Informal Governance

International Organizations and the Limits of U.S. Power

International organizations are equilibrium outcomes that balance the power and interests of the leading state and the member countries. Institutional design is endogenous to this interaction, and includes membership, formal voting rights and informal governance procedures. The model specifies how three particular forms of power interact. Structural power represents the outside options of the leading state and the externalities that its participation generates for other members. Formal voting rights set the policy of the organization and create the parameters within which informal influence is exercised. Informal influence represents an insurance policy for the leading state when its vital interests are affected, and states with substantial structural power may choose to trade formal voting rights for informal influence in order to induce participation by a wider range of states. Hybrid institutional forms involving both formal and informal governance mechanisms are the norm because they make it possible to accommodate the interests of both strong and weak powers. Informal governance can be legitimate because the degree of conflict of interest between the leading state and the membership varies over time, so the member countries tolerate a degree of informal influence in special cases in return for a larger share of decision making authority in ordinary times. This tacit contract depends upon the restraint of the leading state, however, and the legitimacy and credibility of the organization can be eroded if informal influence is used too frequently.

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Introduction: Power, Legitimacy and International Organization

Government is gradually replacing anarchy in the international system, and international governance is largely accomplished by means of international organizations. International organizations have proliferated, have expanded in membership, have acquired new legal enforcement powers, and have extended their reach into the details of domestic political economy in their member states. A few, including the International Monetary Fund (IMF, or simply the Fund), command significant resources and wield considerable authority.

For the most powerful state in the system, international organizations are an essential instrument of effective statecraft, and for most other states under most circumstances, they are the only forums in which anything can be accomplished. International organizations are useful, to powerful and weak states alike, because they can extend credibility and legitimacy to efforts that would otherwise lack credibility and legitimacy. This often makes the difference that makes multilateral cooperation feasible; and the challenges posed by an increasingly interdependent global economy typically demand coordinated responses.

The legitimacy and independence of international organizations are always compromised, however, because they exist in a system of states, and states enjoy very unequal power resources. It is therefore a necessary adaptation for international institutions to develop informal procedures that accommodate the interests of the most powerful states. However, if these informal procedures are abused, the legitimacy and usefulness of the organization can be undermined. Any characterization of the role of an international organization in the system, therefore, is a snapshot of a dynamic process, as its informal internal procedures and its external legitimacy and functions change in response to state strategies. In the post-Cold War world, most shocks to the system originated in the foreign policy interests of the leading state, the United States; but even this is changing as the distribution of power shifts.

This book focuses primarily on a single international organization, the International Monetary Fund, but its argument has more general applications. All international organizations are compelled to navigate the treacherous vortex created by U.S. power. If they stray too far from the current, they become irrelevant to U.S. policy, and may find themselves adrift; yet if they are captured by the U.S. policy preoccupations of the moment, they lose their legitimacy. An example of the first tendency is the United Nations Security Council, which the United States has marginalized when it failed to support U.S. policies in the former Yugoslavia and Iraq. An example of the latter is the World Trade Organization, which has become so tilted towards U.S. and EU preferences that it has lost much of its legitimacy in the developing world. Organizations of which the United States is not a member, such as the European Union, face similar dilemmas with respect to their own most powerful members, as Germany and France have repeatedly demonstrated. However, in the absence of a single dominant member, informal governance is more broadly shared and negotiated among a handful of major players (Moravcsik 1998).

The existence of power politics, the frequency of informal manipulation and the possibility of forum shopping put important limits on the autonomy of international organizations. However, these practices also highlight the significance of international organizations as instruments of state power. Even in the case of international security, where states guard their freedom of action most jealously, international organizations play a key mediating role. Despite its global military reach, the United States finds that the use of force is less costly and more effective when employed in conjunction with an international organization. In international trade, the United States has attractive outside options and can often exert more leverage in bilateral bargaining than in the World Trade Organization; yet the WTO can also serve as an effective fulcrum. Indeed, U.S. influence inside and outside the WTO often complement each other. In international finance, the United States remains the most important player, but the integration of global capital markets makes multilateral coordination necessary to manage contagion during financial crises. This dependence was brought home when intervention by the G-10 central banks was necessary to contain the U.S. financial crisis in September 2008. Furthermore, constitutional barriers generally prevent the United States from reacting to financial crises that originate beyond its borders with the speed or resources that the IMF is able to muster. In each case, international organizations are deeply influenced by U.S. power, but U.S. power also rests in large part upon the ability to influence international organizations.

For all other states in the international system, the choices are starker. Only American elites seriously debate the significance of international organizations, because only the United States is able to exercise attractive unilateral options. In some cases, members of the European Union are able to exercise an effective threat of exit from another organization by acting as a group; but they are able to do so only because their commitment to the EU is so strong. For European, Japanese, Chinese, Russian and Brazilian elites, the geography of the international system is defined by the opportunities and constraints created by international institutions. Most foreign policy objectives can only be achieved by working through international organizations, and this is increasingly true of domestic policy objectives as well.[1] As these countries become increasingly integrated into the world economy, and the world economy places increasing burdens on the global environment, the number of fundamental national interests that can only be achieved through international organizations expands. While these states have limited informal influence within international organizations, their membership and formal privileges in international organizations represent significant elements of their national power.

