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Author(s): Joseph M. Grieco

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Anarchy and the limits of cooperation: a realist critique of the newest liberal institutionalism Joseph M. Grieco

Realism has dominated international relations theory at least since World War II.¹ For realists, international anarchy fosters competition and conflict among states and inhibits their willingness to cooperate even when they share common interests. Realist theory also argues that international institutions are unable to mitigate anarchy's constraining effects on inter-state cooperation. Realism, then, presents a pessimistic analysis of the prospects for international cooperation and of the capabilities of international institutions.²

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1. Major realist works include: E. H. Carr, *The Twenty Years Crisis, 1919–1939: An Introduction to the Study of International Relations* (London and New York: Harper Torchbooks, 1964); Hans J. Morgenthau, *Politics Among Nations: The Struggle for Power and Peace*, 5th ed. (New York: Knopf, 1973); Raymond Aron, *International Relations: A Theory of Peace and War*, trans. Richard Howard and Annette Baker Fox (Garden City, N.J.: Doubleday, 1973); Kenneth N. Waltz, *Man, the State, and War: A Theoretical Analysis* (New York: Columbia University Press, 1959); Waltz, *Theory of International Politics* (Reading, Mass.: Addison-Wesley, 1979); Robert Gilpin, *U.S. Power and the Multinational Corporation: The Political Economy of Foreign Direct Investment* (New York: Basic Books, 1975); and Gilpin, *War and Change in World Politics* (Cambridge: Cambridge University Press, 1981). This essay does not distinguish between realism and “neorealism,” because on crucial issues—the meaning of international anarchy, its effects on states, and the problem of cooperation—modern realists like Waltz and Gilpin are very much in accord with classical realists like Carr, Aron, and Morgenthau. For an alternative view, see Richard Ashley, “The Poverty of Neorealism,” in Robert O. Keohane, ed., *Neorealism and Its Critics* (New York: Columbia University Press, 1986), pp. 255–300.

2. Richard Rosecrance provided the insight that realism presents an essentially pessimistic view of the human condition: this is noted by Robert Gilpin, “The Richness of the Tradition of Political Realism,” in Keohane, ed., *Neorealism and Its Critics*, p. 304. This pessimism in realist theory is most clearly evident in Hans J. Morgenthau, *Scientific Man vs. Power Politics* (Chicago: University of Chicago Press, 1946), especially pp. 187–203.

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The major challenger to realism has been what I shall call liberal institutionalism. Prior to the current decade, it appeared in three successive presentations—functionalist integration theory in the 1940s and early 1950s, neofunctionalist regional integration theory in the 1950s and 1960s, and interdependence theory in the 1970s.³ All three versions rejected realism's propositions about states and its gloomy understanding of world politics. Most significantly, they argued that international institutions can help states cooperate. Thus, compared to realism, these earlier versions of liberal institutionalism offered a more hopeful prognosis for international cooperation and a more optimistic assessment of the capacity of institutions to help states achieve it.

International tensions and conflicts during the 1970s undermined liberal institutionalism and reconfirmed realism in large measure. Yet, that difficult decade did not witness a collapse of the international system, and, in the light of continuing modest levels of inter-state cooperation, a new liberal institutionalist challenge to realism came forward during the early 1980s.⁴ What is distinctive about this newest liberal institutionalism is its claim that it accepts a number of core realist propositions, including, apparently, the realist argument that anarchy impedes the achievement of international cooperation. However, the core liberal arguments—that realism overemphasizes conflict and underestimates the capacities of international institutions to promote cooperation—remain firmly intact. The new liberal institutionalists basically argue that even if the realists are correct in believing that anarchy constrains the willingness of states to cooperate, states nevertheless can work together and can do so especially with the assistance of international institutions.

This point is crucial for students of international relations. If neoliberal

3. For functionalist international theory, see David Mitrany, *A Working Peace System* (Chicago: Quadrangle Press, 1966); see also Ernst B. Haas, *Beyond the Nation-State: Functionalism and International Organization* (Stanford, Calif.: Stanford University Press, 1964). On neofunctionalism, see Haas, *The Uniting of Europe: Political, Economic, and Social Forces, 1950–1957* (Stanford, Calif.: Stanford University Press, 1958); Haas, "Technology, Pluralism, and the New Europe," in Joseph S. Nye, Jr., ed., *International Regionalism* (Boston: Little, Brown, 1968), pp. 149–76; and Joseph S. Nye, Jr., "Comparing Common Markets: A Revised Neo-Functional Model," in Leon N. Lindberg and Stuart A. Scheingold, eds., *Regional Integration: Theory and Research* (Cambridge: Harvard University Press, 1971), pp. 192–231. On interdependence theory, see Richard C. Cooper, "Economic Interdependence and Foreign Policies in the 1970's," *World Politics* 24 (January 1972), pp. 158–81; Edward S. Morse, "The Transformation of Foreign Policies: Modernization, Interdependence, and Externalization," *World Politics* 22 (April 1970), pp. 371–92; and Robert O. Keohane and Joseph S. Nye, Jr., *Power and Interdependence: World Politics in Transition* (Boston: Little, Brown, 1977).

4. See Robert Axelrod, *The Evolution of Cooperation* (New York: Basic Books, 1984); Axelrod and Robert O. Keohane, "Achieving Cooperation Under Anarchy: Strategies and Institutions," *World Politics* 38 (October 1985), pp. 226–54; Keohane, *After Hegemony: Cooperation and Discord in the World Political Economy* (Princeton, N.J.: Princeton University Press, 1984); Charles Lipson, "International Cooperation in Economic and Security Affairs," *World Politics* 37 (October 1984), pp. 1–23; and Arthur Stein, "Coordination and Collaboration: Regimes in an Anarchic World," in Stephen D. Krasner, ed., *International Regimes* (Ithaca, N.Y.: Cornell University Press, 1983), pp. 115–40.

institutionalists are correct, then they have dealt realism a major blow while providing the intellectual justification for treating their own approach, and the tradition from which it emerges, as the most effective for understanding world politics.

This essay's principal argument is that, in fact, neoliberal institutionalism misconstrues the realist analysis of international anarchy and therefore it misunderstands the realist analysis of the impact of anarchy on the preferences and actions of states. Indeed, the new liberal institutionalism fails to address a major constraint on the willingness of states to cooperate which is generated by international anarchy and which is identified by realism. As a result, the new theory's optimism about international cooperation is likely to be proven wrong.

Neoliberalism's claims about cooperation are based on its belief that states are atomistic actors. It argues that states seek to maximize their individual *absolute* gains and are indifferent to the gains achieved by others. Cheating, the new theory suggests, is the greatest impediment to cooperation among rationally egoistic states, but international institutions, the new theory also suggests, can help states overcome this barrier to joint action. Realists understand that states seek absolute gains and worry about compliance. However, realists find that states are *positional*, not atomistic, in character, and therefore realists argue that, in addition to concerns about cheating, states in cooperative arrangements also worry that their partners might gain more from cooperation than they do. For realists, a state will focus both on its absolute and relative gains from cooperation, and a state that is satisfied with a partner's compliance in a joint arrangement might nevertheless exit from it because the partner is achieving relatively greater gains. Realism, then, finds that there are at least two major barriers to international cooperation: state concerns about cheating and state concerns about relative achievements of gains. Neoliberal institutionalism pays attention exclusively to the former, and is unable to identify, analyze, or account for the latter.

Realism's identification of the relative gains problem for cooperation is based on its insight that states in anarchy fear for their survival as independent actors. According to realists, states worry that today's friend may be tomorrow's enemy in war, and fear that achievements of joint gains that advantage a friend in the present might produce a more dangerous *potential* foe in the future. As a result, states must give serious attention to the gains of partners. Neoliberals fail to consider the threat of war arising from international anarchy, and this allows them to ignore the matter of relative gains and to assume that states only desire absolute gains. Yet, in doing so, they fail to identify a major source of state inhibitions about international cooperation.

In sum, I suggest that realism, its emphasis on conflict and competition notwithstanding, offers a more complete understanding of the problem of international cooperation than does its latest liberal challenger. If that is true, then realism is still the most powerful theory of international politics.

