

CHAPTER 6:

**INSTITUTIONAL NESTING:
LESSONS AND PROSPECTS**

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The tension between globalism, regionalism, and sectoralism has continued to challenge both policymakers and analysts. Can these different modes of organization in the world system be reconciled with each other? Is there an inevitable conflict between global arrangements on the one hand, and regional or sectoral regional arrangements on the other hand? This volume has sought to examine these questions by developing the notion of an institutional bargaining game and examining how such games might evolve through actors' institutional strategies.

Existing approaches to examine the development of international institutions have contributed much to our understanding of institutional change. The three schools reviewed in Chapter 1 -- neorealist institutionalism, neoliberal institutionalism, and the cognitive approach -- each provides us with a different analytical lens on the problem of understanding institutional changes. In brief summary, the neorealist institutional approach emphasizes the role of power and control in influencing the rise and fall of international institutions. The neoliberal institutionalist school focuses on transaction costs and the importance of existing institutions in constraining and motivating the development of new institutions. And the cognitive approach emphasizes the role of scientific consensus and interaction of "epistemic communities" with interest groups in affecting the course of institutional development. But as I suggested, the leading contenders do not adequately capture important aspects of the phenomena of institutional evolution. In particular,

standard analytic approaches do not adequately address the problem of how actors attempt to nest or develop parallel institutions as they engage in the modification of existing or innovation of new institutions.

The introductory essay provided a comprehensive framework to capture the institutional bargaining process. The task of this chapter is to assess the utility of the framework in enhancing our understanding of the conditions under which institutional reconciliation might be possible. In particular, it examines the empirical contributions of the chapters in this volume from an analytical perspective, with an eye to investigating the fit between theory and practice.

The first section considers the extent to which the notion of an institutional bargaining game -- based on the interplay of goods, individual situations, and institutions -- helps us to structure the bargaining setting observed in the various empirical chapters. Section II then turns to an examination of the factors that best explain the process of institutional change. The third section focuses on the key issue of institutional reconciliation resulting from actors' use of nested and parallel linkages and examines the lessons that we might glean from the theoretical and empirical analysis. In concluding, Section IV points to theoretical and empirical avenues for future research on the evolution and nesting of institutions.

I. THE INSTITUTIONAL BARGAINING GAME

The introductory chapter identified two distinct phases in the institutional bargaining process -- an initial bargaining game and a game change phase. In this section, I focus on the initial game setting. In brief summary (see Figure 3 in the introduction), I argued that actors respond to an initial impetus, conditioned by the "goods" involved in the resulting negotiations, actors' individual situations, and the institutional context. In turn, the payoffs of this bargaining game provide a stimulus to the institutional game change phase (discussed below and in Figure 4 in the introduction).

To what extent does the bargaining construct depicted in Figure 3 help to illuminate the choices faced by actors in the empirical cases? To examine this question, Figure 1A and 1B analytically depict the factors that define the initial bargaining game for the four empirical papers.

FIGURE 1A: THE PROCESS OF INSTITUTIONAL FORMATION: THE BARGAINING GAMES

CHAPTER AND TYPE OF CASES	INITIAL IMPETUS	EXTERNALITIES AND GOODS	INDIVIDUAL SITUATIONS	INSTITUTIONS	BARGAINING GAME
<p>EMS Crisis (Weber)</p> <p><i>Region</i></p>	<p>1) German unification and GEMU</p> <p>2) Speculation against U.K. pound, Italian lira, and French franc</p>	<p>Externalities of German policy on the CPR of monetary stability</p> <p>Undermining EMS damages common pool resource</p>	<p>Germany strong and elite beliefs on need to fight inflation; others weak</p> <p>ISs stay the same</p>	<p>EU and EMS</p> <p>EU and EMS</p>	<p>Germany vs. other Europeans over bearing adjustment burden</p> <p>How much re-alignment in return for Buba interest rate reduction</p>
<p>Bosnian crisis (Crawford)</p> <p><i>Region/ issue area</i></p>	<p>1) End of the Cold War and civil war in Yugoslavia</p> <p>2) Entry of U.S., Russia, and U.N., onset of Bosnian war</p>	<p>Fear of spillover to broader European theater. Interest in "public good" of a European security region</p> <p>Concern for preserving multilateralism as a public good and threat to Western values</p>	<p>German ideological view on self-determination and political differences</p> <p>US overall strong, domestic pressures; German support for Croatia; Russia domestic pressures for Serb support</p>	<p>WEU and CSE</p> <p>UN and NATO</p>	<p>Conflict over the recognition of Croatia</p> <p>Dispute over dealing with the Serbians in the Bosnian War</p>