International organizations loom still larger in the calculations of poor countries with weak states, which are most vulnerable to internal conflict and most exposed to the vicissitudes of global markets. In these countries, international organizations are often important players in domestic politics. They can cause governments to fall, or prop them up; they can create irresistible pressure to carry out policy reforms; they can forge or shatter political coalitions (Pop-Eleches 2009). Leaders of these countries find that the only way to exert effective leverage over international organizations is to appeal to the leading states in the system—usually, to the United States—to exert informal influence on their behalf. This intervention tends to undermine the credibility and autonomy of the international organization involved, which may weaken its legitimacy vis-à-vis third

[1] Even apparent exceptions seem to reinforce this generalization. The Russian clash with Georgia in August 2008 demonstrated a willingness to use force unilaterally and showcased the rebounding capabilities of the Russian military, but came at a cost that earlier Russian leaders would have been unwilling to pay in terms of isolation from Europe and hardening of NATO. Russia's withdrawal of its long-standing application to join the WTO, for which it had made numerous political concessions, simply recognized the inevitable.

parties (Steinwand and Stone 2008; Stone 2002, 2004, 2008). It also comes at a cost to the client state, because the United States extracts political concessions in return for its intervention, and these concessions may reduce the legitimacy of the organization in the eyes of the client state's population.

International organizations can be important resources for the powerful, but they are useful to the weak and the powerful alike only to the extent that they enjoy international legitimacy. An organization that elicited no voluntary cooperation from its members would be useless as an instrument; powerful states could compel compliance only to the extent that they could do so using their own resources. It is essential, therefore, that international organizations and their policies and procedures enjoy the consent of their member governments.

This is a minimalist notion of legitimacy, which leaves out much of what we traditionally mean by the term. Legitimacy as voluntary participation does not necessarily imply fair procedures, fair substantive outcomes, transparency, or popular consent (Buchanan and Keohane 2004). Legitimacy will be improved to the extent that organizations have these attributes, and their absence is a source of dissension; in a society of states, however, none of these is strictly necessary. What is necessary for an international organization to have this kind of minimalist legitimacy is that the leaders of states believe that voluntary participation in the organization and compliance with its norms and procedures will help them to achieve their objectives on average. This requires that there be some agreement about the general interests that the organization promotes, and that the states that are favored by the biases that are built into the organization's procedures do not have such strongly divergent interests that they negate the expected benefits.

In practice, I will argue, international organizations achieve this balance by operating according to two parallel sets of rules: formal rules, which embody consensual procedures, and informal rules, which allow exceptional access for powerful countries. The leading states in the system make concessions when they submit to international norms and legalized procedures. They anticipate that rulings will not always go in their favor, and they accept outcomes that are not as favorable as they might have negotiated on an ad hoc basis, because this makes multilateral cooperation attractive to less powerful states that might otherwise refuse to participate. However, because powerful states have attractive outside options, their commitment to international law is always provisional. When they perceive their critical interests to be jeopardized, they refuse to be constrained. Consequently, in order to maintain the commitment of the key players to the game, international organizations have evolved emergency override procedures that allow the great powers to assume control.

During ordinary times, an international organization produces predictable policies that reflect the distribution of formal voting rights among its members, and it enjoys discretion within its zone of delegation. However, the leading state—the "G1," as the United States is often called within the international financial institutions—may intervene and assume temporary control when urgent strategic objectives override its interest in the organization's long-term goals. Informal governance practices allow it to retain decisive influence in the organization while shedding most of the formal levers of power. The other leading states tolerate these practices, so long as they are not exploited too frequently, because they make the institution more valuable to the United States and make it less inclined to exercise outside options. Informal influence must be exercised with discretion, however, in order to avoid undermining the legitimacy of the organization; and there is growing evidence that the United States has created a crisis of legitimacy in the IMF and other international organizations by abusing its privileged role.

Informal governance presents dilemmas for designers of international institutions. It is possible to delegate significant powers to international institutions, but they cannot really be made autonomous vis-à-vis great power intervention, and the more powers are delegated, the more attractive this intervention becomes. In this view, the danger embodied in delegation is not that the agency will run out of control, but that it will be captured by the most powerful state in the system.[2] Consequently, states will only agree to delegate extensive powers to international organizations when they expect to share broadly similar objectives.[3] This accounts, for example, for the weak secretariat of the WTO, which presides over a bargaining milieu in which the parties expect to have many conflicting interests (Barton et al. 2006).

Informal mechanisms to support great-power manipulation of international institutions do not have to be explicitly designed; the manipulators will always find a way to control outcomes of interest to them, if they are not explicitly prevented. It is possible to make manipulation costly, however. For example, institutions that are transparent are more costly to manipulate because the manipulation immediately becomes public

[2] For a contrasting view, see Vaubel 1986, and Dreher and Vaubel 2004.

[3] In contrast, the functionalist approach to explaining institutional design assumes that degrees of delegation depend upon transaction costs, and that institutions represent optimal solutions to the incentive problems that these create. Abbott and Snidal 2000; Koremenos, Lipson and Snidal 2001; Hawkins et. al. 2006.

knowledge, and may provoke indignant responses from other states or from the public. Similarly, decision making procedures that allow for majority voting and debate are harder to manipulate than procedures that delegate decision making to agents. The designers of institutions, therefore, have important choices to make, and they generally do not opt for transparency or majority voting. These design choices are tacit concessions to powerful countries, which will not consent to delegate important functions to institutions that they cannot control. Indeed, the most transparent and democratic of international institutions, such as the UN General Assembly and the European Parliament, are generally given very weak powers. The designers of the United Nations explicitly built in a veto in the Security Council to protect the interests of the great powers in the most important matters. There is substantial evidence, however, that informal influence is decisive within the Security Council as well (Voeten 2001, Kuziemko and Werker 2006). Other institutions such as the international financial institutions and multilateral development banks make manipulation possible by shrouding their operations in secrecy, delegating authority to management, and weakening the oversight capabilities of their boards of directors.