1. Realism and liberal institutionalism

Realism encompasses five propositions. First, states are the major actors in world affairs.⁵ Second, the international environment severely penalizes states if they fail to protect their vital interests or if they pursue objectives beyond their means; hence, states are “sensitive to costs” and behave as unitary–rational agents.⁶ Third, international anarchy is the principal force shaping the motives and actions of states.⁷ Fourth, states in anarchy are preoccupied with power and security, are predisposed towards conflict and competition, and often fail to cooperate even in the face of common interests.⁸ Finally, international institutions affect the prospects for cooperation only marginally.⁹

Liberal institutionalists sought to refute this realist understanding of world politics.¹⁰ First, they rejected realism’s proposition about the centrality of states.¹¹ For functionalists, the key new actors in world politics appeared

5. Morgenthau, *Politics Among Nations*, p. 10; see also Waltz, *Theory of International Politics*, p. 95.

6. Waltz, “Reflections on *Theory of International Politics: A Response to My Critics*,” in Keohane, ed., *Neorealism and Its Critics*, p. 331.

7. Waltz, *Man, State, and War*, pp. 224–38; and Waltz, *Theory of International Politics*, pp. 79–128; Stanley Hoffmann, *The State of War: Essays in the Theory and Practice of International Politics* (New York: Praeger, 1965), pp. 27, 54–87, 129; Aron, *Peace and War*, pp. 6–10.

8. Aron, *Peace and War*, p. 5; Gilpin, “Political Realism,” p. 304.

9. Waltz, *Theory of International Politics*, pp. 115–16; see also Morgenthau, *Politics Among Nations*, p. 512; and Stanley Hoffmann, “International Organization and the International System,” in Leland M. Goodrich and David A. Kay, eds., *International Organization: Politics and Process* (Madison: University of Wisconsin Press, 1973), p. 50.

10. Liberal institutionalist theories may be distinguished from three other variants of liberal theory. One of these, trade liberalism, articulated by Richard Cobden and John Bright, finds that international commerce facilitates greater inter-state cooperation: for Cobden, see Arnold Wolfers and Laurence W. Martin, eds., *The Anglo-American Tradition in Foreign Affairs* (New Haven, Conn.: Yale University Press, 1956), pp. 192–205; with respect to both Cobden and Bright, see also Waltz, *Man, State, and War*, pp. 98–99, 103–7. A second variant, democratic structural liberalism, posited by Immanuel Kant and Woodrow Wilson, finds that democracies based on national self-determination are conducive to greater international cooperation. For Wilson, see Wolfers and Martin, eds., *Anglo-American Tradition*, pp. 263–79; for Kant and Wilson, see Waltz, *Man, State, and War*, pp. 101–3, 109–11, 117–19; and Michael W. Doyle, “Liberalism and World Politics,” *American Political Science Review* 80 (December 1986), pp. 1151–69. Finally, a liberal transactions approach suggests that private international interactions promote international integration: see Karl Deutsch et al., *Political Community and the North Atlantic Area* (Princeton, N.J.: Princeton University Press, 1957); and Bruce Russett, *Community and Contention* (Cambridge, Mass.: MIT Press, 1963). Citing an unpublished study by Keohane, Nye recently refers to the first two variants as commercial and democratic liberalism, respectively, and suggests that the third might be termed sociological liberalism. See Joseph S. Nye, Jr., “Neorealism and Neoliberalism,” *World Politics* 40 (January 1988), p. 246.

11. In a way quite different from liberal institutionalist theories, world systems analysis also challenges realism’s focus on states. It suggests that they are not ultimate causes of world events but instead are themselves resultants of the development of a single world capitalist economy. See Immanuel Wallerstein, “The Rise and Future Demise of the World Capitalist System,” in Wallerstein, *The Capitalist World System* (Cambridge: Cambridge University Press, 1979), pp. 1–37; and Wallerstein, *The Modern World System*, vol. 1 (New York: Academic Press, 1974).

to be specialized international agencies and their technical experts; for neo-functionalists, they were labor unions, political parties, trade associations, and supranational bureaucracies; and for the interdependence school, they were multinational corporations and transnational and transgovernmental coalitions.¹² Second, liberal institutionalists attacked the realist view that states are unitary or rational agents.¹³ Authority was already decentralized within modern states, functionalists argued, and it was undergoing a similar process internationally.¹⁴ Modern states, according to interdependence theorists, were increasingly characterized by “multiple channels of access,” which, in turn, progressively enfeebled the grip on foreign policy previously held by central decision makers.¹⁵

Third, liberals argued that states were becoming less concerned about power and security. Internationally, nuclear weapons and mobilized national populations were rendering war prohibitively costly.¹⁶ Moreover, increases in inter-nation economic contacts left states increasingly dependent upon one another for the attainment of such national goals as growth, full employment, and price stability.¹⁷ Domestically, industrialization had created the present “social century”: the advanced democracies (and, more slowly, socialist and developing countries) were becoming welfare states less oriented towards power and prestige and more towards economic growth and social security.¹⁸ Thus, liberals rejected realism’s fourth proposition that

12. See Mitrany, *Working Peace System*, pp. 17, 85–87, 133–34; Haas, *Beyond the Nation-State*, pp. 32–40; Haas, *Uniting of Europe*, pp. 16–31, 113–239, 283–340; Nye, “Comparing Common Markets,” pp. 195–206; and Robert O. Keohane and Joseph S. Nye, Jr., “Introduction,” and “Conclusion,” in Keohane and Nye, eds., *Transnational Relations and World Politics* (Cambridge: Harvard University Press, 1972), pp. ix–xxix, 371–98.

13. A substantial body of literature that is not based on liberalism nevertheless shares the latter’s skepticism about the unity and rationality of states. It finds that subsystemic forces, such as organizational and bureaucratic politics, small group dynamics, crisis decision-making, and individual psychology, all undermine state coherence and rationality. See Graham T. Allison, *Essence of Decision: Explaining the Cuban Missile Crisis* (Boston: Little, Brown, 1971); Irving J. Janis, *Groupthink*, 2d ed. (Boston: Houghton Mifflin, 1980); Ole R. Holsti, *Crisis Escalation War* (Montreal: McGill University Press, 1970); John D. Steinbruner, *The Cybernetic Theory of Decision* (Princeton, N.J.: Princeton University Press, 1974); Alexander L. and Juliette L. George, *Woodrow Wilson and Colonel House: A Personality Study* (New York: Dover, 1964); and Robert Jervis, *Perception and Misperception in World Politics* (Princeton, N.J.: Princeton University Press, 1976).

14. Mitrany, *Working Peace System*, pp. 54–55, 63, 69–73, 88, 134–38.

15. See Mitrany, *Working Peace System*, pp. 20, 32–38; Haas, “The New Europe,” pp. 152, 155–56; Keohane and Nye, “Introduction,” p. xxv, and “Conclusion,” pp. 375–78; Morse, “Transformation,” pp. 387–89; Cooper, “Interdependence,” pp. 177, 179; and Keohane and Nye, *Power and Interdependence*, pp. 33–35, 226–29.

16. Mitrany, *Working Peace System*, p. 13; Morse, “Transformation,” pp. 380–81; Keohane and Nye, *Power and Interdependence*, pp. 27–29, 228.

17. Mitrany, *Working Peace System*, pp. 131–37; Haas, “The New Europe,” pp. 161–62; Cooper, “Interdependence,” pp. 161–68, 173–74; Keohane and Nye, *Power and Interdependence*, pp. 26, 228.

18. See Mitrany, *Working Peace System*, pp. 41–42, 95–96, 136–37, 144–45; Haas, “The New Europe,” pp. 155–58; Morse, “Transformation,” pp. 383–85; and Keohane and Nye, *Power and Interdependence*, p. 227.

states are fundamentally disinclined to cooperate, finding instead that states increasingly viewed one another not as enemies, but instead as partners needed to secure greater comfort and well-being for their home publics.¹⁹

Finally, liberal institutionalists rejected realism's pessimism about international institutions. For functionalist theory, specialized agencies like the International Labor Organization could promote cooperation because they performed valuable tasks without frontally challenging state sovereignty.²⁰ For neofunctionalist theory, supranational bodies like the European Economic Community were "the appropriate regional counterpart to the national state which no longer feels capable of realizing welfare goals within its own narrow borders."²¹ Finally, interdependence theory suggested that "in a world of multiple issues imperfectly linked, in which coalitions are formed transnationally and transgovernmentally, the potential role of international institutions in political bargaining is greatly increased."²²

Postwar events, and especially those of the 1970s, appeared to support realist theory and to invalidate liberal institutionalism. States remained autonomous in setting foreign policy goals; they retained the loyalty of government officials active in "transgovernmental networks"; and they recast the terms of their relationships with such seemingly powerful transnational actors as high-technology multinational corporations.²³ Industrialized states varied in their economic performance during the 1970s in the face of similar challenges (oil shortages, recession, and inflation). Scholars linked these differences in performance to divergences, and not convergence, in their domestic political-economic structures.²⁴ A number of events during the 1970s and early 1980s also demonstrated that the use of force continued to be a pervasive feature of world politics: increases in East-West tensions

19. Neofunctionalists suggested that, for West European states, "the argument is no longer over the slice of the pie to go to each; it is increasingly over the means for increasing the overall size of the pastry." See Haas, "The New Europe," p. 158; see also pp. 160–62, 166–67. See also Mitrany, *Working Peace System*, pp. 92–93; Morse, "Transformation," pp. 383–85; and Cooper, "Interdependence," pp. 164–67, 170–72, 179.

