Governance in a Partially Globalized World
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*F*acing globalization, the challenge for political science resembles that of the founders of the United States: how to design institutions for a polity of unprecedented size and diversity. Globalization produces discord and requires effective governance, but effective institutions are difficult to create and maintain. Liberal-democratic institutions must also meet standards of accountability and participation, and should foster persuasion rather than rely on coercion and interest-based bargaining. Effective institutions must rely on self-interest rather than altruism, yet both liberal-democratic legitimacy and the meaning of self-interest depend on people's values and beliefs. The analysis of beliefs, and their effect on institutional outcomes, must therefore be integrated into institutional analysis. Insights from branches of political science as diverse as game theory, rational-choice institutionalism, historical institutionalism, and democratic theory can help political scientists understand how to design institutions on a world—and human—scale.

Talk of globalization is common today in the press and increasingly in political science. Broadly speaking, globalization means the shrinkage of distance on a world scale through the emergence and thickening of networks of connections—environmental and social as well as economic (Held et al. 1999; Keohane and Nye [1977] 2001). Forms of limited globalization have existed for centuries, as exemplified by the Silk Road. Globalization took place during the last decades of the nineteenth century, only to be reversed sharply during the thirty years after World War I. It has returned even more strongly recently, although it remains far from complete. We live in a partially globalized world.

Globalization depends on effective governance, now as in the past. Effective governance is not inevitable. If it occurs, it is more likely to take place through interstate cooperation and transnational networks than through a world state. But even if national states retain many of their present functions, effective governance of a partially—and increasingly—globalized world will require more extensive international institutions. Governance arrangements to promote cooperation and help resolve conflict must be developed if globalization is not to stall or go into reverse.

Not all patterns of globalization would be beneficial. It is easy to conjure up nightmare scenarios of a globalized world controlled by self-serving elites working to depress wages and suppress local political autonomy. So we need to engage in normative as well as positive analysis. To make a partially globalized world benign, we need not just effective governance but the *right kind* of governance.

My analysis begins with two premises. The first is that increased interdependence among human beings produces discord, since self-regarding actions affect the welfare of others. At worst, the effects of international interdependence include war. As international relations "realists" have long recognized, interdependence and lack of governance make a deadly mixture. This Hobbesian premise can be stated in a more positive form: Globalization creates potential gains from cooperation. This argument is often seen as "liberal" and is associated with Adam Smith and David Ricardo, but it is actually complementary to Hobbe's point. The gains of cooperation loom larger relative to the alternative of unregulated conflict. Both realists and liberals agree that under conditions of interdependence, institutions are essential if people are to have opportunities to pursue the good life (Hobbes [1651] 1967; Keohane 1984; Keohane and Nye [1977] 2001).

My second premise is that institutions can foster exploitation or even oppression. As Judith Shklar (1984, 244) expresses it, "no liberal ever forgets that governments are coercive." The result is what I will call the governance dilemma: Although institutions are essential for human life, they are also dangerous. Pessimistic about voluntary cooperation, Hobbes firmly grasped the authoritarian horn of the governance dilemma. We who are unwilling to accept Hobbe's solution incur an obligation to try to explain how effective institutions that serve human interests can be designed and maintained. We must ask the question that Plato propounded more than two millenia ago: Who guards the guardians?

Clearly, the stakes are high: no less than peace, prosperity, and freedom. Political science as a profession should accept the challenge of discovering how well-structured institutions could enable the *world* to have "a new birth of freedom" (Lincoln 1863). We need to reflect on what we, as political scientists, know that could help actors in global society design and maintain institutions that would make possible the good life for our descendants.

In the first section of this essay I sketch what might be called the "ideal world." What normative standards should institutions meet, and what categories should we use to evaluate institutions according to those standards? I turn next to what we know about real institutions—why they exist, how they are created and maintained, and what this implies about their actual

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operation. In the concluding section I try to bring ideal and reality together to discuss institutional design. Are there ways by which we can resolve the governance dilemma, using institutions to promote cooperation and create order, without succumbing to exploitation or tyranny?

DESIRABLE INSTITUTIONS FOR A PARTIALLY GLOBALIZED WORLD

Democratic theorists emphasize that citizens should reflect on politics and exercise their collective will (Rousseau [1762] 1978), based on what Jurgen Habermas (1996, 296) has called "a culturally established background consensus shared by the citizenry." Governments derive their just powers from the consent of the governed, as the American Declaration of Independence proclaims, and also from their reflective participation.

To the potential utopianism of democratic thought I juxtapose what a former president of this association, who was also my teacher, called the liberalism of fear (Shklar 1984). In the tradition of realistic liberalism, I believe that the people require institutional protection both from self-serving elites and from their worst impulses, from what James Madison ([1787] 1961) in *Federalist 10* called the "violence of faction." Madison and Shklar demonstrate that liberalism need not be optimistic about human nature. Indeed, at the global scale the supply of rogues may be expected to expand with the extent of the market. Institutional protection from the arbitrary exercise of coercion, or authoritative exploitation, will be as important at the global level as at the level of the national state.

The discourse theory of Habermas restates liberal arguments in the language of communicative rationality. Legitimacy, in this view, rests on institutionalized procedures for open communication and collective reflection. Or, as Habermas (1996, 304) quotes John Dewey ([1927] 1954, 208), "the essential need is the improvement of the methods and conditions of debate, discussion, and persuasion." The ideal that Habermas, John Rawls (1971), Robert Dahl (1976, 45–6), and many other political philosophers have upheld is that of rational persuasion—changing others' minds on the basis of reason, not coercion, manipulation, or material sanctions. Persuasion in practice is much more complex than this ideal type, but seeking to move toward this ideal seems to me to be crucial for acceptable governance in a partially globalized world.

With these normative considerations in mind, we can ask: What political institutions would be appropriate for a partially globalized world? Political institutions are persistent and connected sets of formal and informal rules within which attempts at influence take place. In evaluating institutions, I am interested in their *consequences, functions, and procedures.* On all three dimensions, it would be quixotic to expect global governance to reach the standard of modern democracies or polyarchies, which Dahl (1989) has analyzed so thoroughly. Instead, we should aspire to a more loosely coupled system at the global level that attains the major objectives for which liberal democracy, or polyarchy, is designed at the national level.