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This is a book about how international organizations really function, through a combination of formal and informal rules. It is based on extensive qualitative work in the IMF archives and interviews with IMF Staff and executive directors, as well as quantitative work using the IMF's records of conditionality. The argument applies broadly to other international organizations, and has implications for the role of international organizations in U.S. foreign policy and for how that role is changing.

International organizations operate under two sets of rules: formal rules and informal rules. The formal rules specify voting rights and legitimate procedures, but the informal rules, which are less transparent, allow powerful states to set the agenda and control outcomes. The two sets of rules are in conflict, but they also depend upon one another. International organizations are equilibrium outcomes that balance the power and interests of the leading state and the member countries, and institutional design—both its formal and its informal elements—is endogenous to this interaction. The formal model developed in chapter 3 defines this argument precisely and derives implications from it for institutional design, delegation, performance, and legitimacy.

Chapter 4 describes the formal and informal governance arrangements of the IMF, emphasizing the institutional features—a weak Executive Board and delegation to a strong Management—that preserve a back channel that allows the United States to control the organization. Chapter 5 makes comparisons to the World Trade Organization, the UN Security Council, and the European Union, which allow the model to shed light on the logic of institutional design. The model focuses on the use of exit options by powerful countries and informal influence outside formal channels, which are common features across the four institutions, although the balance of formal and informal governance varies substantially. The comparative statics of the model indicate that the degree of long-term conflict of interest among the participants accounts for the variation in delegation across institutions and across issue areas within each institution. In addition, the number of leading powers can account for variations in institutional design.

The empirical core of the book concerns the International Monetary Fund. The chapters that follow trace the course of an IMF program through its product cycle, from pre-crisis surveillance to decisions to extend IMF programs, decisions on the amount of access allowed to IMF resources, negotiations over conditionality, and enforcement of conditionality when programs go off track. The testable implications of the model are that U.S. informal influence over the Fund should be observable when the United States pushes for exceptions to rules, that these exceptions should only be made for important countries, and that they should be made when the borrowing country has an urgent need for IMF financing. These claims are tested statistically using the Monitoring of Agreements Database (MONA), which contains the IMF's records of conditionality, including which conditions were implemented, modified or waived, and when programs were suspended. The mechanisms involved are illustrated with reference to six major financial crises: Mexico (1994), Indonesia and South Korea (1997), Russia (1998), Brazil (1999) and Argentina (2001).

The conclusion of the book is divided into two chapters. The first returns to a discussion of the six crisis cases and the reasons for failure in each case. I argue that each program went off track for specific reasons, and that problems arose at each stage of the IMF product cycle, but that the underlying mechanism was the same. In each case, informal governance allowed the United States to insert its preferences into the process of program design and implementation, ultimately undermining the credibility of the IMF. Although the forms of intervention appear idiosyncratic in the context of the individual case studies, each type of U.S. intervention that emerges in the case studies is consistent with a strong pattern of quantitative evidence.

The concluding chapter returns to broad themes of legitimacy and change in international organizations. The model suggested that power and legitimacy interact in precise ways, and traces out the implications of two kinds of change: change in U.S. structural power, and change in the range of temptations the U.S. faces to intervene. As American structural power declines, the United States is compelled to act with greater restraint in order to maintain the legitimacy of international organizations, and the role of formal governance in shaping the policies of these organizations should become more important. However, if the temptations that the United States faces to exploit its remaining informal influence rise as U.S. structural power declines, the legitimacy of international organizations is likely to be jeopardized. There is striking evidence that this has occurred in the IMF, the WTO and the UNSC.

Chapter 2: A Model of Informal Governance

The argument is that international organizations are best understood as equilibrium outcomes that balance the power and interests of the leading state and the member countries. Institutional design is endogenous to this interaction, and includes membership, formal voting rights and informal governance procedures. The model that follows gives specific content to this claim by specifying how three particular forms of power interact. *Structural power* represents the outside options of the leading state and the externalities that its participation generates for other members (Strange 1988). *Formal voting rights* set the policy of the organization and create the parameters within which informal influence is exercised. *Informal influence* consists of participation in decision making and special access to information, and it allows the leading state to override the common policy when its vital interests are affected.

Hybrid institutional forms involving both formal and informal governance mechanisms are the norm because they make it possible to accommodate the interests of both strong and weak powers. Informal governance can be legitimate because the degree of conflict of interest between the leading state and the membership varies within the range of issues or cases that fall under an organization's competence, so the member countries tolerate a degree of informal influence in cases of special concern to the leading power in return for a larger share of decision making authority in ordinary times. This tacit contract depends upon the restraint of the leading state, however, and the legitimacy and credibility of the organization can be eroded if informal influence is used too frequently.

The argument is laid out in the form of a formal model. Formalization makes it possible to define our terms precisely. Concepts such as power and legitimacy have diverse meanings, and defining them in mathematical terms makes it possible to indicate precisely what they signify in a particular argument. Furthermore, formalization makes it possible to detect logical errors that might be obscured in a prose argument—it imposes "accounting standards" for arguments (Powell 1999), assuring that conclusions really follow from assumptions. Beyond assuring clarity and logical consistency, however, a formal model is a uniquely powerful tool for discovering unexpected implications of arguments. Game theory is not useful for some purposes, such as explaining the origins of preferences or worldviews, but it is ideally designed for exploring the effects of complex strategic interactions.

