Original Article

When institutions can hurt you: Transparency, domestic politics, and international cooperation

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Abstract Much of the literature on international institutions argues that increased transparency will promote cooperation among states, and that a primary function of institutions is to create it. Even approaches that look specifically at the interactions of domestic and international politics often argue that transparency promotes cooperation. There are, however, circumstances in which increased transparency at the international level can interact with domestic politics in such a way as to actively undermine cooperation, even when cooperation is in the interest of the electorate. The mechanism for this effect is political posturing, using the terms of the existing international institution as a focal point. The argument is illustrated by two brief case studies, one of an international financial institution and the other of an international environmental institution. In both cases, cooperation would have been more likely had the relevant formal institutions not been created.
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Introduction

It has become commonly accepted by international relations theorists that institutions matter. There remains substantial debate, however, on what effects international institutions have on the practice of international politics. It is often assumed that these effects will generally reinforce cooperation,[1] but is this necessarily the case? This article examines a set of circumstances in which institutions can serve to undermine rather than reinforce international cooperation. More specifically, it argues that international institutions often create fixed rules and decision-making procedures that can have the effect of politicizing issues that would otherwise be dealt with functionally. This politicization in turn can have the effect of polarizing national positions on an issue, and thus of making a cooperative outcome more difficult to achieve.

The irony of this argument is that it is the specification of rules and the clarification of decision-making procedures by the institution that can lead to the counter-productive, or anti-cooperative, effects. This sort of clarification, along with the provision of information more broadly, is often referred to as the 'transparency' function of international organizations. Transparency is claimed by many institutional theorists as one of the key functions of international institutions and one of the areas in which they can be most effective.[2] It can promote international cooperation by perfecting the market for international cooperation, by increasing communication and decreasing misunderstandings among states in situations in which the international community as a whole can maximize utility by cooperating.[3]

Transparency at the domestic policy-making level can also affect patterns of international cooperation. Transparency at this level is generally seen as normatively good in its own right within democratic polities (for example, Stasavage, 2004; Koremenos, 2008). In this context, transparency means providing information to, and allowing political access to, groups and individuals within states that have an interest in the issue area being negotiated internationally. Some groups and individuals may be primarily focused on a given issue area, and as such may want to promote international cooperation on that issue. In such cases transparency will likely encourage cooperative behavior on the part of governments.[4] Electorates more generally, however, may be less interested in the specific issue at hand than in questions of broader international negotiating stances. They may then use increased transparency as a way to judge their negotiators, rather than as a way to affect outcomes in the specific issue area.

The interaction of transparency at these two levels can, however, backfire, through the use of negotiations as an opportunity to judge decision makers. When negotiations are used as an indicator of negotiation skill rather than as a means to a specific issue-area outcome, it can lead to a situation in which existing rules and decision-making procedures at the international level can undermine cooperation. It can do so by narrowing the range of possible negotiated outcomes to include only those within the existing rules and procedures of international organizations and cooperative agreements. Absent existing rules and decision-making procedures, negotiators have some leeway to examine the range of possible negotiated solutions, and to find an outcome that is acceptable to both sides. But existing rules and procedures, by providing a default option, can focus attention on that option at the expense of other possible solutions. This default option provides a focal point in negotiations (sometimes referred to as a Schelling point – see Schelling, 1960), an outcome to be accepted or rejected rather than one possible outcome among many in a negotiating space.

The existence of a focal point is not in itself problematic. But it can undermine cooperation if it becomes politicized. The existence of a transparent focal point defined by existing institutional rules and procedures as the *status quo ante* becomes the natural starting point of any bargaining on the issue, which negotiators begin by either accepting or rejecting. If both sides accept it, then transparency in the international institutionalist sense has fulfilled its function, by making cooperation more efficient by reducing transaction costs. But if one side wants to modify the agreement in its favor, it can only do so by having the other side make concessions from a publicly-known *status quo ante*. What might have been a range of mutually-acceptable outcomes is thereby reduced to a take-it-or-leave-it proposition at a fixed point.

The primary mechanism through which existing agreements can politicize cooperation more than would be the case if negotiations were being held *de novo* is political posturing (Stasavage, 2004; Fingleton and Raith, 2005). Posturing describes a situation in which governments are less flexible in public than they are willing to be in private. It 'refers to the incentive for representatives to adopt uncompromising positions during negotiations, to demonstrate to their constituents that they are effective or committed bargainers' (Stasavage, 2004, p. 673). The existence of a public focal point can make governments less flexible, by creating a line in the sand that they do not want to be seen to back away from. The line provides a fixed point of reference against which to posture, making politicization of the issue more viable. It creates a situation in which negotiation can expand from being a question of the issue at hand, to being a broader question of standing firm or backing down in international fora.

