ANARCHY AND THE LIMITS OF COOPERATION: A REALIST CRITIQUE OF THE NEWEST LIBERAL INSTITUTIONALISM

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Realism has dominated international relations theory at least since World War II. 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 interstate cooperation. Realism, then, presents a pessimistic analysis of the prospects for international cooperation and of the capabilities of international institutions.

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. 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 interstate cooperation, a new liberal institutionalist challenge to realism came forward during the early 1980s (Stein 1983:115-40; Axelrod 1984; Keohane 1984; Lipson 1984; Axelrod and Keohane 19f35). 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 institutionalist 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 institutionalist 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 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 identity 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 must powerful theory of international politics.

REALISM AND LIBERAL INSTITUTIONALISM
Realism encompasses five propositions. First that states are the major actors in world affairs (Morgenthau 1973: 10; Waltz 1979:95). 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 (Waltz 1986:331). Third, international anarchy is the principal force shaping the motives and actions of states (Waltz 1959:224-38;1979:79-128;Hofmann 1965:27, 54-87, 129; Aron 1973a:6-10). Fourth, states in anarchy are preoccupied with power and security, are predisposed toward conflict and competition, and often fail to cooperate even in the face of common interests (Aron 1966:5; (Gilpin 1986:304). Finally international institutions affect the prospects for cooperation only marginally (Waltz 1979:115-16; Morgenthau 1973:512; Hoffmann 1973b:50).

Liberal institutionalists sought to refute this realist understanding of world politics. First, they rejected realism's proposition about the centrality of states. For functionalist, the key new actors in world politics appeared to be specialized international agencies and their technical experts; for neofunctionalist, 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 (Haas 1958:16-31, 113-239, 283-340; 1964:32-40; Mitranly 1966:17, 85-87, 133-34; Nye 1971:195-206; Keohane and Nye: 1972:ix-xxix, 371-98). Second, liberal institutionalist attacked the realist view that states are unitary or rational agents. Authority was already decentralized within modern states, functionalists argued, and it was undergoing a similar process internationally (Mitranly 1966:54--55, 63, 69--73, 88, 134--38). 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 (Mitranly 1966:211, 32-38; Haas 1968:152, 1555G; Morse 1971:137; 1972:177, 179; Keohane and Nye 1977:xxv, 375-78, 1977:33-35, 226

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 (Mitranly 1966:13; Morse 1970:38(1-81; Keohane and Nye 1977:27--29, 228). Moreover, increases in international economic contacts left states increasingly dependent upon one another for the attainment of such national goals as growth, full employment, and price stability (Mitranly 7966:131-37; Haas 1968:161-62; Cooper 1972:161-68, 173--74; Keohane and Nye 1977:26, 228). Domestically, industrialization had created the present "social century": the advanced democracies (and, more slowly, socialist and developing Countries) were becoming welfare states less oriented toward power and prestige and more toward economic growth and social security (Mitranly 1966:41-42, 95--96, 136-37, 144-45; Haas 1968:155-58; Morse 1970:383-85; Keohane and Nye 1977:227). Thus liberals rejected realism's fourth proposition that 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.
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 (Mitrany 1966:133-37, 198-211; Haas 1968). 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" (Haas 1968:159). 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" (Keohane and Nye 1977:35; see also :36, 232-34, 240-42. For an example, see 1977:186).

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 in "transgovernmental networks"; and they recast the terms of their relationships with such seemingly powerful transnational actors as high-technology multinational corporations (Russell 1973; Krasner 1978; Grieco 1984). 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 (Zysman 1977, 1983; Katzenstein 1978, 1985; Gourevitch 1986:181-217). A number of events during the 1970s and early 1980s also demonstrated that the use of force continued to be a pervasive future of world politics: increases in East-West tensions and the continuation of the Soviet-American arms competition; direct and indirect military intervention and counter intervention by the super-powers in Africa, Central America, and Southwest Asia; and the Yom Kippur and Iran-Iraq wars. 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. 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.