The model presented here is designed to be as simple as possible in game theoretic terms, involving no incomplete information and no repetition, but it has a lot of moving parts. Precisely how the elements of institutional design influence one another would not be obvious without a formal analysis. For example, if U.S. structural power increases, what is the effect on the distribution of formal voting rights? It turns out that this leads to a decrease rather than an increase in U.S. formal control rights, because the United States comes to depend more heavily on informal influence. States with substantial structural power have greater informal influence, and they compensate for this by giving up formal voting rights in order to induce participation by a wider range of states. On the other hand, when the leading state's temptations to exercise informal influence grow, this leads to a decline in informal governance and a redistribution of control rights in favor of weaker powers, but also to a decline in the organization's legitimacy and significance. The precise meaning of these claims will be made clear below.

The key features of the model are as follows: 1) An international organization imposes a policy that is determined by weighted voting, but the United States has the ability to override the policy in a particular case, at some cost. The temptation to override the common policy is a random variable, so in a particular case it may or may not be attractive for the United States to do so. Voting represents formal control and the U.S. override represents informal influence. 2) The member countries vote to determine the cost that the United States pays when it overrides their policy, so informal influence depends on the consent of the membership. 3) The United States can exercise an outside option that does not depend on multilateral cooperation, and chooses a level of investment in the organization that provides positive externalities to the other members. This ability to impose costs on the membership by partially exiting the organization represents U.S. structural power, and deters the membership from setting the cost of informal influence at a prohibitive level. 4) The United States proposes the distribution of vote shares in the international organization, and the members decide whether to participate under those terms. Assigning this bargaining advantage to the United States represents the unique role that the leading state plays in designing any organization in which it participates, in addition to the advantages due to the distribution of institutional memberships and vote shares inherited from the Cold War. This simplification of the bargaining protocol is not necessary in order to derive the main results. The key feature of the model is that institutional design is endogenous.

The Model

The model is an extensive-form game of full and perfect information, with players the United States and n other countries. The sequence of play is as follows: The U.S. offers a vector of vote shares in an international organization to a subset $K \in N$, and the members of K choose whether to participate. Subsequently, the members vote to set a cost, c, that will be imposed upon the U.S. if it chooses to override the organization's policy in a particular case. The U.S. then chooses its level of participation in the organization. Nature now chooses a country to experience a crisis, and the U.S. decides whether to preempt the expected policy in this case. Finally, if the U.S. has not exercised an override, the members vote to set the institution's policy. This sequence is illustrated in Figure 1. [Figure 1 about here]

Countries i have ideal points a_i on the interval (0,1), and members of the organization receive utility

$$u_j = \gamma \sum z_i - (1-\lambda)\, z_j - |x - a_i|,$$

where z are the contributions made by each country i, λ is a political rent derived from voting power in the organization, γ is the degree of U.S. participation in the organization, and x is the policy that is implemented. Non-members receive zero.

U.S. utility differs from that of other countries in two respects. First, the U.S. is able to partially exit the organization, reducing its contribution and the weight it puts on the organization's policy to a proportion represented by $\gamma \in (0,1)$. In addition, the U.S. receives a benefit, $b \sim U(0, \bar{b})$, if it overrides the standard policy and imposes x=0. When it overrides the policy, the US incurs a cost, c, which is chosen by the membership. The U.S. indirect utility function is as follows:

$$u_{US}= \gamma(\sum z_i-(1-\lambda)\ \gamma z_{US} -|x- a_{US}| + I(b- c)) + (1- \gamma)(R)\ ,$$

where R is a reservation utility available by exercising an outside option and I is an indicator variable, taking the value 1 if the U.S. decides to override the organization's policy and 0 if it does not.

Equilibrium analysis

The equilibrium concept is subgame perfection, and the game is solved by backward induction. At the final node, if it is reached because the U.S. has not chosen to preempt, the countries vote on a policy, and the pivotal voter chooses the policy that corresponds to its ideal point, $x= a_p$.

At the previous node, the United States chooses to preempt the expected policy if the utility of overriding and setting a policy of zero exceeds the utility of not overriding:

$$-|0- a_{US}| + (b-c)\ \ > -|x- a_{US}|$$

Thus, if $a_{US} > x$, the threshold value of b that invokes the U.S. override is:

$$b > c+x \equiv b^*$$

If $a_{US} < x$,

$$b > c - x + 2a_{US} \equiv b^*$$

It will be useful to note that the ex ante probability of overriding, p, is:

$$1-(c+x)/\ \overline{b}$$

If $a_{US} > x$, and

$$1-(c- x + 2a_{US})/\ \overline{b}$$

If $a_{US} < x$.

At the previous decision node, the United States chooses a level of participation, γ, to maximize the expected value of:

$$\gamma(\sum z_i-(1-\lambda)\ \gamma z_{US} -|x- a_{US}| + I(b- c)\ ) + (1- \gamma)(R)$$

There are two possible cases. If $a_{US} > x$, (the pivotal voter prefers a policy lower than the U.S. ideal point), this yields the equilibrium choice,

$$\gamma = (\sum z_i+ 1/\overline{b} - R - a_{US}\ - c +(c+x)^2/\overline{b}\ )/\ 2(1-\lambda)\ z_{US}$$

On the other hand, if $a_{US} < x$, (the pivotal voter prefers a policy greater than the U.S. ideal point), the equilibrium choice is:

$$\gamma = (\sum z_i + 1/\bar{b} - R - a_{US} - c + (c - x + 2a_{US})^2/\bar{b})/ 2(1-\lambda)\, z_{US}$$