This article proceeds in three stages. The first reviews the two primary bodies of theory that the argument draws on, the literature on the transparency function of international institutions and the literature on domestic politics and international cooperation. The second stage presents the argument, by suggesting a model of behavior in which increasing the supply of information to the general public about decision-making rules at the international level decreases the possibilities for cooperation. The third stage briefly discusses the model in light of two cases. The first is the role of the Bank for International Settlements in the currency crisis of 1931 that led to the collapse of the Gold Exchange Standard of international monetary coordination. The second case is the role of the Treaty Concerning Pacific Salmon in US-Canadian disputes over the Pacific salmon fishery throughout most of the 1990s. Note that these cases are plausibility probes: they are used to illustrate the model.

Transparency in International Organization and Domestic Politics

The core argument of this article is that international institutions face a potential tension between transparency at the level of international cooperation and transparency at the level of the domestic politics of foreign policymaking. The literatures on these two kinds of transparency provide the primary theoretical point of departure for this argument. Although there are a variety of specific definitions to be found in both literatures, greater transparency is generally held to be a situation in which more actors have more relevant information. Transparency at both levels is generally considered to be a good thing for two key reasons, efficiency and accountability. Note that these two logics for transparency are quite different. Efficiency is a good for utilitarian reasons, because it leads to Pareto-superior outcomes (Mitchell, 1998). Accountability is a good for democratic reasons – the focus here is on process as much as on outcome. Transparency is important in this sense as much because it legitimizes outcomes as because of any effects on the content of those outcomes.

The literature on transparency at the level of international cooperation that is a primary point of departure for this article is regime theory, particularly the subset thereof known as neoliberal institutionalism. A classic definition of regimes speaks of 'rules and decision-making procedures around which actor expectations converge in a given issue-area' (Krasner, 1983, p. 2). Neoliberal institutionalism finds the source of regimes in imperfections in the market for international cooperation. Markets can be perfected by improving information flows, decreasing transaction costs and specifying property rights (Keohane, 1984). All three of these functions are related to information broadly understood, and all can reasonably be included under the heading of the transparency function of international institutions (Kratochwil and Ruggie, 1986). Specifying rules and decision-making procedures helps to fulfill all three market-perfecting functions, by allowing participants to be informed about what the rules and procedures are, by making the decision-making process simpler and faster and making it clear who has what rights with respect to the decisions made.

Although neoliberal institutionalists admit that international organizations can be actively counterproductive, there is rarely any discussion of the circumstances under which this can occur (for example, Haas *et al*, 1993, p. 5). It is generally assumed in this literature that, once created, international institutions will have a positive, or at worst neutral, effect on international cooperation if they succeed in improving transparency (Mitchell, 1998). This is true almost by definition: Improving transparency is, by definition, market perfecting, and more perfect markets are, again by definition, more efficient than less perfect markets. Therefore, perfecting the market for international cooperation by increasing transparency should increase cooperative efficiency.

In order for this logic to work, however, two assumptions must hold; that states are more concerned with the total gains to be had from cooperation than with the distribution of those gains, and that they act as rational unitary actors. The neoliberal institutionalist literature began with a focus on the origins of international institutions (Keohane, 1982), and from this perspective the first of the two assumptions is non-problematic. If the assumption holds, states should demand an institution, and if it does not, then they should not. This approach works for the study of the creation of international regimes, but not necessarily for the study of their effects. Once an institution has been created to provide transparency with respect to an issue, it will continue to provide that transparency even if actor preferences change, unless actors either change or exit the institution. If preferences change to an increased concern with the distribution of gains, then the transparency provided by the regime will cease to promote cooperation. In this case the institution will no longer be effectively facilitating international cooperation, but nor will it be hindering cooperation. It will simply be ineffectual. But might the international institution actually have an effect on national preferences?