Consequences

We can think of outcomes in terms of how global governance affects the life situations of individuals. In outlining these outcome-related objectives, I combine Amartya Sen's concept of capabilities with Rawls's conception of justice. Sen (1999, 75) begins with the Aristotelian concept of "human functioning" and defines a person's "capability" as "the alternative combinations of functionings that are feasible for her to achieve." A person's "capability set represents the freedom to achieve: the alternative functioning combinations from which this person can choose" (p. 75). Governance should enhance the capability sets of the people being governed, leading to enhancements in their personal security, freedom to make choices, and welfare as measured by such indices as the UN Human Development Index. And it should do so in a just way, which I think of in the terms made famous by Rawls (1971). Behind the "veil of ignorance," not knowing one's future situation, people should regard the arrangements for determining the distribution of capabilities as just. As a summary set of indicators, J. Roland Pennock's (1966) list holds up quite well: security, liberty, welfare, and justice.

Functions

The world for which we need to design institutions will be culturally and politically so diverse that most functions of governance should be performed at local and national levels, on the principle familiar to students of federalism or of the European Union's notion of "subsidiarity." Five key functions, however, should be handled at least to some extent by regional or global institutions.

The first of these functions is to limit the use of large-scale violence. Warfare has been endemic in modern world politics, and modern "total warfare" all but obliterates the distinction between combatants and noncombatants, rendering the "hard shell" of the state permeable (Herz 1959). All plans for global governance, from the incremental to the utopian, begin with the determination, in the opening words of the United Nations Charter (1945), "to save succeeding generations from the scourge of war."

The second function is a generalization of the first. Institutions for global governance will need to limit the negative externalities of decentralized action. A major implication of interdependence is that it provides opportunities for actors to externalize the costs of their actions onto others. Examples include "beggar thy neighbor" monetary policies, air pollution by upwind countries, and the harboring of transnational criminals, terrorists, or former dictators. Much international conflict and discord can be interpreted as resulting from such negative externalities; much international cooperation takes the form of mutual adjustment of policy to reduce these externalities or internalize some of their

costs (Keohane 1984). Following the convention in the international relations literature, I will refer to these situations, which resemble classic prisoners' dilemmas, as collaboration games (Martin 1992; Stein 1983).

The third function of governance institutions is to provide *focal points* in coordination games (Fearon 1998; Krasner 1991; Martin 1992; Schelling 1960). In situations with a clear focal point, no one has an incentive to defect. Great efficiency gains can be achieved by agreeing on a single standard—for measurement, technical specifications, or language communication. Actors may find it difficult, for distributional reasons, to reach such an agreement, but after an institutionalized solution has been found, it will be self-enforcing.

The fourth major function of governance institutions for a partially globalized world is to deal with system disruptions. As global networks have become tighter and more complex, they have generated systemic effects that are often unanticipated (Jervis 1997). Examples include the Great Depression (Kindleberger 1978); global climate change; the world financial crisis of 1997–98, with its various panics culminating in the panic of August 1998 following the Russian devaluation; and the Melissa and Lovebug viruses that hit the Internet in 2000. Some of these systemic effects arise from situations that have the structure of collaboration games in which incentives exist for defection. In the future, biotechnology, genetic manipulation, and powerful technologies of which we are as yet unaware may, like market capitalism, combine great opportunity with systemic risk.

The fifth major function of global governance is to provide a guarantee against the worst forms of abuse, particularly involving violence and deprivation, so that people can use their capabilities for productive purposes. Tyrants who murder their own people may need to be restrained or removed by outsiders. Global inequality leads to differences in capabilities that are so great as to be morally indefensible and to which concerted international action is an appropriate response. Yet, the effects of globalization on inequality are much more complicated than they are often portrayed. Whereas average per-capita income has vastly increased during the last forty years, cross-national inequality in such income does not seem to have changed dramatically during the same period, although some countries have become enormously more wealthy, and others have become poorer (Firebaugh 1999). Meanwhile, inequality within countries varies enormously. Some globalizing societies have a relatively egalitarian income distribution, whereas in others it is highly unequal. Inequality seems to be complex and conditional on many features of politics and society other than degree of globalization, and effective action to enhance human functioning will require domestic as well as international efforts.

Whatever the economic effects of globalization, social globalization certainly increases the attention paid to events in distant places, highlighting abuses that are widely abhorrent. Such issue advocacy is not new: The transnational antislavery movement between 1833 and 1865 is an important historical example. Yet, the expansion of concern about human rights during the past two decades has been extraordinary, both in the scope of rights claimed—and frequently codified in UN agreements—and in the breadth of transnational advocacy movements and coalitions promoting such rights (Keck and Sikkink 1998). Concern about poverty, however, has not been matched by effective action to eliminate the source of human misery (World Bank 2000).

Procedures

Liberal democrats are concerned not only with outcomes but also with procedures. I will put forward three procedural criteria for an acceptable global governance system. The first is *accountability*: Publics need to have ways to hold elites accountable for their actions. The second is *participation*: Democratic principles require that some level of participation in making collective decisions be open to all competent adults in the society. The third is *persuasion*, facilitated by the existence of institutionalized procedures for communication, insulated to a significant extent from the use and threats of force and sanctions, and sufficiently open to hinder manipulation.

Our standards of accountability, participation, and persuasion will have to be quite minimal to be realistic in a polity of perhaps ten billion people. Because I assume the maintenance of national societies and state or state-like governance arrangements, I do not presume that global governance will benefit from consensus on deep substantive principles. Global governance will have to be limited and somewhat shallow if it is to be sustainable. Overly ambitious attempts at global governance would necessarily rely too much on material sanctions and coercion. The degree of consensus on principles—even procedural principles, such as those of accountability, participation, and persuasion— would be too weak to support decisions that reach deeply into people's lives and the meanings that they construct for themselves. The point of presenting ideal criteria is to portray a *direction*, not a blueprint.

Now that these normative cards are on the table, I turn to some of the positive contributions of political science. In the next section I ask how we can use our knowledge as political scientists to design sustainable institutions that would perform the functions I have listed. In the final section I explore how these institutions could facilitate the democratic procedural virtues of accountability, participation, and persuasion. These issues are all part of one overriding question: How can we design institutions that would facilitate human functioning, in the sense of Aristotle or Sen?