At the previous decision node, the countries choose the cost, c, which the United States incurs when it chooses to override the organization's chosen policy, taking into account the effect of this choice on the U.S. decision to override and on the level of U.S. investment in the organization. The pivotal voter maximizes:

$$\gamma \sum z_i - (1-\lambda)\, z_j - |x - a_i|,$$

which yields the expectation,

$$\gamma \sum z_i - (1-\lambda)\, z_j - (1-p)|x - a_i| - pa_i$$

Maximizing with respect to c yields the optimal cost. Again, there are two cases. If $a_{US} > x$,

$$c = \bar{b}/2 - x - a_p(1-\lambda)\, z_{US}/\sum z_i$$

If $a_{US} < x$,

$$c = \bar{b}/2 + x - 2a_{US} - a_p(1\text{-}\lambda)\, z_{US}/\sum z_i$$

At the prior node, countries choose to participate if the utility of participating is greater than zero:

$$U_i = \gamma\sum z_i - (1-\lambda)\, z_i - \mathrm{E}(|x - a_i|) \geq 0$$

Because γ and c are continuous functions of x, this can be rewritten as a pair of conditions on x:

$$\underline{x}_i \leq x \leq \bar{x}_i$$

Each country i chooses to participate as long as the pivotal voter is not too far from its ideal point, where "too far" depends upon the size of a country's contribution and the other parameters of the model. This interval is the country-specific participation constraint.

At the first decision node, the United States offers a distribution of vote shares to a set of contributing countries. In equilibrium, votes are offered only to countries that will agree to participate, and the distribution of votes determines the pivotal voter such that the relevant participation constraint is satisfied for all participants. For any distribution of country ideal points and contribution sizes there exists one or more feasible coalitions, where a feasible coalition is defined as a set of countries including the United States whose participation constraints have a non-empty intersection that includes the ideal point of at least one of the members of the set. (The set that includes only the United States is always a feasible coalition.) The United States offers a vector of vote shares that assigns the coalition member with the ideal point in the intersection of the feasible set that is closest to its own as the pivotal voter. From the U.S. perspective, the utility-relevant characteristics of a coalition are its size and the ideal point of its pivotal voter, from which it is possible to calculate the endogenous variables of the model. Therefore, the United States is able to calculate the utility received from each feasible coalition, and chooses the coalition and pivotal voter that offers the highest utility.

There is no general solution for the distribution of votes because the countries can have arbitrary ideal points and contribution sizes, but it is possible to use the first-order conditions to characterize the trade-off that defines the U.S. equilibrium strategy. U.S. utility increases with the size of the coalition, which determines the benefits of collective action, and U.S. utility decreases as the pivotal voter moves further from the U.S. ideal point. The proof of Lemma 1 is in the appendix.

There are two cases. If $a_{US} > x$ in equilibrium, expanding the coalition would require the U.S. to shift vote share to countries that prefer still lower levels of policy, x. Expanding the coalition increases U.S. utility, and making policy concessions (weakening the policy) decreases U.S. utility, so the optimal size of the coalition is determined by this trade-off. If $a_{US} < x$ in equilibrium, expanding the coalition would require the U.S. to shift voting power to countries that prefer levels of the policy that are higher than the U.S. prefers. Expanding the coalition continues to be beneficial, but now increasing the stringency of the policy reduces U.S. utility. Again, there is a trade-off between the size of the coalition and control over its policy, and it is optimal for the United States to balance the costs and benefits of expanding the coalition. To close the model, I assume that if the United States is indifferent between two possible coalitions, it chooses the one with the pivotal voter whose ideal point is closest to its own.

Discussion

The key insight of the model is to capture how structural power, formal control and informal influence interact. Informal influence is ubiquitous in international organizations, but this does not mean that formal control rights are unimportant; rather, formal rights of control determine the parameters within which powerful countries are allowed to exercise informal influence. In the model, although the leading state retains the option of overriding consensual procedures, the member countries choose the cost that the leading state pays when it chooses to exercise that option. In this sense, informal governance is subject to the consent of the membership. How formal voting rights are used, however, plays out in the shadow of structural power. Countries have structural power if they enjoy attractive outside options to multilateral cooperation and their participation in joint endeavors provides positive externalities to other participants. In the model, this is represented by the leading state's outside option, *R*, and its ability to influence the pay-off to multilateral cooperation by choosing the degree of its participation, γ. Countries with substantial structural power must be appeased, and in the model this deters the member countries from making the cost of overriding the institutional policy prohibitive.

The leading state has substantial influence over the design of institutions, and for the sake of simplicity the model assumes that the U.S. has proposal power and therefore holds all of the bargaining power. Nevertheless, the U.S. is willing to cede substantial formal control to member countries in order to secure their participation in the institution. It does so in spite of the fact that the member countries have different policy preferences and that they prefer to constrain the U.S. ability to exercise informal influence. The U.S. is able to make these concessions because it anticipates that the members will be deterred from exploiting their formal control rights to prevent informal influence from being exerted when the U.S. interest in doing so is very strong.

This confidence, in turn, rests on U.S. structural power. The comparative statics of the model trace out the effects of shifting structural power.[4] Thus, for example, as the attractiveness of the U.S. outside option increases, the United States shifts away from participation in the organization ($d\gamma/dR < 0$), which imposes costs on the rest of the membership. In response, the member countries reduce the cost that they impose when the U.S. chooses to override their policies in order to restore the incentives for the United States to invest in the institution ($dc/dR < 0$). The frequency with which the United States overrides the common policy increases ($dp/dR > 0$), and the balance shifts from formal to informal governance. The joint effects of reduced U.S. participation and increased use of the U.S. override undermine the value of the organization for the rest of the membership, making other countries less willing to participate ($dU_i/dR < 0$). Thus, increased unilateralism and the shift towards informal governance undermines the legitimacy of the international organization.

[4] Comparative statics are the effects of an exogenous variable on an endogenous variable, defined as the total derivative *dy/dx*, at the point of equilibrium. To convey the intuition behind the results I discuss them as if the best responses occurred sequentially, but in fact these relationships hold simultaneously in equilibrium.