20. Mitrany, *Working Peace System*, pp. 133–37, 198–211; see also Haas, *Beyond the Nation-State*.

21. Haas, "The New Europe," p. 159.

22. Keohane and Nye, *Power and Interdependence*, p. 35; see also pp. 36, 232–34, 240–42.

23. See Stephen D. Krasner, *Defending the National Interest: Raw Materials Investments and U.S. Foreign Policy* (Princeton, N.J.: Princeton University Press, 1978); Robert W. Russell, "Transgovernmental Interaction in the International Monetary System, 1960–1972," *International Organization* 27 (Autumn 1973), pp. 431–64; and Joseph M. Grieco, *Between Dependency and Autonomy: India's Experience with the International Computer Industry* (Berkeley: University of California Press, 1984).

24. See Peter J. Katzenstein, ed., *Between Power and Plenty: Foreign Economic Policies of Advanced Industrialized States* (Madison: University of Wisconsin Press, 1978); Katzenstein, *Small States in World Markets: Industrial Policy in Europe* (Ithaca, N.Y.: Cornell University Press, 1985); John Zysman, *Political Strategies for Industrial Order: State, Market, and Industry in France* (Berkeley: University of California Press, 1977); Zysman, *Governments, Markets, and Growth: Financial Systems and the Politics of Industrial Change* (Ithaca, N.Y.: Cornell University Press, 1983); and Peter Gourevitch, *Politics in Hard Times: Comparative Responses to International Economic Crises* (Ithaca, N.Y.: Cornell University Press, 1986), pp. 181–217.

and the continuation of the Soviet–American arms competition; direct and indirect military intervention and counter-intervention by the superpowers in Africa, Central America, and Southwest Asia; and the Yom Kippur and Iran–Iraq wars.²⁵ International institutions appeared to be unable to reshape state interests; instead, they were often embroiled in and paralyzed by East–West and North–South disputes.²⁶ Finally, supranationalism in West Europe was replaced by old-fashioned intergovernmental bargaining, and the advanced democracies frequently experienced serious trade and monetary conflicts and sharp discord over economic relations with the Soviet Union.²⁷

And yet, international cooperation did not collapse during the 1970s as it had during the 1930s.²⁸ In finance, private banks and governments in developed countries worked with the International Monetary Fund to contain the international debt crisis.²⁹ In trade, the advanced states completed the Tokyo Round negotiations under the General Agreement on Tariffs and

25. On the continuing utility of force in the nuclear age, see Alexander L. George and Richard Smoke, *Deterrence in American Foreign Policy: Theory and Practice* (New York: Columbia University Press, 1974); Barry M. Blechman and Stephen S. Kaplan, *Force Without War: U.S. Armed Forces as a Political Instrument* (Washington, D.C.: Brookings Institution, 1978); Stephen S. Kaplan, *Diplomacy of Power: Soviet Armed Forces as a Political Instrument* (Washington, D.C.: Brookings Institution, 1981); and Richard Betts, *Nuclear Blackmail and Nuclear Balance* (Washington, D.C.: Brookings Institution, 1987).

26. East–West disputes in a specialized international agency are examined in Walter Galenson, *The International Labor Organization: An American View* (Madison: University of Wisconsin Press, 1981). North–South struggles within international institutions are discussed in Stephen D. Krasner, *Structural Conflict: The Third World Against Global Liberalism* (Berkeley: University of California Press, 1985).

27. On the problem of European integration, see Donald J. Puchala, “Domestic Politics and Regional Harmonization in the European Communities,” *World Politics* 27 (July 1975), pp. 496–520; and Paul Taylor, *The Limits of European Integration* (New York: Columbia University Press, 1983). Trends towards a “new protectionism” supported realist arguments that the erosion of America’s hegemonic position would produce a less open international economy. See Gilpin, *U.S. Power*, and Stephen D. Krasner, “State Power and the Structure of International Trade,” *World Politics* 28 (April 1976), pp. 317–45. On trade conflicts during the 1970s, see John H. Jackson, “The Crumbling Institutions of the Liberal Trade System,” *Journal of World Trade Law* 12 (March–April 1978), pp. 93–106; Bela and Carol Balassa, “Industrial Protection in the Developed Countries,” *World Economy* 7 (June 1984), pp. 179–86; and Miles Kahler, “European Protectionism in Theory and Practice,” *World Politics* 37 (July 1985), pp. 475–502. On monetary disputes, see Susan Strange, *International Monetary Relations of the Western World, 1959–1971*, vol. 2 of Andrew Shonfield, ed. *International Economic Relations of the Western World, 1959–1971* (Oxford: Oxford University Press for the Royal Institute of International Affairs, 1976), pp. 320–53; and Benjamin J. Cohen, “Europe’s Money, America’s Problems,” *Foreign Policy*, No. 35 (Summer 1979), pp. 31–47. On disputes over economic ties with the Soviet Union, see Stephen Woolcock, *Western Policies on East–West Trade*, Chatham House Papers No. 15 (London: Routledge & Kegan Paul for the Royal Institute of International Affairs, 1982); and Bruce W. Jentleson, *Pipeline Politics: The Complex Political Economy of East–West Energy Trade* (Ithaca, N.Y.: Cornell University Press, 1986).

28. Stephen D. Krasner, “Preface,” in Krasner, ed., *International Regimes*, p. viii.

29. See Charles Lipson, “Bankers’ Dilemmas: Private Cooperation in Rescheduling Sovereign Debts,” *World Politics* 38 (October 1985), pp. 200–25; also see Miles Kahler, ed., *The Politics of International Debt* (Ithaca, N.Y.: Cornell University Press, 1986).

Trade.³⁰ In energy, the advanced states failed to coordinate responses to the oil crises of 1973–1974 and 1979, but cooperated effectively—through the International Energy Agency—following the outbreak of the Iran–Iraq war in 1980.³¹ Finally, in high technology, the European states initiated and pursued during the 1970s a host of joint projects in high technology such as Airbus Industrie, the ARIANE rocket program, and the ESPRIT information technology effort.³² Governments had not transformed their foreign policies, and world politics were not in transition, but *states* achieved cooperation through *international institutions* even in the harsh 1970s. This set the stage for a renewed, albeit truncated, liberal challenge to realism in the 1980s.

2. The new liberal institutionalism

In contrast to earlier presentations of liberal institutionalism, the newest liberalism accepts realist arguments that states are the major actors in world affairs and are unitary–rational agents. It also claims to accept realism’s emphasis on anarchy to explain state motives and actions. Robert Axelrod, for example, seeks to address this question: “Under what conditions will cooperation emerge in a world of egoists without central authority?”³³ Similarly, Axelrod and Robert Keohane observe of world politics that “there is no common government to enforce rules, and by the standards of domestic society, international institutions are weak.”³⁴

Yet neoliberals argue that realism is wrong to discount the possibilities for international cooperation and the capacities of international institutions. Neoliberals claim that, contrary to realism and in accordance with traditional

30. See Gilbert Winham, *International Trade and the Tokyo Round Negotiation* (Princeton, N.J.: Princeton University Press, 1986); see also Charles Lipson, “The Transformation of Trade: The Sources and Effects of Regime Change,” in Krasner, ed., *International Regimes*, pp. 233–72; and Jock A. Finlayson and Mark W. Zacher, “The GATT and the Regulation of Trade Barriers: Regime Dynamics and Functions,” in Krasner, ed., *International Regimes*, pp. 273–314.

31. See Robert J. Lieber, *The Oil Decade: Conflict and Cooperation in the West* (New York: Praeger, 1983); Daniel Badger and Robert Belgrave, *Oil Supply and Price: What Went Right in 1980?* (Paris: Atlantic Institute for International Affairs, May 1982); and Keohane, *After Hegemony*, pp. 217–40.