FIGURE 1B: THE PROCESS OF INSTITUTIONAL FORMATION: THE BARGAINING GAMES

CHAPTER AND TYPE OF CASES	INITIAL IMPETUS	EXTERNALITIES AND GOODS	INDIVIDUAL SITUATIONS	EXISTING INSTITUTIONS	BARGAINING GAME
<p>EC, EFTA and the EEA (Dupont)</p> <p><i>Region</i></p>	<p>1) Single European Act</p> <p>2) Call for closer relations by East and Central Europeans after collapse of SU</p> <p>3) EEA agreement</p>	<p>EFTA fear of being left out (private good)</p> <p>EC fears deepening will be hindered (private & limited club good); CPR of panregional stability</p> <p>EFTA fear of being left out (private good)</p> <p>EFTA countries fear of exclusion from policymaking say (private good of access to EC club)</p>	<p>Variation in EFTA countries situations, but overall weak; EC strong</p> <p>No change in ISs</p> <p>Changes in economic strength and growing domestic opposition to EEA in EFTA states, interest in EU</p>	<p>EFTA, EC, Luxembourg framework</p> <p>EFTA, EC, Luxembourg framework</p> <p>EC, EFTA, and EEA</p>	<p>Conflict over going beyond the Luxembourg process</p> <p>EFTA presses for better EC link; EC worries about widening and deepening</p> <p>EFTA push for bilateral accession</p>
<p>FSF creation (Cohen)</p> <p><i>Issue-area</i></p>	<p>1) 1973-4 oil shock</p>	<p>Fear of effect on Western economies</p> <p>Creation of IEA as a Western public good to</p>	<p>US strong overall and issue, domestic support, and consensus on leadership vs. France</p>	<p>IMF</p>	<p>Conflict over the response to OPEC actions</p>

	<p>2) French resist FSF</p> <p>3) Ratification problems</p>	<p>break OPEC</p> <p>Failure to create FSF as CPR resource and undermining of IEA</p> <p>Concern about public good of IMF</p>	<p>and others weaker overall and issue</p> <p>No significant changes in individual situations</p> <p>Changing U.S. view due to economic changes; changing domestic political situation, and concern about OECD-IMF conflict</p>	<p>IMF and OECD</p> <p>IMF and OECD in conflict</p>	<p>U.S. wants IEA; France presses for North-South dialogue</p> <p>IMF-OECD conflict influences ratification</p>
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While the papers and these figures provide a detailed account of the factors leading to the structure of the bargaining game, it is useful to summarize these elements. In the ten empirical "cases" examined in the four studies, the initial impetus varied considerably. Changes in interactions played a key role in the European Monetary System (EMS) crisis (speculation against non-German European currencies) and in the Financial Support Fund (FSF) case (the oil shock of 1973-4). Domestic changes were crucial in creating the initial problems in the EMS and FSF ratification. In the first case, German unification and monetary policies led to pressure on the currencies of other European states. In the FSF debate, U.S. domestic opposition undermined the proposed fund. International factors were important in the remaining cases, with international institutional changes being crucial in the two of the three European Economic Area (EEA) cases. Thus, this survey suggests that institutional bargaining games can be set in motion by changes in interactions, domestic politics, or international institutional changes, as depicted in the overarching framework presented in Figure 1 of the introduction.

These initial stimuli led to a variety of externalities and implications for goods. Externalities proved particularly important in the FSF oil shock case, the civil war in Yugoslavia following the collapse of the Soviet Union, the Single European Act (which threatened EC-EFTA agreements), and German unification and economic policy making.

With respect to goods, concern about the undermining of public goods played a role in several cases. These include the U.S. attempt to use the 1973-4 oil shock as a means to bolster the public good of the Western alliance; a view that the IMF as a public good was threatened by the FSF; and fear of undermining both the public good of a European security region and multilateralism as a public good in the Bosnian crisis cases.

Common pool resources (CPR) were involved in the French resistance to both the FSF and IEA (whose resources were available only to developed country members of these groups).