INSTITUTIONAL EXISTENCE AND POWER

How can authoritative institutions exist at all? This is a question that Rousseau ([1762] 1978, I, 1) claimed not to know how to answer and that students of international politics have recently debated. No student of international relations is likely to forget that institu-

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tions are fragile and that institutional success is problematic.

To address this issue, I begin with the contributions of rational-choice institutionalism, which has insistently sought to raise the question of institutional existence and has addressed it with the tools of equilibrium analysis (Shepsle 1986). To design appropriate and legitimate global institutions, we need to fashion a rich version of institutionalist theory, which uses the power of the rationality assumption without being hobbled by a crude psychology of material self-interest. But before discussing such a theory, it is important to indicate briefly why a simple functional answer is not sufficient.

The Inadequacy of Functional Theories

One can imagine a simple functional theory of global institutions by which the demand for governance, generated by globalism, creates its own supply. Such an account has the defining characteristic that the real or anticipated effects of a process play a causal role (Cohen 1978). A functional account can only be convincing if the causal mechanism for adaptation is clearly specified. In biology, one such mechanism is Darwinian evolution, which in its strong form implies environmental determinism. The selection environment determines which individual organisms, or other units, survive. Although the individual units may undergo random mutations, they do not act in a goal-directed fashion, and they do not fundamentally affect the environment that selects them. But environmental determinism and the absence of goal-seeking behavior are not assumptions that seem to fit human social and political reality (Kahler 1999). Hence, evolutionary arguments in the social sciences have mostly stayed at the level of metaphor. They certainly do not provide us with warrant for a functionalist account of how governance arrangements for globalization would emerge, since the causal mechanism for selection seems even weaker at the global level than with respect to competition among states.

The other causal mechanism for functional theories involves rational anticipation. Agents, seeing the expected consequences of various courses of action, plan their actions and design institutions in order to maximize the net benefits that they receive. Ronald Coase (1960) and Oliver Williamson (1985) use functional theory in Cohen's sense to explain why firms exist at all. "Transactional economies" account for choices of markets or hierarchies (Williamson 1975, 248). That is, the more efficient organizational arrangement will somehow be selected.

But there is a micro-macro problem here, since arrangements most efficient for society are not necessarily optimal for the leaders of the organization. At the level of societies, as Douglass North has pointed out, the history of real economies is one of persistent *inefficiency*, which he explains essentially in terms of the free rider problem. Even if an institutional innovation would increase efficiency, no one may have the incentive to develop it, since institutional innovation is a

public good (North 1981, 68; 1990, 93). Indeed, rent-seeking coalitions have incentives to resist socially beneficial institutional innovations that would reduce their own advantages (Olson 1982).

Functional solutions to the problem of institutional existence are therefore incomplete. There must be political entrepreneurs with both the capacity and the incentives to invest in the creation of institutions and the monitoring and enforcement of rules. Unless the entrepreneurs can capture selective benefits from their activities, they will not create institutions. And these institutions will not be effective unless sufficient compliance is induced by a combination of material and normative incentives. To use economic language, problems of supply (Bates 1988; Shepsle and Weingast 1995) as well as demand have to be solved.

Mancur Olson's (1965) analysis of the logic of collective action has two major implications for the governance of a globalized world. First, there is no guarantee that governance arrangements will be created that will sustain high levels of globalism. As Western history reveals, notably in the collapse of the Roman Empire and in World War I, extensive social and economic relations can be undermined by a collapse of governance. At the global as well as national level, political scientists need to be as concerned with degrees of governance as with forms of governance (Huntington 1968, 1).

The second implication of Olson's insight is that we cannot understand why institutions vary so much in their degree of effectiveness simply by studying institutions. To focus only on existing institutions is to select on the dependent variable, giving us no variance and no leverage on our problem. On the contrary, we need to explore situations in which institutions have *not* been created, despite a widespread belief that if such institutions were created, they would be beneficial. Or we can compare situations in which institutions exist to earlier ones in which they were absent (cf. Tilly 1975, 1990).

Institutional Theory and Bargaining Equilibria

Rational-choice institutionalism in political science insists that institutions, to persist, must reflect bargaining equilibria of games in which actors seek to pursue their own interests, as they define them. This perspective, stated elegantly by Kenneth Shepsle (1986), is not new in its essentials. Indeed, in investigating the effects of constitutions, Aristotle held that those vesting authority in the middle class will promote rationality and the protection of property rights (*Politics* IV, xi, 4–15).[1] He sought to explain variations in constitutional forms by referring to variations in social conditions (*Politics* IV, iii, 1–6). And he argued that a stable constitution is not only one that a majority seeks to maintain but also one for which "there is no single section in all the state

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[1] All references to Aristotle's *Politics* are to Barker's (1948) translation.

which would favor a change to a different constitution" (IV, ix, 10).

In the terms of rational-choice institutionalism, Aristotle was interested both in institutional equilibrium and equilibrium institutions. So were Smith (1776) and Madison ([1787] 1961). The eighteenth century view, which resonates with rational-choice institutionalism, was that the "passions" of people in bourgeois society can be interpreted in terms of their interests (Hirschman 1977, 110) and can be moderated by wise institutions.

Yet, rational-choice institutionalism has been more rigorous and more relentless than its predecessors in insisting on explaining, by reference to incentives, why institutions exist. Because rational-choice theorists seek to explain in formal terms why institutions exist, they have to confront directly two critical questions. (1) Under what conditions will political entrepreneurs have incentives to create institutions? (2) What makes such institutions stable?

Since institutions are public goods, they are likely to be underproduced and, at the limit, not produced at all. Hence there must be selective incentives for politicians to invest in institutional innovations (Aldrich 1995). In addition, significant advantages must accrue to institutional innovators, such as conferring on them control over future rules or creating barriers to entry to potential competitors. Otherwise, latecomers could free ride on the accomplishments of their predecessors, and anticipation of such free riding would discourage institutional innovation. Another barrier to entry for latecomers may be ideology. Insofar as only a few ideologies, quite distinct from one another, can exist, first movers would gain an advantage by seizing favorable ideological ground (cf. Hinich and Munger 1994). The implication for our problem of institutional design is that first-mover advantages are essential if institutional innovation is to occur.

