somewhat through its grounding in an existing institution.

When the emerging issue is relatively harmonious, efficiency considerations should predominate so institutional change will be reasonably consensual. Collective action problems nevertheless may be significant, but can be mitigated if an existing IO is supportive of overcoming them. But when an issue entails serious distributional issues, possibly aggravated by uncertainty over the likely consequences, institutional change will be contentious. This makes collective action more difficult to orchestrate and may lead the IO to resist change. One possible solution is for small, fairly homogenous (“minilateral”) groups of actors to solve the problem through club or local public good solutions – provided they are able to define such boundaries.⁷⁸ This is one reason that human rights provisions have been attached to regional trade agreements, rather than to the WTO.⁷⁹

The story is quite different when distributional considerations predominate. Those favored by the status quo will resist change; those disfavored will seek change.

⁷⁷ Nielson and Tierney 2003.

⁷⁸ Ostrom 1990; Kahler 1992.

⁷⁹ Hafner-Burton 2005.

The result may be a stalemate unless a hegemon or a preponderantly powerful subgroup can alter the institution over the objections of others. As demonstrated in (Financial Standards, 2006)'s companion paper, preponderant bargaining power allowed the Anglo-Saxon camp to change the IASC to conform to its clear preferences in the area of financial accounting standards, with distributional outcomes unsurprisingly favoring this lead group.⁸⁰

Criteria for Institutional Creation

Status Quo Conditions. *De novo* creation is the result of substantial gaps in the institutional status quo. No extant institution is "focal" and none even seems suitable for selection or modification. This may reflect the absence of institutions in the issue-space (for example, with respect to newly arisen problems), at least with respect to the set of actors (membership) or the particular issue (scope) in question. The institutional gap may reflect normative assessment that existing institutions are, for whatever reason, illegitimate or otherwise inappropriate to the task at hand. Or perhaps institutional change would be too costly in terms of the reduced functionality of existing institutions with regard to their current activities. Whatever the case, the substantial risks and costs of institutional creation mean that it is only likely to be undertaken when no alternative institutions are available.

The absence of suitable IOs suggests that they will not be important actors in institutional creation. However, insofar as IOs (or their backers) aspire to manage an emerging issue – as the International Telecommunications Union (ITU) has with respect to the internet issues handled by the newcomer ICANN –they may interfere with the smooth creation of new institutions. Alternatively, IOs that recognize that they are not

⁸⁰ (Financial Standards, 2006).

well-suited for a new task may provide a setting within which to launch a new organization. Now the creation of a new institution will be done with its relationship to existing IOs firmly in mind. Thus the Global Environmental Facility (GEF) was established as an independent agency but with the World Bank responsible for its financial management, UNDP responsible for technical assistance and UNEP responsible for scientific guidance and seven other IOs contributing to the management of specific projects.⁸¹ The GEF illustrates how new institutions may be created “within” existing ones, yet with substantial independence of their own.⁸² This allows the new institution to be adapted to the new problem while maintaining substantial control through existing and known institutional arrangements.

Cooperation Problems. Because institutional creation is difficult and costly, actors will pursue it only when the stakes are high -- as in the emergence of a serious problem. Moreover, time horizons must be relatively long since creation usually takes time to accomplish. Actors must also be willing to tolerate the potentially substantial risks of opening the Pandora's Box of institutional creation, unmoored as it is from existing institutions. While the GEF case shows how principals may structure creation to minimize such consequences, often the ultimate effectiveness of an institution rests on its achieving some autonomy, so that states, for example, ultimately cannot avoid sovereignty costs if they are to achieve their other goals.

Distributional and power considerations will be at the fore of institutional creation. The GEF illustrates how the United States and other G-7 members defined the global environmental issue, located it in an institutional structure that they controlled and,

⁸¹ See http://www.gefweb.org/What_is_the_GEF/what_is_the_gef.html, last accessed 12/17/05.

⁸² The language and analysis of “nesting” (Aggarwal 1985, 1998; Alter and Meunier 2006) suggests itself here.

more generally, preempted the more ambitious North-South plan subsequently outlined as Agenda 21 at the 1992 Rio conference. In particular, the United States was keen to involve the World Bank to ensure that there would be careful financial oversight of environmental funds by an agency itself subject to close American scrutiny. Finally, collective action problems can be severe in the case of creation, making it best undertaken by small groups of the like minded (*k*-groups) or under powerful or even hegemonic leadership. The impact of distributional considerations in inhibiting creation may be mitigated, however, because the absence of alternative institutions means that “losers” (now only in a counterfactual sense) are less readily identifiable and because the absence of alternative institutions eliminates an important resource for organizing opposition to creation.

Summary

Table 2 provides a stylized summary of these arguments. Columns represent the different institutional choices arranged with “bigger” choices (i.e., those further down the tree of Figure 2) shaded more darkly. Rows represent the independent variables divided into three general categories. The top section includes the general factors of costs and risk/uncertainty which increase with -- and therefore inhibit -- larger forms of institutional change. The middle section reflects the role of status quo institutions both as providing the initial institutional environment within which institutional choice occurs as well as the sometimes central roles of existing IOs in institutional choice. The bottom section outlines key factors that promote more dramatic institutional choices. These effects are not simply additive and interactions among factors needs to be kept in mind. In particular, distributional differences provide incentives for pushing institutional

choices further down the tree – but this will occur only if powerful actors are behind such choices. Finally, the table does not incorporate the normative and legitimacy considerations which may play an important role in enabling and promoting different institutional choices.