Similar concerns about the impact of CPR provision were raised in the EMS case.

Finally, EFTA-EC negotiations are best characterized as a mix of CPR, "limited" inclusive club goods, and private goods. The CPR aspect was in the pan regional stability to be provided by the EEA. The inclusive club goods were limited by fears of crowding the EC club with too many new members, particularly the East Europeans. And there were also elements of private goods in the negotiations, because the EC could selectively grant access to its single market.

The empirical studies clearly show that actors' preferences over outcomes also varied based both on the existing institutional context and their individual situations. To give a few examples from the cases, in the EMS crisis, Germany's economic position -- combined with the presence of the EU as an institution that no one wished to undermine -- proved to be a critical factor in determining national policies. Thus, the bargaining game in both of the cases discussed by Steve Weber were strongly constrained by concern about the need to reconcile any changes in the EMS with the broader objective of preserving the EU.

Variation in individual situations proved particularly significant in the struggle over how to deal with both the civil war in Yugoslavia and the Bosnian war. While Beverly Crawford argues that differences in countries' overall capabilities in the decision to recognize Croatia were not significant, she suggests that domestic politics, particularly in the context of a weak set of institutional norms, prompted the ensuing conflict over recognition. Later, the sharply differing individual situations of the U.S., Germany, and Russia (in the setting of an existing organization), led to the eventual decision to actively use NATO to implement the Dayton Plan.

In the EEA debate, wide variation in EFTA countries' views stemmed from their individual situations -- particularly their relative dependence on the EC market. Moreover, important differences in EFTA countries' domestic political situation, together with the impact of changing economic circumstances on these states, led to problems with the EEA. These in turn led to varying EFTA states' preferences about acceding to the EU. The importance for the EC of

preserving its institutional autonomy also undermined the prospects for the EEA.

Finally, in the aftermath of the 1973-4 oil crisis, the relative strength of the U.S. (both overall and with respect to energy issues) led it to take a considerably more aggressive stance toward OPEC than France and other weaker European countries. In addition, the existence of the IMF and opposition from this institution greatly affected actors' calculations about the value of the FSF. In the end, economic and political changes in the U.S., combined with this IMF opposition, led to the demise of the FSF.

In summary, the framework appears to provide a means of capturing the most significant issues involved in defining the initial bargaining games in the book's empirical cases. The focus on stimuli, combined with attention to their effect on externalities and goods, actors' individual situations, and the institutional context, helps to set the stage for the process of possible institutional innovation -- the topic to which we now turn.

II. INSTITUTIONAL CHANGE EFFORTS: CREATION, TYPE, AND BARGAINING ROUTE

Faced with favorable or unfavorable payoffs, actors have the option of promoting changes in the game they are playing. Of the three strategies available -- the direct manipulation of goods, changing individual situations, or institutional innovation -- this book has concentrated on the institutional change option. As depicted in Figure 4 in the introduction, if actors choose to go down this road, they must agree on institutional scope (multilateral or bilateral), and pursue either a multilateral, bilateral, or unilateral bargaining path to this end. During the bargaining process, actors can then engage in linkage bargaining as they face the problem of institutional reconciliation. These linkages can be either: (1) nested or parallel; and (2) substantive or tactical connections among issues or institutions. The effect of these institutional change efforts and various linkage strategies may lead to a new game structure with a different set of payoffs for

actors (examined in detail in the next section).

Figures 2A and 2B summarize the observed empirical process of game change efforts. In each case, I depict the steps involved in game change efforts along with the factors that proved most significant in view of the hypotheses presented in Section IV of Chapter 1. In the discussion that follows, rather than focusing on each case individually, the key elements are summarized in the aggregate.ⁱ