The European Union (EU) provides a compelling example of first-mover advantages in international organizations. New members of the EU have to accept, in their entirety, the rules already established by their predecessors. As a result, the innovators of the European Community—the six founding members—gain persistent and cumulative advantages from having written the original rules. These rules are important. Even if implementation is often slow, during the 1990s all members of the EU had implemented more than 75% of EU directives, and more than half had implemented more than 85% (Martin 2000, 174). First-mover advantages are also evident in the processes of writing national electoral rules: Those who win an earlier election create rules that subsequently favor their party, policy positions, and personal careers (Bawn 1993; Remington and Smith 1996).

The second key question is that of stability. If institutional rules constrain majorities, why do these majorities not simply change the institutional rules to remove the constraint? If they do, what happens to the "structure-induced equilibrium" that solves Arrow's paradox of social choice (Riker 1980)? In other words,

why do institutions not simply "inherit" rather than solve Arrow's paradox (Aldrich 1993)?

The general answer seems to be that institutions generate rules that resolve Arrow's paradox, for example, by giving agenda-setting power to particular agents (Shepsle 1986) or by requiring supermajorities to change institutional arrangements. These rules ensure that majorities cannot alter them easily when the median voter's preferences change.

First-mover advantages and agenda control provide incentives for institutional innovation and help to stabilize institutions. They operate somewhat differently, however, in coordination and collaboration situations, as described above. In situations of coordination, institutions, once accepted, are in equilibrium. Participants do not have incentives to deviate unilaterally from widely accepted standards for Internet connectivity or airline traffic control. Institutions to solve collaboration problems are much more fragile. After an agreement on institutions to solve collaboration problems is reached, participants typically have incentives to defect if they expect to avoid retaliation from others (Martin 1992).

Students of international relations have used this distinction to show how much more difficult it is to maintain collaboration institutions: Monitoring and enforcement are essential. Furthermore, during the bargaining process "hold-outs" may be able to negotiate better terms for themselves in collaboration than in coordination situations, since threats to remain outside collaboration-oriented institutions are more credible than threats to remain outside a widely accepted coordination equilibrium. In international relations, the side-payments negotiated by China and India to join the ozone regime, and the refusal so far of developing countries to be bound by emissions restrictions in a climate change regime, illustrate this point.

If we keep our normative as well as positive lenses in focus, we will see that this apparent advantage of coordination institutions has a dark side. Initiators of coordination institutions can exercise great influence over the choice of focal points, thereby gaining an enduring first-mover advantage over their rivals (Krasner 1991). Collaboration institutions do not offer such first-mover advantages, since participants can defect at lower cost. Collaboration institutions therefore provide fewer opportunities, as compared to coordination institutions, for coercion of latecomers. Real institutions usually combine coordination and collaboration functions, and therefore also contain a mixture of destabilizing (or liberating) elements and stabilizing (or potentially oppressive) ones.

Institutions, whether emphasizing coordination or collaboration, necessarily institutionalize bias, in favor of groups that have agenda control or wish to maintain the status quo. It is therefore not surprising that advocates of social equality, such as Thomas Jefferson, and democrats such as Rousseau, are often suspicious of institutions. Barriers to competition confer monopolistic privileges and therefore create normative problems. Yet, institutions are essential for the good life.

Normatively, those of us who believe in Shklar's

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(1984) "liberalism of fear" both support institutions and are cautious about them. We support them because we know that without well-functioning political institutions, life is indeed "nasty, brutish, and short." But we are suspicious, since we understand how self-serving elites can use institutions to engage in theft and oppression. In a partially globalized world, we will need institutions of broader scope. But as in national democracies, eternal vigilance will be the price of liberty.

Rational-choice theory has led to fruitful inquiries into the issue of why institutions exist, because it relentlessly questions any apparent equilibrium. The skeptical question—why should institutions exist at all?—has ironically led to a deeper understanding of institutions than has the assumption that we could take their existence for granted and focus on how they work.

The Limits of Rational Egoism

Commenting on Toqueville, Albert Hirschman (1977, 125) has pointed out a normative problem with the emphasis on self-interest that I have thus far emphasized: "Social arrangements that substitute the interests for the passions as the guiding principle of human action for the many can have the side effect of killing the civic spirit." There is also an analytical problem: We know from a variety of work that this egoistic picture is seriously incomplete.

Rationalist theory often carries with it the heavy baggage of egoism. People are viewed as self-interested individuals whose incentives are strictly shaped by their environment, including the rules of the institutions in which they are located. The most sophisticated version of this argument does not make the essentialist claim that "human nature" is fundamentally egoistic but gives priority instead to an instrumentalist logic. Hans J. Morgenthau (1967, chap. 1), for example, argues that since power is a necessary means to other goals in international politics, we can analyze leaders' behavior in terms of power even if they do not seek power for its own sake (see also Wolfers 1962, chap. 7). For rationalist students of American and comparative politics, political leaders may have a multiplicity of goals, but since continuation in office is a necessary means to achieve any of them, it can be regarded as a universal objective of politicians, whether purely instrumental or consummatory (Geddes 1994; Mayhew 1974).

Thoughtful theorists of rational choice recognize that the assumption of egoism oversimplifies social reality. Norms of reciprocity and fairness often affect social behavior (Levi 1997; Ostrom 1990). The theoretical predictions derived from the assumption of egoism encounter serious predictive failure in experimental settings (Ostrom 1998). And survey research shows that citizens evaluate the legitimacy of the legal system on the basis not only of their own success in dealing with it but also of their perceptions of its procedural fairness (Tyler 1990).

Sometimes the assumption of egoism is defended on the ground that only with such simple models can solutions be found to strategic games. But the folk theorem of game theory demonstrates that an essen-

tially unlimited number of equilibria appear in all interesting games. When the equilibrium rabbit is to be pulled from the hat, we are as likely to get a thousand rabbits as one. Equilibria multiply like rabbits in Australia and are about as useful. As Elinor Ostrom (1998, 4) commented in her address to this association three years ago, the assumptions of rationality, amoral self-interest, and lack of influence from social norms lead to explanatory chaos: "Everything is predicted: optimal outcomes, the Pareto-inferior Nash equilibria, and everything in between."

In addressing the problems of institutional design, it is a good thing that people are not purely egotistical. It would be difficult to understand the creation of major political institutions—from the U.S. Constitution to UN-sponsored human rights agreements—if we took egotism and the free-rider problem too seriously. We are indeed wise to assume that institutions, to be in long-term equilibrium, must be broadly consistent with the self-interest of powerful actors. But we cannot understand the origins of institutions if we banish principled action from our analytic world.