32. See Bruce L. R. Smith, “A New Technology Gap in Europe?” *SAIS Review* 6 (Winter–Spring 1986), pp. 219–36; and Walter A. McDougall, “Space-Age Europe: Gaullism, Euro-Gaullism, and the American Dilemma,” *Technology and Culture* 26 (April 1985), pp. 179–203.

33. Axelrod, *Evolution of Cooperation*, p. 3; also see pp. 4, 6.

34. Axelrod and Keohane, “Achieving Cooperation,” p. 226. Stein argues that his theory of international regimes “is rooted in the classic characterization of international politics as relations between sovereign entities dedicated to their own self-preservation, ultimately able to depend only upon themselves, and prepared to resort to force”; see Stein, “Coordination and Collaboration,” p. 116. Lipson notes that Axelrod’s ideas are important because they “obviously bear on a central issue in international relations theory: the emergence and maintenance of cooperation among sovereign, self-interested states, operating without any centralized authority”; see Lipson, “International Cooperation,” p. 6.

liberal views, institutions can help states work together.³⁵ Thus, neoliberals argue, the prospects for international cooperation are better than realism allows.³⁶ These points of convergence and divergence among the three perspectives are summarized in Table 1.

Neoliberals begin with assertions of acceptance of several key realist propositions; however, they end with a rejection of realism and with claims of affirmation of the central tenets of the liberal institutionalist tradition. To develop this argument, neoliberals first observe that states in anarchy often face mixed interests and, in particular, situations which can be depicted by Prisoner's Dilemma.³⁷ In the game, each state prefers mutual cooperation to mutual noncooperation ($CC > DD$), but also successful cheating to mutual cooperation ($DC > CC$) and mutual defection to victimization by another's cheating ($DD > CD$); overall, then, $DC > CC > DD > CD$. In these circumstances, and in the absence of a centralized authority or some other countervailing force to bind states to their promises, each defects regardless of what it expects the other to do.

However, neoliberals stress that countervailing forces often do exist—forces that cause states to keep their promises and thus to resolve the Prisoner's Dilemma. They argue that states may pursue a strategy of tit-for-tat and cooperate on a conditional basis—that is, each adheres to its promises so long as partners do so. They also suggest that conditional cooperation is more likely to occur in Prisoner's Dilemma if the game is highly iterated, since states that interact repeatedly in either a mutually beneficial or harmful manner are likely to find that mutual cooperation is their best long-term strategy. Finally, conditional cooperation is more attractive to states if the

35. Keohane notes in *After Hegemony* (p. 9) that “I begin with Realist insights about the role of power and the effects of hegemony” but that “my central arguments draw more on the Institutional tradition, arguing that cooperation can under some conditions develop on the basis of complementary interests, and that institutions, broadly defined, affect the patterns of cooperation that emerge.” Keohane also notes (p. 26) that “what distinguishes my argument from structural Realism is my emphasis on the effects of international institutions and practices on state behavior.”

36. Keohane indicates in *After Hegemony* (pp. 14, 16) that he does not seek the wholesale rejection of realism. However, on the issue of the prospects for cooperation, like the question of international institutions, he does seek to refute realism's conclusions while employing its assumptions. He notes (p. 29) that “[s]tarting with similar premises about motivations, I seek to show that Realism's pessimism about welfare-increasing cooperation is exaggerated,” and he proposes (p. 67) “to show, on the basis of their own assumptions, that the characteristic pessimism of Realism does not follow.” Keohane also suggests (p. 84) that rational-choice analysis “helps us criticize, in its own terms, Realism's bleak picture of the inevitability of either hegemony or conflict.” Finally, he asserts (p. 84) that rational-choice theory, “combined with sensitivity to the significance of international institutions,” allows for an awareness of both the strengths and weaknesses of realism, and in so doing “[w]e can strip away some of the aura of verisimilitude that surrounds Realism and reconsider the logical and empirical foundations of its claims to our intellectual allegiance.”

37. On the importance of Prisoner's Dilemma in neoliberal theory, see Axelrod, *Evolution of Cooperation*, p. 7; Keohane, *After Hegemony*, pp. 66–69; Axelrod and Keohane, “Achieving Cooperation,” p. 231; Lipson, “International Cooperation,” p. 2; and Stein, “Coordination and Collaboration,” pp. 120–24.

TABLE 1. Liberal institutionalism, neoliberal institutionalism, and realism: summary of major propositions

Proposition	Liberal institutionalism	Neoliberal institutionalism	Realism
States are the only major actors in world politics	No; other actors include: —specialized international agencies —supranational authorities —interest groups —transgovernmental policy networks —transnational actors (MNCs, etc.)	Yes (but international institutions play a major role)	Yes
States are unitary—rational actors Anarchy is a major shaping force for state preferences and actions	No; state is fragmented No; forces such as technology, knowledge, welfare-orientation of domestic interests are also salient	Yes Yes (apparently)	Yes Yes
International institutions are an independent force facilitating cooperation Optimistic/pessimistic about prospects for cooperation	Yes Optimistic	Yes Optimistic	No Pessimistic

costs of verifying one another's compliance, and of sanctioning cheaters, are low compared to the benefits of joint action. Thus, conditional cooperation among states may evolve in the face of international anarchy and mixed interests through strategies of reciprocity, extended time horizons, and reduced verification and sanctioning costs.

Neoliberals find that one way states manage verification and sanctioning problems is to restrict the number of partners in a cooperative arrangement.³⁸ However, neoliberals place much greater emphasis on a second factor—international institutions. In particular, neoliberals argue that institutions reduce verification costs, create iterativeness, and make it easier to punish cheaters. As Keohane suggests, “in general, regimes make it more sensible to cooperate by lowering the likelihood of being double-crossed.”³⁹ Similarly, Keohane and Axelrod assert that “international regimes do not substitute for reciprocity; rather, they reinforce and institutionalize it. Regimes incorporating the norm of reciprocity delegitimize defection and thereby make it more costly.”⁴⁰ In addition, finding that “coordination conventions” are often an element of conditional cooperation in Prisoner's Dilemma, Charles Lipson suggests that “in international relations, such conventions, which are typically grounded in ongoing reciprocal exchange, range from international law to regime rules.”⁴¹ Finally, Arthur Stein argues that, just as societies “create” states to resolve collective action problems among individuals, so too “regimes in the international arena are also created to deal with the collective suboptimality that can emerge from individual [state] behavior.”⁴² Hegemonic power may be necessary to establish cooperation among states, neoliberals argue, but it may endure after hegemony with the aid of institutions. As Keohane concludes, “When we think about cooperation after hegemony, we need to think about institutions.”⁴³

3. Realism and the failure of the new liberal institutionalism

The new liberals assert that they can accept key realist views about states and anarchy and still sustain classic liberal arguments about institutions and international cooperation. Yet, in fact, realist and neoliberal perspectives on states and anarchy differ profoundly, and the former provides a more complete understanding of the problem of cooperation than the latter.

Neoliberals assume that states have only one goal in mixed-interest in-

38. See Keohane, *After Hegemony*, p. 77; Axelrod and Keohane, “Achieving Cooperation,” pp. 234–38. For a demonstration, see Lipson, “Bankers’ Dilemmas.”

39. Keohane, *After Hegemony*, p. 97.

40. Axelrod and Keohane, “Achieving Cooperation,” p. 250.

41. Lipson, “International Cooperation,” p. 6.

42. Stein, “Coordination and Collaboration,” p. 123.

43. Keohane, *After Hegemony*, p. 246.

teractions: to achieve the greatest possible individual gain. For example, Axelrod suggests that the key issue in selecting a “best strategy” in Prisoner’s Dilemma—offered by neoliberals as a powerful model of the problem of state cooperation in the face of anarchy and mixed interests—is to determine “what strategy will yield a player the highest possible score.”⁴⁴ Similarly, Lipson observes that cheating is attractive in a single play of Prisoner’s Dilemma because each player believes that defecting “can maximize his own reward,” and, in turning to iterated plays, Lipson retains the assumption that players seek to maximize individual payoffs over the long run.⁴⁵ Indeed, reliance upon conventional Prisoner’s Dilemma to depict international relationships and upon iteration to solve the dilemma unambiguously requires neoliberalism to adhere to an individualistic payoff maximization assumption, for a player responds to an iterated conventional Prisoner’s Dilemma with conditional cooperation *solely out of a desire to maximize its individual long-term total payoffs*.