FIGURE 2A: INSTITUTIONAL CHANGE EFFORTS

CASES	CREATE A NEW INSTITUTION?	INSTITUTIONAL SCOPE	BARGAINING ROUTE	LINKAGES, TYPE, AND NATURE
<p>EMS/ERM 1) Coping with German unification and GEMU</p> <p>2) Coping with speculation</p>	<p>No, use existing institutions. Cognitive consensus on preserving EMS and legitimacy of commitment to integration. Constraints of EU.</p> <p>No view prevails, but sharp debate over this. Cognitive dissensus on appropriate mechanism, differences on control.</p>	<p>Multilateral because of institutional constraints</p> <p>Multilateral or bilateral because of institutional constraints and control concerns</p>	<p>Multilateral with German unilateral threats</p> <p>Multilateral, constrained by multiple overlapping institutions</p>	<p>Nested substantive link to Maastricht; some non-Germans see this as tactical.</p> <p>Deeper nested substantive link to EMU and EU.</p>
<p>Bosnia 1) Croatian recognition</p> <p>2) Bosnian war</p>	<p>No, use existing institutions. Control of warring parties and institutional strengthening.</p> <p>No, use existing institutions. Constraints of existing institutions.</p>	<p>Multilateral because of cognitive consensus</p> <p>Multilateral because of cognitive consensus</p>	<p>Multilateral with a few exceptions (institutional constraints)</p> <p>Multilateral (institutional constraints) for all options</p>	<p>Nested substantive to United Nations and linkage to US; seen by non-Germans as nested tactical.</p> <p>Parallel substantive reconciliation among existing institutions</p>

FIGURE 2B: INSTITUTIONAL CHANGE EFFORTS

CAS ES	CREATE A NEW INSTITUTION?	INSTITUTIONAL SCOPE	BARGAINING ROUTE	LINKAGES, TYPE, AND NATURE
<p>EEA</p> <p>1) Response to Single European Act</p> <p>2) EEA development</p> <p>3) Erosion of EEA</p>	<p>No, use existing institutions. Cognitive consensus in EC on deepening; among EFTA members, control concern based on domestic coalitional factors and institutional density</p> <p>Yes, reconcile. Cognitive agreement on limits to Luxembourg. Concerns about policy control and transaction cost among EFTA members.</p> <p>No, join existing EU. Loss of control for EFTA countries and EC fails to control pressure from East and Central Europe</p>	<p>Multilateral because of transaction costs and existing institutions</p> <p>Two pillar vs. true multilateralism. Transaction costs, existing institutions, and control issues</p> <p>Multilateral because of existing institution</p>	<p>Different routes: unila-teral, bilateral, and multilateral with cognitive concern for advancement on multi-lateral deepening</p> <p>Dispute on EC and EFTA vs. 18 voices (institutional constraints)</p> <p>Bilateral route</p>	<p>Parallel substantive link between EFTA and EC (functional cooperation)</p> <p>Nested substantive: EU and EFTA within EEA within GATT; some tactical linkages by member states</p> <p>Nested substantive with EFTA members joining EU</p>
<p>FSF</p> <p>1) IEA proposal</p>	<p>Yes, de novo. Cognitive consensus on need to respond. For US regime creation, control of OPEC key</p>	<p>Dispute over scope of multilateral institution; control key.</p>	<p>U.S. plays a hegemonic role; side payments of FSF and North-South cooperation</p>	<p>U.S. suggests FSF as parallel tactical link; France sees as parallel substantive link</p>

2) FSF development	Yes, reconcile. Nested concern because IEA within OECD and control of financial fund	Multilateral FSF within OECD (nested)	U.S. as hegemon but nested systems concern of US-USSR and OPEC	Nested substantive within broadly defined IMF system but lodged within OECD
3) FSF failure	No, use existing institution. New cognitive consensus: no need for FSF. Institutional struggle: IMF-OECD	Multilateral because of existing institution	Multilateral as US shifts view and OECD-IMF institutional conflict	Nested substantive within IMF (Witteveen facility)

Of the ten cases summarized in the tables, three involved the development of new institutions. Seven involved situations where actors responded to problematic payoffs by attempting to rework the relationship among existing institutions. Of the three institutional creation efforts, two of these -- the development of the EEA and the FSF -- were marked by efforts to create a new institution and reconcile it with existing ones. In the first of these cases, the EEA case, a supra-institution was created within which existing institutions were to nest. In the second case, the FSF was to be nested within the broader financial institutional set-up. Finally, in one case, the creation of the IEA, an effort was initially made to set up a new institution without concern for existing arrangements. In the other seven cases involving restructuring relationships among existing institutions, actors engaged in some type of linkage effort (generally nested substantive, but sometimes parallel substantive) to tie together some group of arrangements.