A few very basic points emerge from the foregoing discussion. First, the problem of institutional choice is interesting when actors cannot move automatically to the institutional optimum. We incorporate this by modeling decisionmakers as bounded rather than synoptic, although an alternative specification could assume that optimization is hindered by certain costs (e.g., search, bargaining). Second, making this move reverses a number of traditional theoretical priorities. The status quo takes on much greater importance; movements away from it represent, if not puzzles, then at least phenomena of particular interest. Third, we point out possible explanations by identifying features of the institutional status quo (including the role of any existing IOs) and of the cooperation problem (including the distribution of interests and capability) that affect movements down the tree. The broadest implication is that more severe circumstances, defined as some combination of insufficient institutionalization and significant cooperation problems, drive the pursuit of costlier and riskier institutional strategies.

V. Conclusion

Two decades of sustained work on institutionalized cooperation have yielded substantial progress. We understand a great deal about how international institutions ameliorate the problem of cooperation under anarchy, both in general and in terms of specific dilemmas and design features. This paper builds out from this frontier by elaborating the variety of institutional choices – use, selection, change and creation—

available to actors in the international system. Bounded rationality, risk aversity and the transactions costs of greater institutional choice generate a status quo bias towards using an existing focal institution. But institutional choice also responds to properties of the cooperation problems and of the institutional status quo. Where existing institutions work satisfactorily for the problem at hand, simple use is the obvious strategy. If alternative institutions are available or can be adapted to the problem, then selection and change become more prominent alternatives. Greater stakes, longer time horizons and the distributive interests of the powerful in changing the status quo promote more adventuresome institutional choices, including creation of new arrangements.

The analysis contributes to four promising theoretical avenues for the study of international institutions. First, it includes efficiency considerations but also joins recent efforts to take power and distributional issues seriously as important determinants of institutional choice.⁸³ Second, it includes state-centric approaches but treats international organizations themselves – and international governance arrangements more generally – as meaningful actors that shape the menu from which states, firms, NGOs and other actors make their choices.⁸⁴ Third, bounded rationality is developed as a realistic modification to the standard institutionalist assumption of synoptic rationality and this creates possible connections to constructivist approaches.⁸⁵ Future work may adopt the same strategy or, working back one step, seek to explain the conditions under which bounded versus fuller forms of rationality might apply. The fourth and potentially most important theoretical advance lies in integrating otherwise disparate accounts of

⁸³ Krasner 1991; Morrow 1994; Gruber 2000; Barnett and Duvall 2004.

⁸⁴ Barnett and Finnemore 2004.

⁸⁵ Katzenstein, Keohane and Krasner 1998; Fearon and Wendt 2002; Jupille, Caporaso and Checkel 2003; Wendt 2001; Zürn and Checkel 2005. For an exception see Checkel 2005.

institutional use, selection, change and creation. Specifying the conditions under which actors will pursue alternative institutional strategies defines scope conditions for the choice of any one of them even as it brings the set together within a single framework.

The challenge of applying this framework is taken up in the companion paper on international financial standards. Employing our framework of boundedly rational actors pursuing strategies in response to cooperation problems and the institutional status quo, (Financial Standards, 2006) shows how exogenous shifts in cooperation problems -- the widened scope of financial standard-setting dilemmas attendant to globalization -- led in the first instance to a dynamic of institutional selection (of the International Accounting Standards Committee, IASC) over other extant options (UN, OECD, EC), and especially as states' learned more about the distributional consequences, subsequently gave rise to strategies of institutional change. The sequencing of these strategies nicely captures the dynamics of "movement down the tree" that we emphasize. While this analysis shows how our institutional choice framework applies in a single sector, one case obviously cannot provide a comprehensive test of the arguments developed here. What the companion paper does offer is preliminary validation that the framework advances understanding of institutional choice under a potentially wide range of circumstances.

A better understanding of cooperation and conflict over institutional strategies offers insight into questions of policymaking and global governance. As new cooperation problems emerge, states and IOs face real issues about to address them. Understanding the menu of options that is available, the motivations that different actors have for pursuing different institutional strategies and the limits imposed by the costs and risks of bigger institutional choices may ultimately help improve those choices. In a densely

institutionalized international environment, such understanding may prove especially consequential.

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	USE	SELECT	CHANGE	CREATE
Costs	FACTORS INHIBITING BIGGER INSTITUTIONAL CHOICES			
	Increasing costs →			
Risk and Uncertainty	Increasing risk/uncertainty →			
Institutional Status Quo	STATUS QUO INSTITUTIONS			
	Focal Institution w. “right” properties	Multiple Alternative Institutions	No Satisfactory Institution; One can be adapted	No institution willing and able to handle new issue
IO Role	Entrepreneurial in raising issue; supportive	Possible inter-IO competition; forum-shopping	IO support	Possibly supportive from outside
Cooperation Problem	FACTORS PROMOTING BIGGER INSTITUTIONAL CHOICES			
	Increasing stakes →			
Stakes	Longer time horizon →			
Time Horizon	Decreasing n ; Increasing Asymmetry →			
Number	Increasing Distributional Differences →			
Distribution	→			
Capability Distribution	Powerful actors satisfied	→		Powerful States Take Lead

Table 2: Summary of Key Factors Affecting Institutional Choice