In order to compensate for the decreased value of the organization to its members, the United States becomes willing to cede them a greater share of voting rights to shore up declining legitimacy. Whether it will in fact cede voting rights depends upon the distribution of ideal points of potential members, but the U.S. best response shifts countries become less willing to participate and because the increase in U.S. structural power relaxes the trade-off between expanding the coalition and accepting greater constraints on U.S. informal influence. Thus, surprisingly, increasing U.S. structural power causes the United States to be more willing to give up formal vote share, shifting the pivotal voter further from its ideal point in order to expand the coalition of members. Conversely, as U.S. structural power declines, the United States becomes less inclined to exercise its exit options, and the membership constrains the exercise of its informal influence as well. As U.S. structural power declines, formal governance becomes more important relative to informal governance, the legitimacy of the institution improves among the membership, and the United States retains more formal control.

Another comparative statics exercise allows us to explore the implications of misbehavior by the leading state in the system. Informal governance rests on an implicit contract: the leading state will participate if it is allowed to exert informal influence, and the member countries consent to grant informal influence if it is not abused. If the leading state exercises its power to override the institutional policy too frequently, it undermines the value of the institution for the other participants. The implications follow from the comparative statics on the U.S. temptation parameter, $\bar{b}$. If there is an exogenous increase in the expected benefit of overriding, this increases the probability that the U.S. decides to override ($dp/d\bar{b} > 0$), which leads the member countries to increase the cost that the U.S. pays when it does so ($dc/d\bar{b} > 0$). The member countries will not increase the cost sufficiently to fully offset the increased temptation, however, because increasing the cost leads the U.S. to exercise its outside options and reduce its level of investment in the organization ($\partial\gamma/\partial c < 0$). The combination of a higher probability that the common policy will be overridden and lower U.S. participation lowers the value of participating in the organization for the other members ($dU_i/d\bar{b} < 0$). In order to induce them to continue participating in the organization, the U.S. may (again, depending upon the distribution of country sizes and their ideal points) be compelled to offer to redistribute vote shares in the organization, shifting the pivotal voter further from its own ideal point. This appears to be a exactly what happened earlier this year in the IMF, where voting rights were redistributed in order to compensate for a perceived drop in the legitimacy of the organization that was linked to U.S. micromanagement of the Asian crisis of the late 1990s and a series of crises in Russia, Argentina, Brazil, and Turkey.

Extensions

Formal modeling is an exercise in making choices. The objective is to incorporate the features that appear to be substantively most important to the subject at hand while retaining as much generality and tractability as possible. Occam's razor applies: simplicity is a virtue, and the simplest game that captures the key intuition of an argument is generally preferable to a model that incorporates unnecessary features. However, we can often learn important things by extending a basic model in various directions. The model presented here is the simplest game that captures the key insights of informal governance, and a number of extensions are possible.

1. Multiple leading states

The most substantively important extension is to incorporate additional leading states into the existing framework, and because the model is relatively simple, this is straightforward to do. The model remains exactly as it was set up above, except that there are *k* leading states. One of the leading states makes a proposed distribution of vote shares that all other members must accept or decline. Each leading state has the option of partially exiting the organization by choosing γ_k, the ability to override the organization's policy, and a utility function with the same form as that of the United States in the model above, with the temptations of the leading states to override distributed iid. The leading states decide simultaneously whether to override the common policy, and state *k* receives the benefit and pays the cost of overriding only if state *k* decided to override. In the utility function of all non-leading member states, the term γ is replaced by $\sum_k \gamma_k / k$. This model allows us to consider cases such as the WTO, which has two leading powers, and the EU, which has had three or four at various points in time.

The formal derivation of the parallel results is omitted, but follows the same procedure as above. There are two important findings. First, introducing additional leading states leads to an increase in the equilibrium level of *c*. This can be interpreted as a shift in the organization's governance that deemphasizes informal governance and emphasizes formalized decision making. This follows from two considerations: (1) the frequency of overriding for any cost threshold increases as the number of leading states with independently distributed temptations to override increases, and (2) an override by any particular leading state creates a negative externality for all of the others, so the effect of $\frac{\partial \gamma}{\partial c}$ is mitigated. In equilibrium, everyone votes to make informal influence harder to exercise in order to restrain everyone else. Second, introducing additional leading states reduces the level of investment in the organization by each of the leading states. This can be interpreted as unwillingness to delegate extensive powers to an organization. This follows from the fact that an increased number of leading states override the common policy more frequently, making the organization less valuable, and that the equilibrium value of c is higher, making overriding less attractive. Outside options become more attractive because other states exercise informal influence and because it becomes more costly to do so oneself.

The substantive significance of these findings is to relate the number of leading states (or quasi-state groupings such as the EU) within an issue area to the design of international organizations and delegation of powers to them. The EU is an example of an organization with a relatively large number of leading states, which facilitates common investment in some issue areas by legalizing cooperation and making informal influence difficult to exercise. Where informal governance is the norm, common policies are very weak, as in foreign and defense policy. The WTO is an example of an organization with two leading powers, the United States and the EU, which retain informal influence but refuse to invest the organization with substantial powers. These implications will be discussed further in a later chapter.

2. Repetition

This is a single-shot game, and the shadow of the future could be explored by extending it to a dynamic setting. Note that in an extension to an infinitely repeated game, the strategies described above would continue to form an equilibrium, and for sufficiently low discount factors, that equilibrium would be unique. However, equilibria would also exist for sufficiently high discount factors in which the U.S. builds a reputation for restraint, and the other players punish deviations by increasing the cost of overriding the institution's chosen policy or by refusing to participate. These equilibria are similar to the one described here, however, in that there is a threshold level of the benefit from overriding, b, which triggers defection, but differ in that the threshold will depend upon the discount factor and the expectations and strategies of the other members. This extension would not, therefore, change anything fundamental to the mechanism of informal governance. The model presented here, in fact, can be interpreted in the same way as the infinitely repeated game, if we regard the cost term, c, as a reputational cost that influences the behavior of the players outside of the game.