How do the hypotheses fare in view of the empirical cases? We begin with the choice of creating a new institution versus modifying or using existing ones. Cognitive consensus was the primary driving force in this decision, and a cognitive dissensus also created either conflict or limited institutional creation efforts (FSF failure, joining the EU vs supporting the EEA, problems in institutional reconciliation in the Bosnian case, and conflict over the response to speculation against non-German currencies in the EMS). "Control" was the next most important factor in the institutional modification option. This factor proved decisive in efforts to use the IEA to control OPEC, control of the financial fund, decisionmaking authority concerns in EEA decisionmaking, controlling the warring parties in Bosnia through institutions, and the debate on how to control speculation in the EMS. Moreover, these choices were seen to have important distributional consequences. Also critical, in the most of the cases, was the existence, salience, and density of pre-existing institutions. This aspect served as a key constraint on the decision to create new ones or work with existing ones. By contrast, transaction costs issues played a relatively minor role, and appears to have been a significant influence only in the development of the FSF and somewhat

less so in the creation of EEA. Turning next to institutional scope (bilateral or multilateral arrangements), inertia and transaction costs appear to be have been most the important factors, followed by cognitive concerns, and control considerations. Institutional density and nested institution concerns seem to have been crucial factors in the EMS members' response to speculation. They also played a role in the organizational structure of the EEA and the latter stages of the FSF case. Transactions costs arguments do not appear to have been significant in the FSF cases, but they did play a role in the development of the EEA. Cognitive considerations were particularly important in the Bosnian case, and drove the concern for preserving multilateralism. Finally, in the IEA case, control consideration led the U.S. to favor "minilateralism",ⁱⁱ with the U.S. pressing to exclude OPEC and other third world countries from participating in the management of energy issues.

With respect to bargaining route, we see a full panoply here of unilateral, bilateral, and multilateral efforts. The formation of the IEA seem to have been driven by the hegemonic role of the United States, with nested systemic concerns involving the Soviet Union. While some bilateral paths were taken within institutions, for the most part the most common route was a multilateral one. Actors appear to have been constrained by the presence of a host of existing institutions and concerned that they might be undermined by unilateral or bilateral actions.

This review of the empirical analysis has provided us with a different take than standard approaches to explain institutional change. The hypotheses developed in the first chapter, which drew on these schools of thought, work with varying efficacy in predicting patterns of institutional change. The empirical analysis -- while not definitive because of the relatively few number of cases -- suggests that our analysis of institutional change can be enriched if differentiated by bargaining phases. Specifically, we have seen that cognitive approaches and power considerations are most important in explaining decisions on creating new institutions, whereas transaction costs arguments fare best in explaining institutional scope. Neoliberal institutional arguments,

combined with power considerations best account for the bargaining route. In short, one size does not fit all with respect to explaining the process of institutional change.

III. LINKAGES AND INSTITUTIONAL RECONCILIATION

We now turn to the key question of using linkages in the process of institutional reconciliation. Together with the last column of Figure 2, Figure 3 provides an examination of linkages and resulting outcomes for all the cases in this book.

FIGURE 3: EMPIRICAL SUMMARY OF BARGAINING OUTCOMES

NOTE: Institutional scope (multilateral or bilateral) and bargaining route (multilateral, bilateral, or unilateral) are not illustrated as outcomes on this chart.

		Reconcile New Institution with Old Institution?	Use or Modify Existing Institution(s)	
LINKAGE TYPE	No Linkage	Independent institutions (no concern for compatibility)	Institutionally-based negotiations on single issue <i>[EMS 2a]</i>	
	Parallel Linkage	<i>Substantive</i>	<ol style="list-style-type: none"> 1. Stable, compatible inter-institutional link for related issues 2. Temporary, inter-institutional compatibility between issues (if target does not correctly perceive link) 	<ol style="list-style-type: none"> 1. Stable, institutional link between related issues <i>[BOS 2] [EEA 1]</i> 2. Temporary, institutional solution to externalities (if target does not correctly perceive link)
		<i>Tactical</i>	<ol style="list-style-type: none"> 1. Contingent, inter-institutional compatibility for issues (to independent or conflict with power change) <i>[FSF 1a]</i> 2. Unstable, inter-institutional compatibility for issues (if target does not correctly perceive link) <i>[FSF 1b]</i> 	<ol style="list-style-type: none"> 1. Contingent, institutional link between issues (to independent with power change) 2. Unstable, institutional link between issues (if target does not correctly perceive link)
	Nested Linkage	<i>Substantive</i>	<ol style="list-style-type: none"> 1. Stable, hierarchically compatible institutions for related issues <i>[EMS 2b] [EEA 2a] [FSF 2a]</i> 2. Temporary, hierarchically compatible institutions for issues (if target does not correctly perceive link) 	<ol style="list-style-type: none"> 1. Stable, hierarchical link between issues within existing institution(s) <i>[EMS 1a] [EMS 2c] [BOS 1a] [EEA 3] [FSF 3]</i> 2. Temporary hierarchy between issues within existing institution(s) (if target does not correctly perceive link) <i>[EMS 1b] [BOS 1b]</i>
		<i>Tactical</i>	<ol style="list-style-type: none"> 1. Contingent, hierarchically compatible institutions for issues (to independent or conflict with power change) <i>[EEA 2b] [FSF 2b]</i> 2. Unstable, hierarchically compatible institutions for issues (if target does not correctly perceive link) 	<ol style="list-style-type: none"> 1. Contingent, hierarchical link between issues within existing institution(s) (to independent or conflict with power change) 2. Unstable, hierarchical link between issues within existing institution(s) (if target does not correctly perceive link)