And yet, international cooperation did not collapse during the 1970s as it had during the 1930s (Krasner 1983:viii). In finance, private banks and governments in developed countries worked with the International Monetary Fund to contain the international debt crisis (Lipson 1985; Kahler 1986). In trade, the advanced states completed the Tokyo Round negotiations under the GATT (Finlayson and Zacher 1983:273-314; Lipson 1983:233-72; Winham 1986). In energy, the advanced states failed to coordinate responses to the oil crises of 1973-74 and 1979, but cooperated effectively - through the International Energy Agency-- following the outbreak of the Iran-Iraq war in 1980 (Badger and Belgrave 1982; Lieber 1983; Keohane 1984:217--40). Finally, in high technology, the European states initiated and pursued during the 1970s a host of joint projects such as Airbus Industrie, the ARIf1NE rocket program, and the ESPRIT information technology effort (McDougall 1985; Smith 1986).
Governments had not transformed their foreign policies, and world politics were not in transition, but states achieved cooperation through informal institutions even in the harsh 1970s. This set the stage for a renewed, albeit truncated, liberal challenge to realism in the 1980s.

**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?" (1984:3; see also 4, 6). 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."

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 liberal views, institutions can help states work together." Thus, Neoliberals argue, the prospects for international cooperation are better than realism allows. These points of convergence and divergence among the three perspectives are summarized in table 5.1.

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 liberalist institutionalist tradition. To develop this argument, Neoliberalist first observe that states in anarchy often face mixed interests and, in particular, situations that can be depicted by Prisoner's Dilemma (see Axelrod 1984:7; Keohane 1984:69; Axelrod and Keohane 1985:231; Lipson 1984:2; Stein 1983:120-24). In the game, each state prefers mutual cooperation to mutual non-cooperation (CC DD), but also successful cheating to mutual cooperation (DC ? (C) 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 (PD). 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 PD 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 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 horizon, and reduced verification and sanctioning costs.

**TABLE 5.1**
Liberal Institutionalism, Neoliberal Institutionalism, and Realism: Summary of Major Propositions

<table>
<thead>
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<th>Proposition</th>
<th>Liberal Institutionalism</th>
<th>Neoliberal Institutionalism</th>
<th>Realism</th>
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<tr>
<td>States are the only major actors in world politics</td>
<td>No; other actors include:</td>
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<td>- Specialized international agencies</td>
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<td>- supranational authorities</td>
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<td>- interest groups</td>
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<td>- transgovernmental policy networks</td>
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<td></td>
<td>- transnational actors (MNCs, etc)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>States are unitary-rational actors</td>
<td>No; State is fragmented</td>
<td></td>
<td></td>
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<tr>
<td>Anarchy is a major shaping force for state preferences and actions</td>
<td>No; forces such as technology, knowledge, welfare-orientation of domestic interest are also salient</td>
<td>Yes (apparently)</td>
<td>Yes</td>
</tr>
<tr>
<td>International institutions are an independent force facilitating cooperation</td>
<td>Yes</td>
<td></td>
<td>No</td>
</tr>
<tr>
<td>Optimistic/pessimistic about prospects for cooperation</td>
<td>Optimistic</td>
<td>Optimistic</td>
<td>Pessimistic</td>
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Neoliberals find that one way states manage verification and sanctioning problems is to restrict the number of partners in a cooperative arrangement. (Keohane 1984:77; Axelrod and Keohane 1985:234-38; for a demonstration, see Lipson 1985). 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" (1984:97). 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" (Axelrod and Keohane 1985:250). In addition, finding that "coordination conventions are often an element of conditional cooperation in PD, Charles Lipson suggests that "in international relations, such conventions, which are typically grounded in ongoing reciprocal exchange, range from international law to regime rules" (1984:6). 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" (1983:123). 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" (1984:246).

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 interactions: to achieve the greatest possible individual gain. For example, Axelrod suggests that the key issue in selecting a "best strategy" in PD-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." Similarly, Lipson observes that cheating is attractive in a single play of PD 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 (1984:2, 5). Indeed reliance upon conventional PD 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 PD with conditional cooperation solely out of a desire to maximize its individual long-term total payoffs

Moreover, neoliberal institutionalists assume that states define their interest, 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 (1984:9). He also notes that PD 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" (22). Similarly, Lipson suggests that PD "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" (1984:2).

Finally, Keohane bases his analysis of international cooperation on the assumption that states are basically atomistic actors. He suggest 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" (1984:27).