A more complex extension would be to a dynamic game with a persistent state variable. For example, it would be possible to repeat the game but make institutions sticky, so that vote shares, the cost of overriding the common policy, or both are difficult to change. This extension would generate interesting insights about the development of institutions over time, and would allow us to make stronger claims about how the development of institutions depends upon countries' strategies. Thus, for example, the current model can explore the effect of changing U.S. preferences on institutions through comparative statics: if the upper limit of the benefit from manipulating the institution rises, countries respond by increasing the cost of overriding, and the U.S. responds by reducing its investment in the institution. This allows us to point to a key danger to international organizations, which is that the temptations of the leading power can lead to their gradual marginalization. A dynamic model would take the analysis a step further by exploring how the states of the world—participation, cost, etc.—can evolve over time in response to countries' actions. For example, we could learn whether changes are persistent or ephemeral, and whether some states are absorbing. Most of the specific properties of the dynamics, however—as opposed to the fact that the equilibrium is dynamic and its character shifts in response to country actions—would be highly dependent upon specific modeling assumptions, and would not therefore generate very general conclusions.

3. Imperfect or incomplete information

In addition, a number of extensions are possible involving imperfect monitoring of outcomes, incomplete information, and signaling. Imperfect monitoring is a relatively trivial extension of the current model: if the U.S. decision to override is imperfectly observed (for example, the fact that an override has been exercised is observed with probability q), countries simply choose a cost level sufficient to induce the same equilibrium strategies as in the model analyzed above. However, in a repeated version of the model, where retrospective punishment strategies can achieve higher levels of restraint by the United States, imperfect monitoring will reduce the degree to which reputational equilibria impose restraint. For any discount factor, the possibility that overriding will not be detected lowers the threshold temptation necessary to provoke the

United States to override the common policy, bringing the equilibrium strategies closer to those of the single-shot model. As in the case of the extension to the repeated game, adding imperfect monitoring does not seem to enrich the substantive conclusions that we can draw from the model.

A variety of models involving incomplete information and signaling are possible. Extending the single-shot model to include incomplete information about the U.S. temptation parameter is not particularly useful, because no informative signaling equilibria are possible. In a finitely repeated setting, however, such an extension would again make it possible for the United States to build a reputation for restraint. This would also allow the model to generate insights about dynamics: U.S. decisions to override the institutional policy would erode the cooperativeness of institutions, gradually leading to institutional procedures that restricted informal manipulation, which in turn would induce low levels of U.S. investment. The particulars of the dynamics, however, would be dependent upon arbitrary modeling choices such as the number of repetitions.

In summary, the most substantively important extension of the model is to include multiple leading states. Other obvious directions in which to extend the model would generate substantively similar insights at the cost of introducing considerable additional complexity. The main insight to be gained through repetition would be the potential to generate restraint on the part of the United States; yet this restraint would not qualitatively change the actors' behavior. Indeed, the cost imposed when the U.S. overrides the common policy in the static game can be interpreted as a reduced form parameter representing reputational costs in repeated interactions that are not modeled. Dynamic games (repeated games with state variables that evolve over time) and signaling models make it possible to explore dynamics and characterize equilibria in which future expectations and behavior depend upon current actions. A key insight of these extensions is that the quality of international institutions can evolve over time in response to choices that countries make, and in particular, that institutions can deteriorate if the United States overuses its prerogatives to exercise informal influence. The static game generates a similar insight, however. Varying the temptation parameter—the range of possible benefits from intervention—induces the member countries to be more cautious and set higher obstacles to informal influence, which in turn undermines the incentives for the U.S. to participate substantially in the organization. This is simply a comparative statics exercise, and says nothing about the dynamics of institutional evolution; but sharp conclusions about dynamics would in any case be dependent upon arbitrary modeling choices. The simpler model captures the essence of the matter.

Conclusions

International organizations have become increasingly important actors in international politics. Some critics have emphasized their autonomy (Barnett and Finnemore 2004), while others regard international organizations as instruments in the hands of powerful states (Krasner 1985; Strange 1988). The approach presented here is decidedly state-centered. This is not to deny that the details of international governance owe a great deal to the strategies and beliefs of international agents (Abdelal 2007, Chwieroth 2009). However, the broad policies and many of the important details are worked out through formal and informal governance procedures that are established by states and in which states are the important actors. There are no international rogue agencies, because states remain the fundamental actors in international relations. The most powerful states retain the ability to control informally even formally autonomous institutions, and lack the ability to irrevocably delegate authority. The autonomous agencies are problematic not because they follow their own agendas, but because they can be captured by powerful states.

The puzzle for a state-centered theory of international organization is to explain why weaker states participate in international organizations, if their policies simply reflect the preferences of the powerful. The solution is informal governance. Informal governance facilitates an inter-temporal trade between weak and powerful states. Weak states receive sufficient input into the formal governance structure to form a stake in it and to assure that they will benefit from the policies of international organizations on average, if not in every instance. Powerful states are willing to share power, because institutions are only useful to powerful states to the extent that they elicit voluntary participation. However, the most powerful states participate only when they are assured that they can assume control, albeit at some cost, when they deem that their core interests are affected.