In particular, Figure 3 allows us to examine the evolution of institutions in the four chapters discussed in this volume. By tracing the evolution of the cases in the empirical chapters, we can gain some sense of the dynamics of institutional change.

In the cases involving problems with the EMS, the dispute over who would bear the burden of adjustment involved with German unification was handled within an EU context. When the Europeans were forced to match a rise in German interest rates with hikes of their own, considerable debate took place over a deal that would lead to some type of realignment within the ERM, rather than an exit of the pound and possibly other currencies from the ERM. Although the pound and lira left the ERM, considerable policy coordination continued and the Germans linked cooperation in monetary matters to broader Maastricht objectives (EMS 1a). Some saw this linkage as a tactical effort by the Germans to maintain their policy and dominant position in the monetary system (EMS 1b). In the next round, speculation continued against the pound, franc, and lira, and alternatives to the ERM were hotly debated, including dissolution of the ERM (EMS 2a) and delinking it from the EU, some type of restricted French-German monetary cooperation in lieu of the ERM (EMS 2b), or widened bands in the ERM (EMS 2c). In the end, the last option was chosen, with the establishment of 15% bands. In the process, a deeper nested substantive connection was made to EMU and the broader EU, and the ERM survived.

The analysis of the EMS crisis provides evidence of a cognitive agreement on the connections between the EMS and EU. Some power considerations were undoubtedly also important, with German actions often being perceived as bullying. What is most striking, however, is the role of nested institutions in constraining German behavior. By contrast, in this instance, transaction and organizational costs seem to be considerably less significant.

The debate over Croatian and Slovenian recognition following the break-up of Yugoslavia presents us with an instance of nested efforts within an existing institutional context. While all EC members wished to pursue a multilateral approach to the issue of successor state recognition to

control defectors, the WEU (the regional security institution in Europe), did not prove to be up to the task. In addition, the norms of the CSCE also failed to serve as a sufficient guide for decisionmaking. The Germans sought to nest EC actions within a broader international context of the U.N. to encourage U.S. participation -- a move they viewed as a logical substantive connection (Bos 1a). Non-Germans, however, viewed this effort as a tactical move to pressure them into recognizing Croatia (Bos 1b). In the end, the outcome was as the non-Germans feared, with Germany moving ahead with unilateral recognition and the others being forced to follow. In the next phase of negotiations, this action led to the involvement of the U.N., the U.S., Russia, and NATO, and a reduced role for EC-based institutions. In the Bosnian negotiations, the major participants agreed only on a commitment to multilateralism, rather than a complete nested institutional security architecture. Thus, after significant debate over the respective role of NATO, the U.N., and other organizations, the participants could only manage to develop a division of labor involving a parallel substantive reconciliation among these institutions as part of the Dayton Agreement (Bos 2).

This case demonstrates the difficulty that may arise in attempting to reconcile existing institutions that wish to preserve their autonomy. As a consequence, the effort to nest proved an empty one, and the participants who had a strong cognitive commitment to multilateralism could only agree to a potentially unstable thin parallel substantive reconciliation.