Egoists have a hard time overcoming problems of mistrust, because they know that everyone has an incentive to disguise his or her preferences. Only costly signals will be credible; but the cost of signalling reduces the prospective value of cooperation and limits the agreements that can be reached. Egoists also have difficulty solving bargaining problems, since they do not recognize norms of fairness that can provide focal points for agreement. Cool practitioners of self-interest, known to be such, may be less able to cooperate productively than individuals who are governed by emotions that send reliable signals, such as love or reliability (Frank 1988). In Sen's (1977, 336) phrase, people in purely rational-choice models are "rational fools," incapable of distinguishing among egoistic preferences, sympathy, and commitments.

As Sen makes clear, rejecting the premise of egoism does not imply rejecting the assumption of rationality—more or less bounded in Herbert Simon's (1985) sense. Nor does it imply altruism: People can empathize with others without being self-sacrificing. What it does is demand that norms and values be brought back into the picture. Committed individuals, seeking policy goals as well as office for its own sake, and constrained by norms of fairness or even by more transcendental values, can nevertheless calculate as rationally as the egoists of economic theory.

In thinking about a partially globalized world, one might be tempted to dismiss half the governance dilemma by pointing out that because international institutions are very weak, they are unlikely to be oppressive. For example, contemporary opponents of globalization and associated international institutions have sought to portray the World Trade Organization (WTO) as some sort of bureaucratic monster, although my own university's budget allocates more money in two weeks than WTO spends in a year.[2]

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[2] The budget of the WTO for 2000 is 127,697,010 Swiss francs, or approximately $73.8 million, at September 2000 exchange rates.

True as it is, this appeal to institutional weakness is not fully convincing. The problem is not that international organizations are huge and oppressive but that they are seen as serving the vested interests of the powerful and privileged. And they do. Indeed, they are institutions of the privileged, by the privileged, and all too often for the privileged. There are severe restraints on the powers of the international civil servants who lead these organizations, but few such checks limit the ability of the strongest states, such as the United States, to dictate policies and veto personnel. Yet, in the absence of such institutions, dictation by strong states would be even more direct, less encumbered by rules. Like Churchill's aphorism about democracy, an institutionalized world is probably the worst form of governance—except for the alternatives.

Ironically, it is the privileged who often appeal to altruism—their own, of course—as the guarantee against the abuse of power. Political scientists have spent too much time debunking altruism as a general motivating factor in politics to be detained long by such claims. Anyone my age has lived through the disastrous failures of social systems, notably in Russia and China, based on the premise that human nature can be remolded. The reality is that the worst people thrive under the cover of such grand visions. In any event, the heterogeneity of the world's population makes it impossible to imagine any single ideology providing the basis for a coherent, value-based system of global governance. The answer to global governance problems does not lie in revelation.

Faced with the governance dilemma, those of us interested in governance on a world scale could retreat to the pure self-interest model. With that set of assumptions, we would probably limit world governance. We would sacrifice gains that could result from better cooperation in order to guard against rule by undemocratic, self-serving institutions responsive, in opaque ways, to powerful elites. If we were successful, the result would be to limit global governance, even at the expense of greater poverty and more violent conflict. We might think ourselves wise, but the results would be sad. Due to excessive fear, we would have sacrificed the liberal vision of progress.

Institutions, Expectations, and Beliefs

It may seem that we are at an impasse. Sober reliance on limited institutions based on pure self-interest could lead to a low-level "equilibrium trap." But we may be tempted to settle for such an equilibrium rather than accept oppressive global institutions.

There may be a way out of this impasse. That path is to pay more attention than we have to expectations of how others will behave and, therefore, to underlying values and beliefs. Expectations are critical determi-

nants of action. They depend heavily on trust, reputation, and reciprocity, which depend in turn on networks of civic engagement, or social capital. Building such networks is an incremental process. Engagement in a just set of social relations helps create personal integrity, which is the basis for consistent principled action (Grant 1997). Networks of civic engagement are not easily divided into "international" and "domestic" but, rather, cross those lines (Keck and Sikkink 1998). Rational strategic action depends on the expectations and incentives that these networks create.

Until recently, students of international politics paid too little attention to beliefs. The realists insisted on the dominance of interests and power, which they traced to material factors. Marxist and neoclassical political economists also relied on material forces for their explanations. Students of institutions, such as I, sought to gain credibility by showing that our theories are as realistically based in interests and power as those of our realist adversaries, that we are not tainted by the idealist brush. Ironically enough, however, the theory of strategic interaction on which we all rely has insistently argued that beliefs are crucial to understanding any game-theoretic situation (Morrow 1994; Wendt 1999).

The fact that strategic action depends on expectations means that understanding historical and cultural context is critical to any analysis of how institutions operate. Peter Katzenstein (1993, 1996) has used the differing responses of Germany and Japan to military defeat and economic revival to make this point in a cogent and forceful way. Historical explorations of institutional phenomena and negotiations may draw effectively on rational-choice theory, but they must go well beyond its premises to describe multidimensional human behavior (Bates et al. 1998). Indeed, political scientists have quite a bit to learn from international law, which studies rational strategic action in the context of rules and rule making, deeply structured by interests and power but also reflecting the influence of ideas on interests and on how power is exercised (Grewe 2000).

A major task before our discipline is how to connect rational strategic action with beliefs and values. In her presidential address three years ago, Ostrom (1998) linked rational-choice theory with the laboratory experiments of cognitive science to show that institutional incentives, fundamental norms of trust, and the practice of reciprocity (Axelrod 1984; Ostrom 1990) all provide crucial foundations of cooperation. "At the core of a behavioral explanation," Ostrom (1998, 12) said, "are the links between the trust that individuals have in others, the investment others make in trustworthy reputations, and the probability that participants will use reciprocity norms." That is, principled values, "congealed" in institutions, provide the basis for meaningful rational actions and direct such actions in ways that we can describe and explain (Riker 1980).

Robert Putnam's *Making Democracy Work* exemplifies a productive analysis of the connections among values, social norms, and rational behavior. Putnam argues that "networks of civic engagement" produce

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better government. Why does he think so? Not because engaged people necessarily work altruistically for the common good but because these networks increase costs of defection, facilitate communication, and create favorable expectations of others' likely actions (Putnam 1993, 173–4).