This is where the second assumption underlying neoliberal institutionalism comes in. As long as states behave as rational unitary actors, there is no reason to expect that institutional transparency will change national preferences from cooperative to non-cooperative outcomes. But once one allows for domestic politics, this conclusion is no longer as straightforward. For example, Putnam presents a model of international negotiation as a two-level game, in which state leaders are constrained by domestic politics, but can use this constraint strategically. Looked at this way, the state seems far from the ideal type of a rational unitary actor (Putnam, 1988). National preferences reflect some process of domestic political intercourse, in which the preferences of various actors are expressed, and through the domestic political system either one set of preferences comes to predominate or some compromise is found.[5]

The second body of theory that this article draws on focuses specifically on this part of the process, the formation of an identifiable national interest in foreign policymaking from the interplay of domestic politics (for example, Moravcsik, 1997). There is a growing literature that applies formal analysis to the effects of domestic political processes on outcomes in international relations (some early examples include Alt and Eichengreen, 1989; Mayer, 1992). Some of the work in this field specifically addresses the question of the relationship between domestic politics and international cooperation (for example, Evans *et al*, 1993), and the effects of information on this relationship, drawing explicitly on Putnam's two-level game in the process. The literature tends to conclude, other things being equal, that asymmetries of information make cooperation less likely (Milner, 1997, pp. 20–22), in other words that the more equally informed the various power centers in a domestic polity are, the more likely it is that the domestic political process will generate a national preference conducive to a cooperative outcome. This conclusion suggests that greater transparency, to the extent that it leads to all parties being better informed, should result in greater levels of international cooperation.

Two recent arguments take to task the idea that more transparency will necessarily yield more efficient cooperation. Both Koremenos (2008) and Stasavage (2004) argue that increasing the domestic transparency of international negotiations can lead to less efficient outcomes, because the interplay of transparency at the domestic level and negotiation at the international level can lead to decision makers prioritizing electoral politics over Pareto-efficient outcomes in the issue area under negotiation. In Koremenos' argument the mechanism for this outcome is pandering to particular domestic interest groups. In Stasavage's argument, the mechanism is political posturing, in which politicians become focused on signaling their bargaining effectiveness to their electorate rather than on maximizing national utility through international cooperation on the issue at hand. The models developed in the two arguments are quite different, but the conclusions are similar inasmuch as they specify circumstances in which increasing the transparency of international negotiations to domestic electorates can decrease the odds of negotiators coming to an agreement, even when there exists a set of cooperative outcomes that are utility-improving for both countries.

Rather than ask what the effects of information are on the chances of the creation of an international institution in the first place, this article asks a somewhat different question: What are the effects of the transparency created by international institutions on the continuation of cooperation? Haas, Keohane and Levy address this question (Haas *et al*, 1993). They argue in the context of international environmental governance that international institutions, by making patterns of governance more transparent, can have the effect of empowering domestic non-governmental environmental organizations. These in turn can then steer the expressed national interest in a more environmental direction. This is not an argument about pandering to environmental interests – the idea is that transparency helps environmental organizations to make the case that cooperation is utility maximizing, and is therefore in the national interest. But it does make three assumptions, the relaxation of any one of which can lead to political posturing. The first of these assumptions is that there is a general increase in the availability of relevant information. The second is that the actors involved see the particular issue in question in isolation from other issues. And the third is that actors are instrumentally rational.

The Argument

This section begins by presenting a simplified form of the argument that transparency in international institutions can undermine later attempts at international cooperation through the mechanism of political posturing. It then discusses some of the domestic political circumstances that might enable such posturing.

As a heuristic basis for the discussion, imagine one of the most common starting points of the game theoretical literature on international cooperation: a unidimensional policy space representing the range of possible cooperative outcomes in an issue area. This is a linear space, [0, 1], in which actor A prefers outcome 0 and actor B prefers outcome 1. The utility to B of a negotiated agreement at point x in this policy space is (x), and the utility to A of this agreement is ($1-x$). As long as the combined utility to the actors of a non-cooperative outcome is less than (1), there exists a range in the policy space where cooperative outcomes are Pareto-efficient, making both actors better off. The point within this range at which the two parties agree to cooperate depends on the outcome of negotiations, which in turn depend on such factors as the structure of negotiations (in game-theoretic terms, the game being played), and the relative power and negotiating skills of the parties.

This point of cooperation provides the background condition for the argument at hand. Assume that the two actors agree on some point x within the range of Pareto-efficient outcomes, and institutionalize that cooperation through the creation of transparent rules and/or decision-making procedures to operationalize the agreement. Such rules and decision-making procedures might include the specification of the distribution of resources or costs (the distribution of quotas in a fisheries agreement or of funding requirements in a development bank), the adoption of commitments (the reduction by a given ratio of weapons of a particular category in an arms reduction agreement, or of emissions of a pollutant in an environmental agreement) or the specification of institutional structure, such as the role of scientific input or the mechanisms for dispute resolution. This point x, along with its associated institutional rules and procedures, then becomes the assumed point of cooperation in future iterations of interaction between the signatory parties on the issue.