The EEA cases involved the institutional relationship between the EC and EFTA, and how EFTA members would deal with these institutions. Following the Single European Act (SEA) that set the EC members on the path to European Union, the EFTA members began to worry about their position vis-à-vis the EC. Still, for the most part, they continued to emphasize the parallel substantive linkage between the two existing organizations and pursued functional cooperation with the EC (EEA 1). After Central and Eastern European states called for closer economic relations with the EC, EFTA and the EC moved toward development of an overarching institution

to manage the relationship between these two institutions. This effort resulted in the formation of the EEA with the EU nested partially (because some policy domains remaining outside the EEA) and the EFTA fully nested within this broader arrangement, and the EEA in turn being nested firmly within the GATT. There was, however, disagreement on the nature of this nesting, with substantive reasons for the relationship based on integration principles (EEA 2a). But a tactical logic for members of these organizations was also at work: the EC saw this relationship as a way of leveraging the EEA to against U.S. demands in the GATT, while EFTA members saw the EEA in the context of possible adhesion to the EC (EEA 2b). Because of the way the EEA was negotiated, some EFTA members began to worry about their ability to influence EC policy, and the EEA began to face difficulties. In the end, the outcome was partial defection from EFTA as the majority of EFTA's member states sought complete EC membership -- thus leading to an outcome of a nested substantive connection of membership in the EC (EEA 3). In sum, despite considerable time and effort, the creation of a new nested substantive institution proved to be a failure.

In the EEA analysis, multiple elements explain the choice of linkage type and nature. Cognitive considerations, control of policymaking in the broader EEA, and the presence of existing institutions and transaction costs issues all combine to explain the varying fortunes of the EEA. Often, the cognitive consensus on the benefits of nested institutions ran into power considerations and concern about both domestic and international control that varied depending on the actors' individual situations. Moreover, the context of the existing institutions of EFTA and the EC sharply affected the course of bargaining and eventual outcomes.

As we have already seen in the FSF story, the U.S. effort to develop the IEA to counter OPEC was resisted by the French (among others), primarily due to their more vulnerable economic position. The U.S. responded to these concerns with a parallel tactical linkage to the FSF and to an agreement to participate in a North-South dialogue (labeled FSF 1a in Figure 3). The French appear to have seen this as a parallel substantive linkage (FSF 1b), but in any case

(however perceived), this concession appears to have done the trick. But as the predictions of institutional stability within this cell indicate, the differing views of these linkages held possible institutional instability in store. As French resistance to the IEA diminished, the actors turned to the question of how the FSF would fit into the existing international financial infrastructure. Major institutions already existed in the area of financial management, including the OECD and IMF. Thus, it was not surprising that the participants chose to nest the FSF in an existing institution (FSF 2a); but as Benjamin Cohen notes, the debate over whether such nesting would take place within the OECD or IMF now came to the fore. When the U.S. decided to substantively nest the FSF within the OECD, despite with some deference to the IMF's wishes, the IMF and its supporters rejected this substantive link to prevent its own authority from being undermined (FSF 2b). Although one might have envisioned a scenario whereby the U.S. pressed on with its vision and possibly engaged in tactical linkages to pressure the IMF and its supporters, a changing U.S. individual situation led it to back away from support of an FSF that would be nested within the OECD. Instead, the U.S. abandoned the FSF and agreed to a financial support arrangement (the Witteveen facility) that would be nested substantively within the IMF (FSF 3).

As in the EEA cases, a combination of cognitive factors, together with power and pre-existing institutional constraints, best explain the creation, evolution, and demise of the FSF proposal.ⁱⁱⁱ

What can we learn about prospects for reconciling institutions, and in particular nesting institutions, from this summary of cases? Turning first to examples of institutional adaptation, we have seen that a strong cognitive consensus owing to the high salience of the EU had a salutary effect on cooperation in the EMS case. Indeed, the depth of commitment to the EU combined with highly institutionalized mechanisms to overcome bickering that arose from differences in objectives and power. In the absence of such cognitive commitment and agreement on a hierarchy of goals, countries could only muster a division of labor among institutions in the Bosnian case.

This proved to be a relatively positive outcome, despite criticisms of a lack of clear ordering of roles among institutions. Put differently, a division of labor through parallel linkage would appear to be preferable to conflict over nesting. These lessons can be seen in the failure to successfully develop either the EEA or the FSF. In both cases, negotiators did not correctly anticipate the depth of opposition provoked by the perceived institutional challenge of new institutions. While power could substitute for cognitive consensus as in both the EEA and FSF case, with a dominant role being played by the EU and U.S. respectively, the linkage reconciliation efforts proved to be fleeting.