Understanding beliefs is not opposed to understanding interests. On the contrary, interests are incomprehensible without an awareness of the beliefs that lie behind them. Indeed, even the financial self-interest so dear to political economists implies acceptance of norms that would be incomprehensible in many societies, whether those imagined by Jean-Jacques Rousseau or studied by twentieth-century anthropologists. The values and beliefs that are dominant within a society provide the foundations for rational strategy.

Even beliefs about beliefs can be as solid as any material interests. As Barry O'Neill shows brilliantly in a book awarded the Woodrow Wilson Prize, prestige refers to "beliefs about beliefs"—whether people think that others hold a high opinion of someone (O'Neill 1999, 193). Prestige is a "social fact," like a dollar bill (Searle 1995): Although it is genuinely real, its importance does not lie in its material manifestation but in the beliefs people hold. Both money and prestige matter a great deal in politics, but only insofar as people hold beliefs about others' beliefs.

To see how beliefs relate to issues of institutional design, think about two possible worlds of the future. In one of them, the "normative anarchy" portrayed by the "political realism" of the late twentieth century (Waltz 1979) prevails. That is, there is no consensus about principled beliefs on the basis of which governance across national boundaries can take place and transnational networks of people with similar beliefs are virtually nonexistant. The only norm on which there is general agreement is the "antinorm" of sovereignty: the principle that the rulers of each state are supreme internally and independent from external authority (Bull 1977). Since I expect self-interested agents to continue to dominate among politicians, I would expect, in this world, familiar patterns of modern Western international politics to persist. Rationally egoistic politicians would have few incentives to fight for principles of human rights, since to do so they would have to overcome both collective action problems and ridicule from "realistic" statesmen and academics.

Now consider another world, in which certain principles have become generally accepted—as opposition to slavery became generally accepted in the nineteenth century and as certain human rights seem to be becoming accepted now (Keck and Sikkink 1998). In this world, transnational advocacy networks would be active. Behavior in this world would, of course, be different from that in the first world. Even those who do not subscribe to these principles would have to calculate the costs of acting counter to them.

Now let us go a step farther and imagine that the principled innovators of the new principles, and the value-based transnational networks, disappear, to be replaced by purely rational egoists. Would the egoists seek immediately to overturn these norms of human

rights? Probably not, unless they had compelling internal reasons, as tyrants, to do so. Ordinary egoists, governing nontyrannically, would have interests in mimicking the principled leaders whom they succeed. Furthermore, the egoists would face serious collective action problems in overturning norms of human rights: Their counterpart egoists would have an interest in defending those rights in order to enhance their reputation as principled agents. As a result, egoistic self-interest would counsel them to uphold the norms established and even to bear some costs in order to send credible signals that they believe in the norms (even though, by assumption, they do not). The effect of former principles would persist for a while, although it would eventually fade.

What this thought-experiment illustrates is a simple but fundamental point. Beliefs in norms and principles—even beliefs only held in the past—can profoundly affect rational action in the present. Joseph Schumpeter ([1942] 1950, 137) made the famous argument sixty years ago that capitalism requires precapitalist values: "The stock exchange is a poor substitute for the Holy Grail." The facile response to his argument at millenium's end could be: "Yes, but he didn't take into account NASDAQ." More seriously, however, the varieties of capitalism in the world today, from Japanese corporatism to American legalism to Russian organized theft, make it clear that what is economically rational in each context varies enormously. Schumpeter was wrong about the staying power of capitalism but right about the dependence of institutions, capitalism included, on beliefs.

INSTITUTIONAL DESIGN: BRINGING IDEALS AND REALITY TOGETHER

I began by sketching an ideal vision—a liberal and democratic vision—of how institutions should work. On the liberal side, it includes what one might call the liberalism of progress, represented by such eighteenth-century thinkers as Smith and Madison. But it also includes Shklar's liberalism of fear, which emphasizes the potential depravities of human nature and the pathologies of human institutions and is deeply cognizant of imperialism, totalitarianism, and the Holocaust (Arendt [1951] 1958). The liberalism of fear is horrified by the atrocities of Rwanda and Bosnia, but these atrocities do not shake its liberalism, which was forged in the searing recognition that human action can be horrible.

The liberalism of progress and the liberalism of fear are two sides of the same coin. They both seek to understand how otherwise unattractive human passions can nevertheless promote the general good. Madison is the American father of such a realistic liberalism, but it has deep roots both in English utilitarianism, going back to Hobbes, and in French thought (Hirschman 1977; Keohane 1980). Neither Madison nor Smith indulged in the more utopian dreams of the liberalism of progress. Even though potential gains from trade, combined with advancing technology, make it possible for all economies to

prosper simultaneously, the Hobbesian desire for "power after power" gets in the way. So does greed. People often seek to gain distributional advantages not by being more productive but by gaining control of public policies in order to capture rents. Nevertheless, mercantilist theory has been proved bankrupt, and the institutions of liberal democracy have limited, although they have not eliminated, the success of rent-seeking. Smith and Madison would not be fully satisfied, but they would be gratified by the partially successful institutionalization of their ideas.

Together the liberalism of progress and the liberalism of fear emphasize the need for institutions. Smith's liberalism calls for institutions to promote exchange; Shklar's for institutions to control human vices and those individuals among us whose vices are most dangerous to others. For these institutions to be morally acceptable, they must rest both on humane beliefs and substantial mutual trust. The Mafia is not better than anarchy; the people who live under either find themselves impaled on one horn or the other of the governance dilemma.

Democratic theory is even more demanding. From a democratic standpoint it is not enough to have nonoppressive institutions that enforce rules. Accountability, participation, and persuasion are also essential. International institutions will probably never meet the standards of electoral accountability and participation that we expect of domestic democracies (Dahl 1999), so at best they will be low on a democratic scale. It is unfair to demand too much of them. But in the liberal-democratic tradition that I embrace, voluntary cooperation based on honest communication and rational persuasion provides the strongest guarantee of a legitimate process. In this section, I return to the issues of accountability, participation, and persuasion that I introduced earlier.

Accountability is not necessarily electoral, so it is essential to explore other forms of it if we are to increase accountability in global governance. Participation will probably continue to be largely local, so global governance implies viable forms of local self-governance. Finally, for global governance to be legitimate, global institutions must facilitate persuasion rather than coercion or reliance on sanctions as a means of influence. Here there seems to be considerable scope for improvement, so I will emphasize persuasion in the following discussion.