In many, if not most, future iterations, one can expect cooperation to continue to occur at point x without either of the parties attempting to renegotiate. In game terms, absent changes in actor preference or in negotiating power, or in the payoffs on offer in the game, neither party has reason to renegotiate. The existing outcome is preferable to non-cooperation for both parties, and renegotiation would create a zero-sum game – any utility gain to one party from a move from point x is an equivalent loss to the other. To the extent that renegotiation is in itself costly, both in time and in effort, it represents a deadweight loss of aggregate utility. In the absence of an exogenous change either to actor preferences, to the structure of the game or to external conditions, then, neither party can reasonably expect to improve its utility by renegotiating. Conversely, however, if for whatever reason one of the actors does decide to attempt to renegotiate, such an attempt necessarily becomes a zero-sum game. And to the extent that the institutional rules and procedures being renegotiated are transparent, it becomes a public zero-sum game.

Why does it matter that the zero-sum game is a public one? A public game is more prone to political posturing than are negotiations that are not transparent. In particular, a claim by a negotiator to not lose ground from the original agreement is only credible if the terms of the original agreement are transparent. Absent such transparency, the claim is hollow, because the public does not know how any new terms negotiated compare with the original terms. As such, there is little political gain to be had from posturing in such circumstances. But if the terms of the original agreement are generally known, then posturing becomes more credible. The public, as the audience for the posturing, has a clear measure against which to judge the claims of the negotiator. In the circumstances in question, as the renegotiation opens up a zero-sum game, actors are in a situation of pure relative gains. As such, negotiators who are seen to have equaled or bettered the terms of the original agreement can claim to have won the negotiation, and those who are not can be seen publicly to have lost.

In the unidimensional game discussed above, in which fully informed rational actors negotiate over a single issue, there is no room for posturing. But there are three types of situations in which being perceived to have won or lost a negotiation, rather than the utility of the resultant agreement, can matter to a political leader. These situations relax respectively the assumption of full information, the assumption of a single issue negotiated in isolation from other issues and the assumption of purely rational actors. All three types of situations are two-level games, in which the political leader is at the same time negotiating with representatives of other states, and communicating with a domestic audience for electoral purposes. In all three, posturing can increase the odds of re-election of a political leader, even if the posturing also decreases utility to the electorate in the issue area under negotiation by undermining a cooperative agreement.

The first of these situations, in which the assumption of full information is relaxed, is dealt with at length by Stasavage (2004). In his model, negotiators hold private information about the utility to the other country (and in particular, to the public of that country rather than its negotiators) of cooperative versus non-cooperative outcomes. He argues that there are circumstances in which such private information can interact with transparent negotiations to generate incentives for negotiators to posture. In his model, nature decides which party to the negotiations gets to propose an outcome, and posturing gets more likely the less confident a national public is in its leader's motives. When an agreement already exists, the agreement itself provides the outcome, and the parties to the agreement can decide whether to accept the agreement or attempt to renegotiate. But the logic of Stasavage's argument remains the same. If a negotiator has private information about the likelihood that a foreign public will accept renegotiation, but that negotiator's own public does not trust that private information, then the negotiator has an incentive to posture by neglecting that private information even when doing so leads to a harder line in negotiations than is compatible with cooperative utility maximization.

In the second of the situations in which being perceived to have won or lost matters, posturing can be used to signal the political leader's skill as a negotiator. Assume, as in the previous situation, that the negotiator has private information about the preferences of the public of the other country. If the private information suggests that the foreign public is less accommodating than public information suggests, then acting on that information will generate an agreement that yields less domestic utility than might be expected given publicly available information. The domestic public, seeing this agreement, cannot know whether it results from accurate private information or from an incompetent negotiator. As such, politicians in such circumstances worried about their reputations as negotiators may well prefer not to act on their private information, and as a result may hew to a tougher negotiating line than is consistent with a cooperative solution. In a one-issue, one-negotiation world, a reputation as a competent negotiator will matter less than the actual outcome of negotiations. But in a world of iterated negotiations of multiple issues, the electoral benefits of a reputation as a tough negotiator may outweigh the electoral benefits of an agreement that maximizes utility in a particular issue area.[6]

The example of private information about the preferences of the foreign public draws on Stasavage's work, but it should be noted in this context that there are a number of types of private information that can lead to the same result. Negotiators will often have more information on a particular issue being negotiated than the average member of the public, for the simple reason that the negotiator focuses on the issue professionally, and is therefore likely to have studied it in more depth and to have more time to devote to mastering its intricacies. The average member of the public then may not be able to effectively evaluate the utility effects of agreements reached. In such circumstances, shorthands for success such as having a track record of winning or losing negotiations can affect popular perceptions of the international negotiating effectiveness of national political leaders.