Moreover, neoliberal institutionalists assume that states define their interests in strictly individualistic terms. Axelrod, for example, indicates that his objective is to show how actors “who pursue their own interests” may nevertheless work together.⁴⁶ He also notes that Prisoner’s Dilemma is useful to study states in anarchy because it is assumed in the game that “the object is to do as well as possible, regardless of how well the other player does.”⁴⁷ Similarly, Lipson suggests that Prisoner’s Dilemma “clearly parallels the Realist conception of sovereign states in world politics” because each player in the game “is assumed to be a self-interested, self-reliant maximizer of his own utility.”⁴⁸

Finally, Keohane bases his analysis of international cooperation on the assumption that states are basically atomistic actors. He suggests that states in an anarchical context are, as microeconomic theory assumes with respect to business firms, “rational egoists.” Rationality means that states possess “consistent, ordered preferences, and . . . calculate costs and benefits of alternative courses of action in order to maximize their utility in view of these preferences.” In turn, he defines utility maximization atomistically; egoism, according to Keohane, “means that their [i.e., state] utility functions are independent of one another: they do not gain or lose utility simply because of the gains or losses of others.”⁴⁹

44. Axelrod, *Evolution of Cooperation*, pp. 6, 14. Stein acknowledges that he employs an absolute-gains assumption and that the latter “is very much a liberal, not mercantilist, view of self-interest; it suggests that actors focus on their own returns and compare different outcomes with an eye to maximizing their own gains.” See Stein, “Coordination and Collaboration,” p. 134. It is difficult to see how Stein can employ a “liberal” assumption of state interest and assert that his theory of regimes, as noted earlier in note 34, is based on the “classic [realist?] characterization” of international politics.

45. Lipson, “International Cooperation,” pp. 2, 5.

46. Axelrod, *Evolution of Cooperation*, p. 9.

47. *Ibid.*, p. 22.

48. Lipson, “International Cooperation,” p. 2.

49. Keohane, *After Hegemony*, p. 27.

Neoliberalism finds that states attain greater utility—that is, a higher level of satisfaction—as they achieve higher individual payoffs. Also, in keeping with the concept of rational egoism, a utility function specified by the new theory for one state would not be “linked” to the utility functions of others. Hence, if a state enjoys utility, U , in direct proportion to its payoff, V , then the neoliberal institutionalist specification of that state’s utility function would be $U = V$.⁵⁰

Overall, “rational egoist” states care only about their own gains. They do not care whether partners achieve or do not achieve gains, or whether those gains are large or small, or whether such gains are greater or less than the gains they themselves achieve. The major constraint on their cooperation in mixed interest international situations is the problem of cheating.

And yet, realist theory rejects neoliberalism’s exclusive focus on cheating. Differences in the realist and neoliberal understanding of the problem of cooperation result from a fundamental divergence in their interpretations of the basic meaning of international anarchy. Neoliberal institutionalism offers a well-established definition of anarchy, specifying that it means “the lack of common government in world politics.”⁵¹ Neoliberalism then proceeds to identify one major effect of international anarchy. Because of anarchy, according to neoliberals, individuals or states believe that no agency is available to “enforce rules,” or to “enact or enforce rules of behavior,” or to “force them to cooperate with each other.”⁵² As a result, according to neoliberal theory, “cheating and deception are endemic” in international relations.⁵³ Anarchy, then, means that states may wish to cooperate, but, aware that cheating is both possible and profitable, *lack a central agency to enforce promises*. Given this understanding of anarchy, neoliberal institutional theory correctly identifies the problem of cheating and then proceeds to investigate how institutions can ameliorate that particular problem.

For realists, as for neoliberals, international anarchy means the absence of a common inter-state government. Yet, according to realists, states do not believe that the lack of a common government only means that no agency can reliably enforce promises. Instead, realists stress, states recognize that, in anarchy, *there is no overarching authority to prevent others from using*

50. On payoffs and utility functions, see Anatol Rapoport, *Fights, Games and Debates* (Ann Arbor: University of Michigan Press, 1960), p. 121, and Michael Taylor, *Anarchy and Cooperation* (London: Wiley, 1976), pp. 70–74.

51. Axelrod and Keohane, “Achieving Cooperation,” p. 226; see also Keohane, *After Hegemony*, p. 7; Lipson, “International Cooperation,” pp. 1–2; Axelrod, *Evolution of Cooperation*, pp. 3–4; and Stein, “Coordination and Collaboration,” p. 116.

52. See Axelrod and Keohane, “Achieving Cooperation,” p. 226; Keohane, *After Hegemony*, p. 7; and Axelrod, *Evolution of Cooperation*, p. 6.

53. Axelrod and Keohane, “Achieving Cooperation,” p. 226. Similarly, Lipson notes that while institutionalized mechanisms (such as governments) that guarantee the enforcement of contracts are available in civil society, “the absence of reliable guarantees is an essential feature of international relations and a major obstacle to concluding treaties, contracts, and agreements.” The resulting problem, according to Lipson, is that “constraints on opportunism are weak.” See Lipson, “International Cooperation,” p. 4. Also see Keohane, *After Hegemony*, p. 93, and Stein, “Coordination and Collaboration,” p. 116.

violence, or the threat of violence, to destroy or enslave them. As Kenneth Waltz suggests, in anarchy, wars can occur “because there is nothing to prevent them,” and therefore “in international politics force serves, not only as the *ultima ratio*, but indeed as the first and constant one.”⁵⁴ Thus, some states may sometimes be driven by greed or ambition, but anarchy and the danger of war cause all states always to be motivated in some measure by fear and distrust.⁵⁵

Given its understanding of anarchy, realism argues that individual well-being is not the key interest of states; instead, it finds that *survival* is their core interest. Raymond Aron, for example, suggested that “politics, insofar as it concerns relations among states, seems to signify—in both ideal and objective terms—simply the survival of states confronting the potential threat created by the existence of other states.”⁵⁶ Similarly, Robert Gilpin observes that individuals and groups may seek truth, beauty, and justice, but he emphasizes that “all these more noble goals will be lost unless one makes provision for one’s security in the power struggle among groups.”⁵⁷

Driven by an interest in survival, states are acutely sensitive to any erosion of their relative capabilities, which are the ultimate basis for their security and independence in an anarchical, self-help international context. Thus, realists find that the major goal of states in any relationship is not to attain the highest possible individual gain or payoff. Instead, *the fundamental goal of states in any relationship is to prevent others from achieving advances in their relative capabilities*. For example, E. H. Carr suggested that “the most serious wars are fought in order to make one’s own country militarily stronger or, *more often*, to prevent another from becoming militarily stronger.”⁵⁸ Along the same lines, Gilpin finds that the international system “stimulates, and may compel, a state to increase its power; at the least, it necessitates that the prudent state prevent relative increases in the power of competitor states.”⁵⁹ Indeed, states may even forgo increases in their absolute capabilities if doing so prevents others from achieving even greater gains. This is because, as Waltz suggests, “the first concern of states is not to maximize power but to maintain their position in the system.”⁶⁰

54. See Waltz, *Man, State, and War*, p. 232; and Waltz, *Theory of International Politics*, p. 113. Similarly, Carr suggests that war “lurks in the background of international politics just as revolution lurks in the background of domestic politics.” See Carr, *Twenty Years Crisis*, p. 109. Finally, Aron observes that international relations “present one original feature which distinguishes them from all other social relations: they take place within the shadow of war.” See Aron, *Peace and War*, p. 6.

55. See Gilpin, “Political Realism,” pp. 304–5.

56. Aron, *Peace and War*, p. 7; also see pp. 64–65.

57. Gilpin, “Political Realism,” p. 305. Similarly, Waltz indicates that “in anarchy, security is the highest end. Only if survival is assured can states safely seek such other goals as tranquility, profit, and power.” See Waltz, *Theory of International Politics*, p. 126; also see pp. 91–92, and Waltz, “Reflections,” p. 334.