Accountability

The partially globalized world that I imagine would not be governed by a representative electoral democracy. States will remain important; and one state/one vote is not a democratic principle. National identities are unlikely to dissolve into the sense of a larger community that is necessary for democracy to thrive.

Accountability, however, can be indirectly linked to elections without a global representative democracy. Control by democratic states over international institutions can be exerted through chains of delegation. A complementary measure is to strengthen mechanisms

of domestic accountability of governments to their publics. Such practices can reinforce accountability insofar as transparency ensures that people within the several states can make judgments about their own governments' performance.

Nonelectoral dimensions of accountability also exist.[3] Some international regimes seek to regulate the activities of firms and of governments, although they are weaker than their domestic counterparts, and they do not meet democratic standards as well as the "best practices" domestically. Global governance, combined with modern communications technology (including technologies for linguistic translations), can begin to generate a public space in which some people communicate with one another about public policy without regard to distance. Criticism, heard and responded to in a public space, can help generate accountability. Professional standards comprise another form of nonelectoral accountability.

Finally, markets provide a third dimension of nonelectoral accountability. Since people do not bring equal wealth to the marketplace, markets are not democratic. But they do hold firms and other institutions with hard budget constraints accountable to their consumers and investors in ways that are often more rapid and effective than electoral democracy. Advocates of principle-based change have learned to use markets on issues as diverse as promotion of infant formula in poor countries, environmental protection, and labor standards.

These mechanisms of accountability exist, in fragmented ways, at the global level, but they are *disarticulated*. They do not come together in a clear pathway by which laws are enacted and implemented. Chains of delegation are long, and some of their links are hidden behind a veil of secrecy. Incentives for politicians to hold leaders of other governments accountable are lacking. Publics, professional groups, and advocacy networks can only punish leaders inconsistently. Governments, nongovernmental organizations, and firms that do not rely on brand names may be immune from market-based sanctions. In devising acceptable institutions for global governance, accountability needs to be built into the mechanisms of rule making and rule implementation.

Participation

Individual participation is essential to democratic governance. In the past, meaningful participation has only been feasible on a face-to-face basis, as in the New England town meeting, and it has been argued that, "in its deepest and richest sense, community must always remain a matter of face-to-face intercourse" (Dewey [1927] 1954, 211). Yet, the costs of communication between any two points of the world no longer depend on distance, and within 50 years we can expect the forms of such communication to change in extraordinary ways. Although it is difficult to imagine good

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[3] For a very sophisticated discussion of different forms of accountability, see Scharpf 1999, especially chapter 1.

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substitutes for the multiple dimensions—verbal, visual, and tactile—by which communication occurs when people are close to one another, the potential of communications technology should not be underestimated.

More serious barriers to global democratic participation can be found in numbers and cultural diversity. Meaningful collective participation in global governance in a world of perhaps ten billion people will surely have to occur through smaller units, but these may not need to be geographically based. In the partially globalized world that I am imagining, participation will occur in the first instance among people who can understand one another, although they may be dispersed around the world in "disaporic public spheres," which Arjun Appuradai (1996, 22) calls "the crucibles of a postnational political order."

Whatever the geographical quality of the units that emerge, democratic legitimacy for such a governance system will depend on the democratic character of these smaller units of governance. It will also depend on the maintenance of sufficient autonomy and authority for those units, if participation at this level is to remain meaningful.

Persuasion and Institutions

Since the global institutions that I imagine do not have superior coercive force to that of states, the influence processes that they authorize will have to be legitimate. Legitimacy is, of course, a classic subject of political philosophy and political science (Rousseau [1762] 1978, book 1, chap. 1; see also Hobbes [1651] 1967, chaps. 17–18; Locke [1689] 1967, chap. 9; Weber [1920] 1978, 214). In the liberal tradition that I embrace, voluntary cooperation based on honest communication and rational persuasion provides the strongest guarantee of a legitimate process (Habermas 1996; Rawls 1971). To understand the potential for legitimate governance in a partially globalized world, we need to understand how institutions can facilitate rational persuasion. How do we design institutions of governance so as to increase the scope for reflection and persuasion, as opposed to force, material incentives, and fraud?

"Persuasion" means many things to many political scientists. I will define it with reference to two other processes, *bargaining* and *signalling*. In a bargaining situation, actors know their interests and interact reciprocally to seek to realize them. In a signalling situation, a set of actors communicates to an audience, seeking to make credible promises or threats (Hinich and Munger 1994). Both processes essentially involve flows of information. If successful, these flows enable actors to overcome informational asymmetries (Akerlof 1970) as well as private information (Fearon 1995) and therefore reach mutually beneficial solutions. Neither bargaining nor signalling as such involves any changes in *preferences over attributes*, that is, over the values involved in choices.

If targets of influence change their choices as a result of bargaining and signalling, they do so by recalculating

their own strategies as a result of new information they receive about the strategies of others. That is, they become aware that others will not behave as they had previously expected. In bargaining, a quid pro quo is involved; in signalling, threats and promises may be unilateral.

Persuasion, as I will use it, involves changing people's choices of alternatives *independently of their calculations about the strategies of other players*. People who are persuaded, in my sense of the word, change their minds for reasons other than a recalculation of advantageous choices in light of new information about others' behavior. They may do so because they change their preferences about the underlying attributes. They may consider new attributes during processes of choice. Or they may alter their conceptions of how attributes are linked to alternatives.

Unlike bargaining on the basis of specific reciprocity, persuasion must appeal to norms, principles, and values that are shared by participants in a conversation. Persuasion requires giving reasons for actions, reasons that go beyond assertions about power, interests, and resolve (Elster 1998; Risse 2000). Karl Deutsch (1953, 52) argued long ago that to be susceptible to persuasion, people "must already be inwardly divided in their thought," that there must be "some contradictions, actual or implied, among their habits or values." These contradictions, sharpened by discussion, may lead to reflection and even attitude change.

Persuasion is a major subject of study in social psychology (McGuire 1985; Petty and Wegener 1998). Thousands of experiments later, the essential message from this field is that, even in the laboratory, it is difficult to find strong and consistent relationships that explain attitude change. As William McGuire (1985, 304) puts it, "human motivation is sufficiently complex so that multiple and even contradictory needs may underlie any act."