The third sort of situation in which perceptions of winning and losing matter is when the assumption of perfect rationality is weakened. Behavioral economics suggests that people often do not behave as rational utility maximizers. One argument drawn from behavioral economics that has had some impact on international relations theory is prospect theory, which argues among other things that individuals react to potential losses differently than potential gains (Farnham, 1994; McDermott, 1998). A corollary of the distinction between losses and gains is that the zero point, or baseline of expectations that defines whether an individual sees an outcome as a loss or gain, matters. An existing international agreement provides a clear baseline of expectations (Levy, 1997). To the extent that the original negotiations leading to the agreement were Pareto-improving, both parties to the negotiation were facing a situation of potential gains. But once an agreement is in place, the baseline of expectations ceases to be the *status quo ante*, and becomes the terms of the agreement. Any attempt to change that agreement can easily be interpreted by one party as a loss, leading that party to adopt more risk-acceptant behavior to maintain the terms of the agreement than it would have undertaken to get to the terms of the agreement in the first place. Absent a transparent agreement, there would have been no baseline of expectations to protect through risky behavior.

Thus the creation of a transparent zero-sum game matters for a number of reasons. But this leaves open a related question: Given that opening up an existing international agreement to renegotiation is fraught with the possibility that existing gains from cooperation will be lost, why would one of the parties to the agreement choose to renegotiate? The utility that one of the parties gains from the agreement might have changed sufficiently that it comes to prefer non-cooperation to cooperation under the terms of the agreement. Such a change might stem from any number of causes, including a change in the material circumstances of cooperation, a change in the political circumstances of cooperation or a change in preferences. An example of the first might be cooperation in the management of a natural resource. If the condition of the resource changes (a fishery depleted, as in the Pacific salmon case discussed below, or a new oil well found), the utility of the agreement to the contracting parties could change substantially. An example of the second could be found in an arms reduction agreement. The acquisition of a new military adversary might affect the willingness of one of the parties to disarm. An example of the third might be found in agreements relating to population issues. The preferences of the US government with respect to this issue change substantially with changes in the partisan balance in the White House and Congress (for example, Sharpless, 1995).

If the change in the utility of cooperation is such that there is no agreement to be found that is a Pareto improvement on non-cooperation, then the transparency of the agreement should have little effect on outcomes. If, however, the change still allows for cooperation that is a Pareto improvement on non-cooperation, then the effect of the change in a unidimensional game will be to move the point of cooperation closer to the preferred point of one party, and farther from the preferred point of the other. Absent transparency, negotiators can respond to the change by determining if the existing point of cooperation is still at a stable equilibrium, and, if not, where a new equilibrium might be found. An existing agreement with a transparent focal point, by making this process public, complicates the situation in two ways. It makes posturing a more viable political strategy than would otherwise be the case, by providing a publicly known anchor point for the posturer to defend. And it also makes posturing a potentially more politically profitable strategy, by creating a baseline of expectations that can be publicly defended from loss.

This latter issue can be particularly problematic for the continuation of cooperation. If preferences change such that the point of cooperation is still a Pareto improvement to non-cooperation, but the distributional results of that point skew more toward one party at the expense of the other than had been the case when the agreement was reached originally, then there is a possibility that the publics in the two parties to the agreement will both see themselves in a situation of loss. Say, for example, that the utility of an existing agreement moves from point x in the unidimensional space discussed above to a point y that is closer to A's preferred outcome, but still leaves B better off than non-cooperation. The public in A might come to see point y, in other words the terms of the existing agreement, as its zero point. The public in B, however, might see point x, representing the utility that they are accustomed to receiving from cooperation on the issue, as their zero point. In such a circumstance, politicians in both countries would be tempted to posture to defend incompatible positions.