58. Carr, *Twenty-Years Crisis*, p. 111, emphasis added.

59. Gilpin, *War and Change*, pp. 87–88.

60. Waltz, *Theory of International Politics*, p. 126; see also Waltz, “Reflections,” p. 334.

States seek to prevent increases in others' relative capabilities. As a result, states always assess their performance in any relationship in terms of the performance of others.⁶¹ Thus, I suggest that states are positional, not atomistic, in character. Most significantly, *state positionality may constrain the willingness of states to cooperate*. States fear that their partners will achieve relatively greater gains; that, as a result, the partners will surge ahead of them in relative capabilities; and, finally, that their increasingly powerful partners in the present could become all the more formidable foes at some point in the future.⁶²

State positionality, then, engenders a "relative gains problem" for cooperation. That is, a state will decline to join, will leave, or will sharply limit its commitment to a cooperative arrangement if it believes that partners are achieving, or are likely to achieve, relatively greater gains. It will eschew cooperation even though participation in the arrangement was providing it, or would have provided it, with large absolute gains. Moreover, a state concerned about relative gains may decline to cooperate even if it is confident that partners will keep their commitments to a joint arrangement. Indeed, if a state believed that a proposed arrangement would provide all parties absolute gains, but would also generate gains favoring partners, then greater certainty that partners would adhere to the terms of the arrangement would only accentuate its relative gains concerns. Thus, a state worried about relative gains might respond to greater certainty that partners would keep their promises with a lower, rather than a higher, willingness to cooperate.

I must stress that realists do not argue that positionality causes all states to possess an offensively oriented desire to maximize the difference in gains arising from cooperation to their own advantage. They do not, in other words, attribute to states what Stein correctly calls a mercantilist definition of self-interest.⁶³ Instead, realists argue that states are more likely to concentrate on the danger that relative gains may advantage partners and thus

61. On the tendency of states to compare performance levels, see Oran Young, "International Regimes: Toward a New Theory of Institutions," *World Politics* 39 (October 1986), p. 118. Young suggests that realists assume that states are "status maximizers" and attribute to states the tendency to compare performance levels because each seeks "to attain the highest possible rank in the hierarchy of members of the international community." The present writer offers a different understanding of realism: while realism acknowledges that *some* states may be positional in the sense noted by Young, its fundamental insight is that *all* states are positional and compare performance levels because they fear that *others* may attain a higher ranking in an issue-area.

62. As Waltz suggests, "When faced with the possibility of cooperating for mutual gains, states that feel insecure must ask how the gain will be divided. They are compelled to ask not 'Will both of us gain?' but 'Who will gain more?'" If an expected gain is to be divided, say, in the ratio of two to one, one state may use its disproportionate gain to implement a policy intended to damage or destroy the other." See Waltz, *Theory of International Politics*, p. 105.

63. Stein, "Coordination and Collaboration," p. 134.

may foster the emergence of a more powerful potential adversary.⁶⁴ Realism, then, finds that states are positional, but it also finds that state positionality is more defensive than offensive in nature.

In addition, realists find that defensive state positionality and the relative gains problem for cooperation essentially reflect the persistence of uncertainty in international relations. States are uncertain about one another's future *intentions*; thus, they pay close attention to how cooperation might affect relative *capabilities* in the future.⁶⁵ This uncertainty results from the inability of states to predict or readily to control the future leadership or interests of partners. As Robert Jervis notes, "Minds can be changed, new leaders can come to power, values can shift, new opportunities and dangers can arise."⁶⁶

Thus, realism expects a state's utility function to incorporate *two distinct terms*. It needs to include the state's individual payoff, V , reflecting the realist view that states are motivated by absolute gains. Yet it must also include a term integrating both the state's individual payoff and the partner's payoff, W , in such a way that gaps favoring the state add to its utility while, more importantly, gaps favoring the partner detract from it. One function that depicts this realist understanding of state utility is $U = V - k(W - V)$, with k representing the state's coefficient of sensitivity to gaps in payoffs either to its advantage or disadvantage.⁶⁷

64. In her review of Axelrod, Joanne Gowa cites the 1979 Waltz passage employed in note 62 and, following Taylor's terminology in *Anarchy and Cooperation* (pp. 73–74), suggests that a state may display "negative altruism." Furthermore, according to Gowa, a state "may seek to maximize a utility function that depends both on increases in its own payoffs *and* on increases in the difference between its payoffs and those of another state." See Joanne Gowa, "Anarchy, Egoism, and Third Images: *The Evolution of Cooperation and International Relations*," *International Organization* 40 (Winter 1986), p. 178. This portrays realist thinking in a manner similar to that suggested by Young and cited above in note 61. However, this understanding of state utility cannot be readily based on Waltz, for his core insight, and that of the realist tradition, is not that all states necessarily seek a balance of advantages in their favor (although some may do this) but rather that all fear that relative gains may favor and thus strengthen others. From a realist viewpoint, some states may be negative altruists, but *all* states will be "defensive positionals." Waltz emphasizes that he does not believe that all states necessarily seek to maximize their power: see his statement cited in note 60 and see especially his "Response to My Critics," p. 334.

65. Waltz, for example, observes that "the impediments to collaboration may not lie in the character and the immediate intention of either party. Instead, the condition of insecurity—at the least, the uncertainty of each about the other's future intentions and actions—works against their cooperation." See Waltz, *Theory of International Politics*, p. 105.

66. Robert Jervis, "Cooperation Under the Security Dilemma," *World Politics* 30 (January 1978), p. 168.

67. Similar to the concept of a state "sensitivity coefficient" to gaps in jointly produced gains is the concept of a "defense coefficient" in Lewis Richardson's model of arms races. The latter serves as an index of one state's fear of another: the greater the coefficient, the stronger the state's belief that it must match increases in the other's weapons inventory with increases in its own. See Lewis F. Richardson, *Arms and Insecurity: A Mathematical Study of the Causes and Origins of War*, eds. Nicolas Rachevsky and Ernesto Trucco (Pittsburgh and Chicago: Boxwood Press and Quadrangle Books, 1960), pp. 14–15.

This realist specification of state utility can be contrasted with that inferred from neoliberal theory, namely, $U = V$. In both cases, the state obtains utility from the receipt of absolute payoffs. However, while neoliberal institutional theory assumes that state utility functions are independent of one another and that states are indifferent to the payoffs of others, realist theory argues that state utility functions are at least partially interdependent and that one state's utility can affect another's.⁶⁸ We may also observe that this realist-specified function does not suggest that any payoff achieved by a partner detracts from the state's utility. Rather, *only gaps in payoffs to the advantage of a partner do so*.

The coefficient for a state's sensitivity to gaps in payoffs— k —will vary, but it will always be greater than zero. In general, k will increase as a state transits from relationships in what Karl Deutsch termed a “pluralistic security community” to those approximating a state of war.⁶⁹ The level of k will be greater if a state's partner is a long-term adversary rather than a long-time ally; if the issue involves security rather than economic well-being; if the state's relative power has been on the decline rather than on the rise; if payoffs in the particular issue-area are more rather than less easily converted into capabilities within that issue-area; or if these capabilities and the influence associated with them are more rather than less readily transferred to other issue-areas.⁷⁰ Yet, given the uncertainties of international politics, a state's level of k will be greater than zero even in interactions with allies, for gaps in payoffs favoring partners will always detract from a state's utility to some degree.⁷¹

Faced with both problems—cheating and relative gains—states seek to ensure that partners in common endeavors comply with their promises and that their collaboration produces “balanced” or “equitable” achievements of gains. According to realists, states define balance and equity as distributions of gains that roughly maintain pre-cooperation balances of capabilities. To attain this balanced relative achievement of gains, according to Hans Morgenthau, states offer their partners “concessions”; in exchange, they expect to receive approximately equal “compensations.” As an ex-

68. Robert Jervis also argues that realist theory posits at least partially interdependent state utility functions. See Jervis, “Realism, Game Theory, and Cooperation,” *World Politics* 40 (April 1988), pp. 334–36.

69. A pluralistic security community, according to Deutsch and his associates, “is one in which there is real assurance that the members of that community will not fight each other physically, but will settle their disputes in some other way,” and in which the members retain separate governments; the examples they provide are Canada—United States and Norway—Sweden. See Deutsch et al., *Political Community*, pp. 5–7.

70. Contextual influences on state sensitivities to gaps in gains are explored in Joseph M. Grieco, “Realist Theory and the Problem of International Cooperation: Analysis with an Amended Prisoner's Dilemma Model,” *Journal of Politics* 50 (August 1988) pp. 600–24.