What we do know about persuasion in politics indicates that it consistently involves various degrees of agenda control and manipulation. Rational or open persuasion, which occurs when people change their choices of alternatives voluntarily under conditions of frank communication, is an interesting ideal type but does not describe many major political processes. Yet, the ideal is important, since it is so central to the liberal-democratic vision of politics. Indeed, thinking about persuasion helps restate the central normative question of this address: How can institutions of governance be designed so as to increase the scope for reflection, and therefore persuasion, as opposed to force, material incentives, and fraud?

If governance were exercised only by those with direct stakes in issues, such a question might have no answer. Actors could be expected to use their resources and their guile to achieve their desired objectives. And the institutions would themselves "inherit" the inequalities prevalent in the societies that produced them, as Rousseau and many successors have pointed out (Aldrich 1993; Riker 1980). Indeed, choices of electoral institutions can often be traced to the policy, party, and

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personal preferences of the politicians who created them (Bawn 1993; Remington and Smith 1996).

One feature of both democratic governance and contemporary international institutions, however, is that decision making is not limited to the parties to a dispute. On the contrary, actors without a direct stake in the issues under consideration may play important roles, as members of the mass public in democracies and legislators often do on issues arising for decision through voting. In general, the legalization of rules—domestically, and more recently in international politics—requires the formation of durable rules that apply to classes of cases and puts interpretation and rule-application into the hands of third parties, whose authority depends on maintaining a reputation for impartiality (Goldstein et al. 2000). Legalization also increases the role of precedents. Precedents matter, not because loopholes are impossible to find or because they cannot be overruled, but because the status quo will prevail in the absence of a decision to overturn it.

Some third parties will have calculable interests that closely parallel those of the principal disputants or advocates. Others may have strongly held beliefs that determine their positions. Some may accept side-payments or succumb to coercive pressure. But still others may lack both intense beliefs and direct stakes in the outcome. Legal requirements or internalized normative standards may inhibit them from accepting inducements for their votes. Even more important, uncertainty about the effect of future rules may make it difficult for them to calculate their own interests. Rule makers face a peculiar form of "winner's curse": They risk constructing durable rules that suit them in the immediate instance but will operate against their interests in the unknown future.

Insofar as uncertainty is high, actors face a situation similar to one covered by a "veil of ignorance" (Rawls 1971). In game-theoretic terms, the actors may still have preferences over outcomes, but these preferences over outcomes do not directly imply preferences over strategies, since actors do not know their future situations. In experiments, introducing a veil of ignorance in prisoners' dilemma games without communication induces a dramatic increase in the willingness of subjects to cooperate (Frohlich and Oppenheimer 1996). It is reasonable to hypothesize that under conditions of uncertainty in the real world, the chain of "inheritability" will be broken, and actors' preferences about future outcomes will not dictate their choices of alternatives in the present.

Under conditions of authority for impartial third parties, or high uncertainty about future interests, opportunities for persuasion are likely to appear, even if everyone is a rational egoist. Egoists have a long-term interest in rules that will correspond to an acceptable general principle, since they may be subject to these rules in the future. Various principles could be chosen—expected utility maximization, the maximum principle (Rawls 1971, 152), minimax regret (Riker 1996), or utility maximization subject to a floor minimum, which is the prevailing choice in laboratory experiments (Frohlich and Oppenheimer 1992). Insofar as the consequences and functions of institutions are not seriously degraded, institutions that encourage reflection and persuasion are normatively desirable and should be fostered.

CONCLUSION

I have asked how we can overcome the governance dilemma on a global scale. That is, how can we gain benefits from institutions without becoming their victims? How can we help design institutions for a partially globalized world that perform valuable functions while respecting democratic values? And how can we foster beliefs that maintain benign institutions? My answers are drawn, mostly implicitly, from various schools of work in political science.

From rational-choice institutionalism, we learn both the value of institutions and the need for incentives for institutional innovation. These incentives imply privileges for the elite, which have troubling implications for popular control.

From a variety of perspectives, including game theory, the study of political culture, and work on the role that ideas play in politics, we learn how important beliefs are in reaching equilibrium solutions, and how institutionalized beliefs structure situations of political choice.

From traditional political theory, we are reminded of the importance of normative beliefs for the practice of politics—and for institutions. It is not sufficient to create institutions that are effective; they must be accompanied by beliefs that respect and foster human freedom.

From historical institutionalism and political sociology, we understand how values and norms operate in society. Without such understanding, we can neither comprehend the varying expectations on which people rationally act nor design institutions based on normative views. We abdicate our responsibility if we simply assume material self-interest, as economists are wont to do.

From democratic theory, we discover the crucial roles of accountability, participation, and especially persuasion in creating legitimate political institutions.

These lessons are in tension with one another. Institutional stability is often at odds with innovation and may conflict with accountability. Protection against oppression can conflict with energetic governance; a practical reliance on self-interest can conflict with the desire to expand the role of persuasion and reflection. Governance, however, is about reconciling tensions; it is Max Weber's ([1919] 1946) "boring of hard boards."

As students of political philosophy, our objective should be to help our students, colleagues, and the broader public understand both the necessity for governance in a partially globalized world and the principles that would make such governance legitimate. As positive political scientists, we need to continue to analyze the conditions under which different forms and levels of governance are feasible. As practitioners of a policy science, we need to offer advice about how

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institutions for global governance should be consti-
tuted. This advice must be realistic, not romantic. We
must begin with real people, not some mythological
beings of higher moral capability. But we need also to
recognize, and seek to expand, the scope for reflection
and the normative principles that reflective individuals
may espouse. We should seek to design institutions so
that persuasion, not merely interests and bargaining,
plays an important role.

The stakes in the mission I propose are high, for the
world and for political science. If global institutions are
designed well, they will promote human welfare. But if
we bungle the job, the results could be disastrous.
Either oppression or ineptitude would likely lead to
conflict and a renewed fragmentation of global politics.
Effective and humane global governance arrangements
are not inevitable. They will depend on human effort
and on deep thinking about politics.

As we face globalization, our challenge resembles
that of the founders of this country: how to design
working institutions for a polity of unprecedented size
and diversity. Only if we rise to that challenge will we
be doing our part to ensure Lincoln's "rebirth of
freedom" on a world—and human—scale.

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