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), their the neoliberal institutionalist specification of that state's utility function would be U - V."

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 the 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" (Axelrod and Keohane 1985:226; see also Stein 1983:116; Axelrod 1984:3--4; Keohane 1984:7; Lipson 1984:1-2). Neoliberalism then proceeds to identify one major effect of international anarchy. Because of anarchy, according too 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" (Axelrod and Keohane 1983:226; Keohane 1984:7; Axelrod 1984:6). As a result, according to neoliberal theory, "cheating and deception are endemic" in international relations. Anarchy, then, means that states may wish to cooperate, but, aware that cheating is both possible and profitable, lack of 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 interstate 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 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." 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 (Gilpin 1986:304-5).

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" (1973a:7, 64-65). 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."

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" (1964:111; emphasis added). 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 states prevent relative increases in the power of competitor states" (1981:87-88). 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" (1979:126; see also Waltz 1956:334).

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. 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.2 In 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 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 (1983:134). Instead realists argue that states are more likely to concentrate on the danger that relative gains may advantage partners and thus may foster the emergence of a more powerful potential adversary. 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 problems 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. 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” (1978:168). 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.

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. 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;” The level of k will be greater if a state’s partner is a long-term adversary rather than a long-term 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. 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.

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 precooperation 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 example 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" (1973:179). 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 advantage; in return" (1973:180; emphasis added).

In sum, neoliberals find that anarchy impedes cooperation through its generation of uncertainty in states about the compliance of partners. For neoliberals the outcome that 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 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" (Axelrod and Keohane 1985:231; see also Stein 1983:123-24).

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 5.2. Compared to realist theory, neoliberal institutionalism understates the range of uncertainties and risks states believe they must overcome to cooperate with others. Hence, realism provides a more comprehensive theory of the problem of cooperation than does neoliberal institutionalism.

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. However, 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. 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.

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 (Keohane 1984:6-7). 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 that 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 (Keohane 1984:90 - 91; Aggarwal 1985). 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 interest 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 experiences 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). 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 that 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. If, then, two states that are interested in cooperation could choose 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.
TABLE 5.2
Anarchy, State Properties, and State Inhibitions About Cooperation:
Summary of Neoliberal and Realist Views

<table>
<thead>
<tr>
<th>Basis of Comparison</th>
<th>Neoliberal Institutionalism</th>
<th>Political Realism</th>
</tr>
</thead>
<tbody>
<tr>
<td>Meaning of anarchy</td>
<td>No central agency is available to enforce promises</td>
<td>No central agency is available to enforce promises or to provide protection</td>
</tr>
<tr>
<td>State properties</td>
<td>To advance utility defined individually</td>
<td>To enhance prospects for survival</td>
</tr>
<tr>
<td>Core interest</td>
<td>To achieve greatest possible absolute gains</td>
<td>To achieve greatest gains and smallest gap in gains favoring partners</td>
</tr>
<tr>
<td>Main goal</td>
<td>Atomistic (&quot;rational egoist&quot;)</td>
<td>Defensively positional</td>
</tr>
<tr>
<td>Basic character</td>
<td>Independent: $U = V$</td>
<td>Partially interdependent: $U = V - k (W - V)$</td>
</tr>
<tr>
<td>Utility function</td>
<td>Partner’s compliance</td>
<td>Compliance and relative achievement of gains and uses to which gaps favoring partners may be employed</td>
</tr>
<tr>
<td>State inhibitions concerning cooperation</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Range of uncertainties associated with cooperation</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Range of risk associated with cooperation</td>
<td>To be cheated and to receive a low payoff</td>
<td>To be cheated or experience decline in relative power if others achieve greater gains</td>
</tr>
<tr>
<td>Barriers to cooperation</td>
<td>State concerns about partners’ compliance</td>
<td>State concerns about partners’ compliance and partner’s relative gains</td>
</tr>
</tbody>
</table>

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 (Keohane 1984:91-92, 103--6; Axelrod and Keohane 1985:239 – 43). 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. In addition, further analysis of defensive state positionality may help pinpoint policy strategies that facilitate cooperation. If relative gains concerns do act as a 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. 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.