71. In contrast, Keohane finds that that relative gains concerns may impede cooperation only in cases in which states pursue “positional goods” such as “status”; see Keohane, *After Hegemony*, p. 54. Similarly, Lipson expects that states will be sensitive to relative gains only in security relationships; see Lipson, “International Cooperation,” pp. 14–16.

ample of this balancing tendency, Morgenthau offers the particular case of “cooperation” among Prussia, Austria, and Russia in their partitions of Poland in 1772, 1793, and 1795. He indicates that in each case, “the three nations agreed to divide Polish territory in such a way that the distribution of power among themselves would be approximately the same after the partitions as it had been before.”⁷² For Morgenthau, state balancing of joint gains is a universal characteristic of the diplomacy of cooperation. He attributes this to the firmly grounded practice of states to balance power, and argues that “given such a system, no nation will agree to concede political advantages to another nation without the expectation, which may or may not be well founded, of receiving *proportionate* advantages in return.”⁷³

In sum, neoliberals find that anarchy impedes cooperation through its generation of uncertainty in states about the compliance of partners. For neoliberals, the outcome a state most fears in mixed interest situations is to be cheated. Yet, successful unilateral cheating is highly unlikely, and the more probable neoliberal “worst case” is for all states to defect and to find themselves less well off than if they had all cooperated. For neoliberal institutionalists, then, anarchy and mixed interests often cause states to suffer the opportunity costs of not achieving an outcome that is mutually more beneficial. Keohane and Axelrod argue that games like Prisoner’s Dilemma, Stag Hunt, Chicken, and Deadlock illustrate how many international relationships offer both the danger that “the myopic pursuit of self-interest can be disastrous” and the prospect that “both sides can potentially benefit from cooperation—if they can only achieve it.”⁷⁴

Realists identify even greater uncertainties for states considering cooperation: which among them could achieve the greatest gains, and would imbalanced achievements of gains affect relative capabilities? In addition, a state that knows it will not be cheated still confronts another risk that is at least as formidable: perhaps a partner will achieve disproportionate gains, and, thus strengthened, might someday be a more dangerous enemy than if they had never worked together. For neoliberal theory, the problem of cooperation in anarchy is that states may fail to achieve it; in the final analysis, the worst possible outcome is a lost opportunity. For realist theory, state efforts to cooperate entail these dangers plus the much greater risk, for some states, that cooperation might someday result in lost independence or security.

Realism and neoliberal institutionalism offer markedly different views concerning the effects of international anarchy on states. These differences are summarized in Table 2. Compared to realist theory, neoliberal institutionalism understates the range of uncertainties and risks states believe they

72. Morgenthau, *Politics Among Nations*, p. 179.

73. *Ibid.*, p. 180, emphasis added.

74. Axelrod and Keohane, “Achieving Cooperation,” p. 231; see also Stein, “Coordination and Collaboration,” pp. 123–24.

TABLE 2. *Anarchy, state properties, and state inhibitions about cooperation: summary of neoliberal and realist views*

Basis of Comparison	Neoliberal institutionalism	Political realism
<i>Meaning of anarchy</i>	No central agency is available to enforce promises	No central agency is available to enforce promises <i>or</i> to provide protection
<i>State properties</i>		
Core interest	To advance in utility defined individualistically	To enhance prospects for survival
Main goal	To achieve greatest possible absolute gains	To achieve greatest gains <i>and</i> smallest gap in gains favoring partners
Basic character	Atomistic ("rational egoist")	Defensively positional
Utility function	Independent: $U = V$	Partially interdependent: $U = V - k(W - V)$
<i>State inhibitions concerning cooperation</i>		
Range of uncertainties associated with cooperation	Partners' compliance	Compliance <i>and</i> relative achievement of gains <i>and</i> uses to which gaps favoring partners may be employed
Range of risks associated with cooperation	To be cheated and to receive a low payoff	To be cheated <i>or</i> to experience decline in relative power if others achieve greater gains
Barriers to cooperation	State concerns about partners' compliance	State concerns about partners' compliance <i>and</i> partners' relative gains

must overcome to cooperate with others. Hence, realism provides a more comprehensive theory of the problem of cooperation than does neoliberal institutionalism.

4. Conclusion

Neoliberal institutionalism is not based on realist theory; in fact, realism specifies a wider range of systemic-level constraints on cooperation than does neoliberalism. Thus, the next scholarly task is to conduct empirical tests of the two approaches. It is widely accepted—even by neoliberals—that realism has great explanatory power in national security affairs. How-

ever, international political economy would appear to be neoliberalism's preserve. Indeed, economic relationships among the advanced democracies would provide opportunities to design "crucial experiments" for the two theories.⁷⁵ That is, they would provide the opportunity to observe behavior confirming realist expectations in circumstances least likely to have generated such observations unless realism is truly potent, while at the same time they might disconfirm neoliberal claims in circumstances most likely to have produced observations validating neoliberal theory.⁷⁶

According to neoliberal theory, two factors enhance prospects for the achievement and maintenance of political-economic cooperation among the advanced democracies. First, these states have the broadest range of common political, military, and economic interests.⁷⁷ Thus, they have the greatest hopes for large absolute gains through joint action. This should work against realism and its specification of the relative gains problem for cooperation. That is, states which have many common interests should have the fewest worries that they might become embroiled in extreme conflicts in the future and, as a result, they should have the fewest concerns about relative achievements of gains arising from their common endeavors. Neoliberal theory emphasizes another background condition: the economic arrangements of advanced democracies are "nested" in larger political-strategic alliances. Nesting, according to the theory, accentuates iterativeness and so promotes compliance.⁷⁸ This condition should also place realist theory at a disadvantage. If states are allies, they should be unconcerned that possible gaps in economic gains might advantage partners. Indeed, they should take comfort in the latter's success, for in attaining greater economic gains these partners become stronger military allies.

We can identify a number of efforts by advanced democracies to cooperate in economic issue-areas that were characterized by high common interests and nesting. In the trade field, such efforts would include the Tokyo Round codes on non-tariff barriers and efforts by the Nordic states to construct regional free-trade arrangements. In the monetary field, there are the ex-

75. A crucial experiment seeks real world observations confirming one theory's empirical expectations in circumstances most unlikely to have done so unless the theory is very powerful, while simultaneously disconfirming a competitive theory's empirical expectations in circumstances most likely to have provided such confirming observations. On the methodology of crucial experiments, see Arthur L. Stinchcombe, *Constructing Social Theories* (New York: Harcourt, Brace, 1968), pp. 20–28; and Harry Eckstein, "Case Study and Theory in Political Science," in Fred I. Greenstein and Nelson W. Polsby, eds., *Strategies of Inquiry*, vol. 7 of the *Handbook of Political Science* (Reading, Mass.: Addison-Wesley, 1975), pp. 118–20.

76. Such a crucial experiment would demonstrate realism's superiority over neoliberalism. On the other hand, if neoliberal theorists wanted to design a crucial experiment to demonstrate the superiority of their approach, they would focus not on North–North economic relations but rather on North–South relations or, better still, on East–West military interactions.

77. See Keohane, *After Hegemony*, pp. 6–7.

78. On the "nesting" of international regimes, see Keohane, *After Hegemony*, pp. 90–91; and Vinod K. Aggarwal, *Liberal Protection: The International Politics of Organized Textile Trade* (Berkeley: University of California Press, 1985).

periences of the European Community with exchange-rate coordination—the Economic and Monetary Union and the European Monetary System. Finally, in the field of high technology, one might examine European collaboration in commercial aviation (Airbus Industrie) or data processing (the Unidata computer consortium).⁷⁹ If these cooperative arrangements varied in terms of their success (and indeed such variance can be observed), and the less successful or failed arrangements were characterized not by a higher incidence of cheating but by a greater severity of relative gains problems, then one could conclude that realist theory explains variation in the success or failure of international cooperation more effectively than neoliberal institutional theory. Moreover, one could have great confidence in this assessment, for it would be based on cases which were most hospitable to neoliberalism and most hostile to realism.