IV. A RESEARCH AGENDA ON INSTITUTIONAL RECONCILIATION

This book has provided an analytical approach to analyze institutional reconciliation efforts. It argues that by focusing on the concept of development and change in "institutional bargaining games," which draw systematically from neorealist institutionalist, neoliberal institutionalist, and cognitive approaches, we can better understand the bargaining and linkage process involved in the formation of institutions. In thinking about directions for future research, it is worth reviewing both the broader theoretical lessons of the analysis as well as the policy implications of the empirical insights from the cases in this book.

Two avenues for moving beyond the framework applied in this book are worth considering. First, it would be useful to formalize the interaction among goods, individual situations, and institutions to better understand their contributions to setting up game payoffs. This is a somewhat daunting task, but one that should prove rewarding to enhance our understanding of institutional evolution.^{iv} Second, it is worth recalling that in attempting to promote game change, we have focused on institutional strategies to the relative exclusion of direct attempts to manipulate goods or actors' individual situations. This is, of course, not necessarily the most powerful way to manipulate games, and thus attention to how institutional bargaining games are transformed by

manipulation of goods and individual situations directly is worthy of serious examination.^v By pursuing these two avenues of research, we should be able to further our understanding of institutional bargaining games and more precisely assess the importance of variables drawn from different schools of thought.

Turning to empirical and policy considerations, while successful nested and parallel institutional reconciliation can have important advantages for cooperation in the international system, this is not an easy objective to realize. Both the EMS crisis and the Bosnian cases illustrate the importance of coordination among institutions along these lines. In the EMS case, strong connections between the European Union program and monetary arrangements prevented what might otherwise have been a total collapse of the ERM. Thus, broader institutional constraints facilitated the resolution of a crisis in this case in a way that would have been unlikely to occur in its absence. In the Bosnian case, initial conflict over German recognition of Croatia gave way to consideration of how actors could cooperate multilaterally in resolving the Bosnian crisis. In this case, although the actors could not agree on the more substantive norms that they wished to implement, they were at least able to come up with a division of labor among various international and regional institutions (parallel substantive linkage) that allowed the parties to cope with the crisis. This operational arrangement demonstrates the possibility of actors agreeing on how existing institutions might successfully work together.

The EEA and FSF chapters tell a less optimistic story. In these cases, we have seen the difficulties involved in creating new institutions and nesting them within existing ones. In the EEA case, Cédric Dupont argues that the participants faced a rapidly changing international environment, and were not able to sufficiently cope with changing domestic pressures from their constituencies. Thus, this effort to nest existing institutions within a broader institution actually harmed the existing EFTA arrangements -- although one might argue that defection from EFTA and adhesion to the EC was inevitable in the long run. Cohen's analysis discusses the benefits that

might have come from a new financial fund within the OECD-IMF broad apparatus. But he also points to the difficulties in creating new institutions that are seen as threats to existing ones.

Among other findings, he notes that cognitive changes, the inability of the proponents of the FSF to carefully specify how this organization would fit with the IMF, and a lack of speed in ratifying the arrangements led to the FSF's demise.

For policymakers, the temptation to create new institutions as a solution to new problems may be a perilous illusion.^{vi} As we have seen, reconciling new and old institutions is not an easy task. Indeed, it may be best to work to restructure existing institutions to accomplish one's policy goals. As policymakers face the difficult task of working with each other in different regions and on different issues, we hope that they may be able to learn from the analysis and experiences discussed in this volume.

ENDNOTES

- i. I postpone the bulk of the discussion about linkages to my examination of bargaining outcomes below.
- ii. Yarbrough and Yarbrough (1992).
- iii. For example, in contrast to Cohen's rich multi-causal account of the development of the IEA and FSF, there seems to be little evidence for Keohane's (1984) claim of the central role of transaction costs in explaining the formation of the IEA.
- iv. See Aggarwal and Dupont (forthcoming) on a more formal treatment of the relationship between goods, individual situations, and institutions.
- v. I have examined actor's efforts to manipulate goods and individual situations in Aggarwal (1996) for the empirical of debt rescheduling.
- vi. See Dupont (forthcoming) on this idea.

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