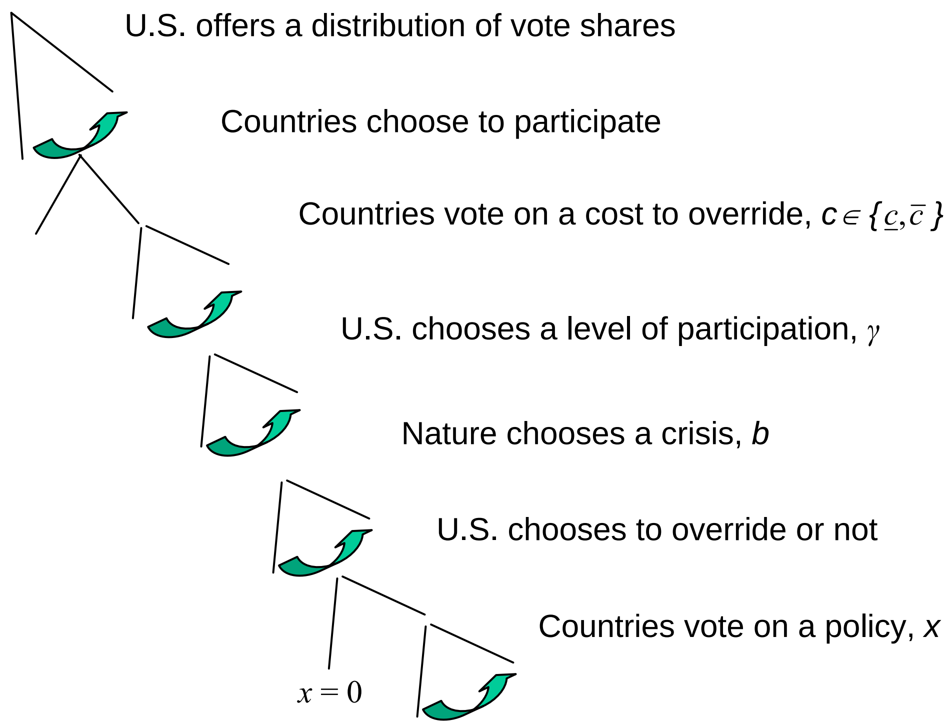
Informal governance is in continuous tension, because the manipulation that makes power sharing tolerable for the leading state undermines the legitimacy and credibility of international organizations. However, legitimacy is essential whether international organizations are to serve their core purposes or be useful as instruments of power, and delegation is possible only to the extent that the participants expect that manipulation will be relatively infrequent. There must be sufficient agreement about common purposes that weaker states can expect to benefit from cooperation.

International organizations are legitimate because, in equilibrium, the leading state chooses not to manipulate them under ordinary circumstances.

Ultimately, the terms of informal governance are themselves subject to negotiation and revision. If the United States exploits its ability to manipulate an international organization too flagrantly, other countries may use their formal voting rights to revise the organization's procedures and make this more costly. However, they are deterred from making informal influence too difficult to exert, because this would erode the usefulness of the organization for the United States, and ultimately lead it to be marginalized. The member countries implicitly consent to manipulation by the leading state or states, because they make this the price of their participation.

There are, therefore, three distinct forms of power in play in international organizations: structural power, formal control, and informal influence. Structural power represents the outside options a country enjoys and the externalities its participation in an institution creates for others. Powerful countries have attractive alternatives to multilateral cooperation and their participation in common endeavors magnifies the benefits of cooperation for all, so their interests must be accommodated. Formal control rights are embedded in the legal rules of international organizations, and may or may not correspond to variations in structural power. Countries that are strong in terms of structural power may nevertheless choose to disperse formal control widely in order to create legitimacy. Informal influence arises through participation in the decision making process, informal consultation with the agents who are delegated authority to make decisions, and privileged access to information. Informal influence is invariably unequal, and cannot be wholly prevented by any constitutional scheme, but it can be reduced by promoting transparency and making decisions by majority voting. Most international organizations are not designed to be transparent or majoritarian, however. Countries with substantial structural power are accorded opportunities for informal influence in order to make participation attractive to them, which makes it possible for them to give up formal control of the organization without jeopardizing their core interests.

Figure 1: The Sequence of Play



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Appendix: Proofs

Lemma 1: U.S. utility strictly decreases as the ideal point of the pivotal voter moves further from the U.S. ideal point.

Proof:

$$\frac{dU_{US}}{dx} = \frac{\partial U_{US}}{\partial x} + \frac{\partial U_{US}}{\partial c}\frac{\partial c}{\partial x} + \frac{\partial U_{US}}{\partial \gamma}\left(\frac{\partial \gamma}{\partial x} + \frac{\partial \gamma}{\partial c}\frac{\partial c}{\partial x}\right)$$

Note that, in equilibrium, x=α_p. There are two cases, $a_{US} > x$ and $a_{US} < x$. It is possible to sign each of the partial derivatives:

	$a_{US} > x$	$a_{US} < x$
$\frac{\partial U_{US}}{\partial x}$	>0	<0
$\frac{\partial U_{US}}{\partial c}$	<0	<0
$\frac{\partial U_{US}}{\partial \gamma}$	>0	>0
$\frac{\partial c}{\partial x}$	<0	>0
$\frac{\partial \gamma}{\partial x}$	>0	<0
$\frac{\partial \gamma}{\partial c}$	<0	<0

Therefore, in the first case, $a_{US} > x$, where x moves closer to a_{US} as it increases,

$$\frac{dU_{US}}{dx} = (+) + (-)(-) + (+)((+) + (-)(-)) > 0$$

In the second case, $a_{US} < x$, where x moves further from a_{US} as it increases,

$$\frac{dU_{US}}{dx} = (-) + (-)(+) + (+)((-) + (-)(+)) < 0$$

This proves the lemma.