However, additional tests of the two theories can and should be undertaken. For example, one might investigate realist and neoliberal expectations as to the *durability* of arrangements states prefer when they engage in joint action. Neoliberal theory argues that cheating is less likely to occur in a mixed interest situation that is iterated; hence, it suggests that “the most direct way to encourage cooperation is to make the relationship more durable.”⁸⁰ If, then, two states that are interested in cooperation could choose

79. I am completing a study of the relative gains problem in the case of the Tokyo Round trade codes. Available studies suggest that the Economic and Monetary Union broke down during 1972–76 as a result of concerns by Britain, France, Ireland, and Italy that they had taken on disproportionate burdens and that West Germany was achieving disproportionate gains: see Loukas Tsoukalis, *The Politics and Economics of European Monetary Integration* (London: Allen & Unwin, 1977), p. 157. Its successor, the European Monetary System, was designed to ensure greater balance in the gains and losses among partners: see Peter Coffey, *The European Monetary System: Past, Present, and Future* (Dordrecht, Neth., and Boston: Martinus Nijhoff, 1984), pp. 21–26, 126–27. In the case of Scandinavian trade cooperation, Norway shifted from opposition during the 1950s and much of the 1960s to support at the end of the latter decade as it became less concerned about its capacity to achieve a satisfactory share of trade gains with Sweden: see Barbara Haskel, *The Scandinavian Option: Opportunities and Opportunity Costs in Postwar Scandinavian Foreign Policies* (Oslo: Universitetsforlaget, 1976), pp. 124–27. Much of the literature on the problem of regional integration among developing countries also emphasizes the importance of relative gains issues. See, for example, Lynn K. Mytelka, “The Salience of Gains in Third-World Integrative Systems,” *World Politics* 25 (January 1973), pp. 236–46; W. Andrew Axline, “Underdevelopment, Dependence, and Integration: The Politics of Regionalism in the Third World,” *International Organization* 31 (Winter 1977), pp. 83–105; and Constantine V. Vaitsos, “Crisis in Regional Economic Cooperation (Integration) Among Developing Countries: A Survey,” *World Development* 6 (June 1978), pp. 747–50. For case studies of the problem of relative gains in developing country regional efforts to cooperate, see Richard I. Fagan, *Central American Economic Integration: The Politics of Unequal Benefits* (Berkeley: Institute of International Studies, 1970); Lynn Krieger Mytelka, *Regional Development in a Global Economy: The Multinational Corporation, Technology, and Andean Integration* (New Haven, Conn.: Yale University Press, 1979), pp. 39–61; and Arthur Hazlewood, “The End of the East African Community,” *Journal of Common Market Studies* 18 (September 1979), especially pp. 44–48 and 53–54.

80. Axelrod, *Evolution of Cooperation*, p. 129; also see Keohane, *After Hegemony*, pp. 257–59, in which he argues that there are “costs of flexibility” and that states commit themselves to regimes and thereby forgo a measure of flexibility in the future to attain cooperation in the present; and Axelrod and Keohane, “Achieving Cooperation,” p. 234, in which they argue that international regimes promote cooperation because they “link the future with the present.”

between two institutional arrangements that offered comparable absolute gains but that differed in their expected durability—one arrangement might, for example, have higher exit costs than the other—neoliberalism would expect the states to prefer the former over the latter, for each state could then be more confident that the other would remain in the arrangement. Realism generates a markedly different hypothesis. If two states are worried or uncertain about relative achievements of gains, then each will prefer a less durable cooperative arrangement, for each would want to be more readily able to exit from the arrangement if gaps in gains did come to favor the other.

A second pair of competing hypotheses concerns the *number of partners* states prefer to include in a cooperative arrangement. Advocates of neoliberalism find that a small number of participants facilitates verification of compliance and sanctioning of cheaters. Hence, they would predict that states with a choice would tend to prefer a smaller number of partners. Realism would offer a very different hypothesis. A state may believe that it might do better than some partners in a proposed arrangement but not as well as others. If it is uncertain about which partners would do relatively better, the state will prefer more partners, for larger numbers would enhance the likelihood that the relative achievements of gains advantaging (what turn out to be) better-positioned partners could be offset by more favorable sharings arising from interactions with (as matters develop) weaker partners.

A third pair of competing empirical statements concerns the effects of *issue linkages* on cooperation. Neoliberalism's proponents find that tightly knit linkages within and across issue-areas accentuate iterativeness and thus facilitate cooperation.⁸¹ Realism, again, offers a very different proposition. Assume that a state believes that two issue-areas are linked, and that it believes that one element of this linkage is that changes in relative capabilities in one domain affect relative capabilities in the other. Assume also that the state believes that relative achievements of jointly produced gains in one issue-area would advantage the partner. This state would then believe that cooperation would provide additional capabilities to the partner not only in the domain in which joint action is undertaken, but also in the linked issue-area. Cooperation would therefore be unattractive to this state in direct proportion to its belief that the two issue-areas were interrelated. Thus, issue linkages may impede rather than facilitate cooperation.

These tests are likely to demonstrate that realism offers the most effective understanding of the problem of international cooperation.⁸² In addition, further analysis of defensive state positionality may help pinpoint policy strategies that facilitate cooperation. If relative gains concerns do act as a

81. See Keohane, *After Hegemony*, pp. 91–92, 103–6; and Axelrod and Keohane, “Achieving Cooperation,” pp. 239–43.

82. This, however, would certainly not mark the end of the liberal institutionalist challenge to realism. There are at least two related clusters of modern literature that are firmly rooted

constraint on cooperation, then we should identify methods by which states have been able to address such concerns through unilateral bargaining strategies or through the mechanisms and operations of international institutions. For example, we might investigate states' use of side-payments to mitigate the relative gains concerns of disadvantaged partners.⁸³ Thus, with its understanding of defensive state positionality and the relative gains problem for collaboration, realism may provide guidance to states as they seek security, independence, and mutually beneficial forms of international cooperation.

in the liberal institutionalist tradition, that attempt no compromise with realism, and that present an understanding of world politics markedly at odds with realist theory. The first cluster argues that international institutions embody and reinforce norms and beliefs that are held in common among states and that facilitate and guide their cooperative endeavors. The key works in this cluster include John Gerard Ruggie, "International Responses to Technology: Concepts and Trends," *International Organization* 29 (Summer 1975), pp. 557–83; Ruggie, "International Regimes, Transactions, and Change: Embedded Liberalism in the Postwar Economic Order," in Krasner, ed., *International Regimes*, pp. 195–231; Friedrich Kratochwil, "The Force of Prescriptions," *International Organization* 38 (Autumn 1984), pp. 685–708; John Gerard Ruggie and Friedrich Kratochwil, "International Organization: The State of the Art on an Art of the State," *International Organization* 40 (Autumn 1986), pp. 753–76; and Donald J. Puchala and Raymond F. Hopkins, "International Regimes: Lessons from Inductive Analysis," in Krasner, ed., *International Regimes*, pp. 61–92. The second cluster suggests that international institutions help states develop, accept, and disseminate consensual theoretical and empirical knowledge that can reinforce or introduce international norms leading to cooperation. Haas presented this argument in *Beyond the Nation State*, pp. 12–13, 47–48, 79–85; also see Haas, "Is There a Hole in the Whole? Knowledge, Technology, Interdependence and the Construction of International Regimes," *International Organization* 29 (Summer 1975), pp. 827–76; Haas, Mary Pat Williams, and Don Babai, *Scientists and World Order: The Uses of Technical Information in International Organizations* (Berkeley: University of California Press, 1977); Haas, "Why Collaborate? Issue-Linkage and International Regimes," *World Politics* 32 (April 1980), pp. 357–405; Haas, "Words Can Hurt You; Or, Who Said What to Whom About Regimes," in Krasner, ed., *International Regimes*, pp. 23–59; and Beverly Crawford and Stefanie Lenway, "Decision Modes and International Regime Change: Western Collaboration on East–West Trade," *World Politics* 37 (April 1985), pp. 375–402.

83. On the general concept of side-payments, see R. Duncan Luce and Howard Raiffa, *Games and Decisions: Introduction and Critical Survey* (New York: Wiley, 1957), pp. 168–69; and William H. Riker, *The Theory of Political Coalitions* (New Haven, Conn.: Yale University Press, 1962), pp. 34, 108–23. Deutsch and his associates determined that the capacity of advantaged regions to extend symbolic and material side-payments to disadvantaged regions was essential to national integration and amalgamation in such cases as Switzerland and Germany. See Deutsch et al., *Political Community*, p. 55. Similarly, special subsidies were provided to Italy and Ireland to attract them to the European Monetary System. See George Zis, "The European Monetary System, 1979–84: An Assessment," *Journal of Common Market Studies* 23 (September 1984), p. 58. In addition, Norway was attracted to the proposed Nordek arrangement during 1968–70 partly because Sweden offered to provide the bulk of the funds for a Nordic development bank that would be used in large measure to support Norwegian industrial projects. See Claes Wiklund, "The Zig-Zag Course of the Nordek Negotiations," *Scandinavian Political Studies* 5 (1970), p. 322; and Haskel, *Scandinavian Option*, p. 127. Finally, West Germany has sought to ameliorate U.S. concerns about relative burden-sharing in NATO through special "offset" programs aimed at reducing U.S. foreign exchange expenditures associated with its European commitment. See Gregory F. Treverton, *The "Dollar Drain" and American Forces in Germany: Managing the Political Economics of the Atlantic Alliance* (Athens, Ohio: Ohio University Press, 1978).