Up to this point, several terms have been used to describe the various participants in the two-level game of international cooperation, including actors, parties, negotiators, political leaders and national publics. 'Parties' as the term is used here refers to states as legal entities. 'National publics' refers to the electorate; the preferences of the national public can be thought of in this context as those of the median voter. 'Actor' refers to whoever is making key decisions in a negotiating process, or is key to making a decision about whether or not to reopen a negotiating process. Understood as such, the key actor in any given negotiation can be a professional bureaucrat, or a political leader. Two-level game analyses of international negotiation generally do not distinguish between the two categories of negotiator and leader – they are assumed to be one and the same (Putnam, 1988).[7]

But political leaders are often not involved in the day-to-day process of negotiation of international agreements, particularly when those agreements are about functional issues rather than high politics. Furthermore, many such functional agreements do not attract a great deal of interest on the part of political leaders. Functional issues are often not particularly politically salient, in which case it makes sense for a political leader to rely on the competence and private information of the proximate negotiator (usually a professional or bureaucrat rather than politician) rather than devote the time necessary to become fully informed about the issue. Increased political salience therefore may well have the effect of drawing the attention of political leaders to issues that had previously been dealt with primarily by proximate negotiators. As it is political leaders rather than proximate negotiators who posture to the electorate,[8] exogenous changes that have the effect of increasing the political salience of issues that are subject to existing agreements increase the risk that those agreements will become the focus of political posturing.

It should be noted that although the discussion to this point has been phrased in a language that assumes, often implicitly but in the previous paragraph explicitly, a democratic polity, the logic can apply to non-democratic polities as well. The process of political posturing described in this argument is in fact most straightforward in an electoral political system. But a similar sort of process can occur with non-elected government as well. Most executives rely on at least some popular legitimacy to support their government. As long as the national executive is beholden to some public for its legitimacy, the transparency function of international organizations can serve as a platform for posturing to that public.

To summarize, then, the presence of an existing international institution with fixed rules or decision-making procedures can lead, through the mechanism of political posturing, to a breakdown in international cooperation in situations when negotiating *de novo* would be more likely to generate successful cooperation. The argument has been made to this point in a highly stylized manner, and identifying empirical cases in which causality is as clear as in this argument is difficult, in part because private information remains private. Two illustrative examples help to identify the effects of transparency in cases that are otherwise quite different in terms of issue area and geopolitics.

The BIS and the Crisis of 1931

The first of these two examples involves the role of the Bank for International Settlements (BIS) in the Austrian banking crisis of 1931. The setting is the global liquidity crunch created by the recessionary spiral of the Great Depression.[9] In this setting, there was a fear of international contagion from a looming financial crisis within Austria. The major monetary powers of the time, Great Britain, France and the United States, might have been able to prevent contagion by acting in concert as lenders of last resort and bailing out the Austrian financial system. In earlier eras such lending would have been undertaken in an *ad hoc* way, in the absence of any appropriate international organizations to play a formal coordinating role. The newly created BIS was the logical organization to play such a role. The change from *ad hoc* to formal decision-making procedures, however, had the effect of undermining rather than facilitating cooperation.

The BIS had been created the previous year for reasons that had little to do with the management of financial crises. It had in fact been created as ‘the central bankers’ bank’ to increase the transparency of cooperation among central bankers, but in response to the issue of German war reparations from World War One rather than any fear of liquidity crises.[10] The spread of the Great Depression to Europe, however, quickly made the issue of reparations moot, and a moratorium on payments was announced within months of the creation of the BIS. The organization stayed in business nonetheless, with a mandate to coordinate cooperation among member central banks in any relevant issues that might arise. This included helping to smooth out minor exchange rate disturbances (Clarke, 1967). But when the Depression began to threaten a liquidity crisis and financial panic in the spring of 1931, the issue of international cooperation to address the crisis was put to the League of Nations, and the League in turn forwarded the question to the existing international institution that seemed most appropriate to deal with it, the BIS (Kindleberger, 1973, pp. 275–277).

The immediate source of the crisis was the largest bank in Austria, the Creditanstalt. This bank was on the brink of insolvency, and had large international obligations. As the degree of its financial difficulties became clear to international creditors, there was increasing call on the Creditanstalt to pay off some of its foreign obligations, which it did not have the financial wherewithal to do. The foreign pressure on the Creditanstalt also placed significant downward pressure on the Austrian Schilling (Weber, 1995).[11] In the monetary system of the time, the Gold Exchange Standard, the exchange rates of most currencies, including the Schilling, were fixed against gold. Downward pressure on a currency would force the relevant central bank to support the currency by selling gold, or by selling reserve currency kept in lieu of gold, primarily Great Britain’s currency, Sterling. As central banks did not keep enough gold or other reserves to cover all of their currency outstanding, enough speculation against the currency would eliminate the central bank’s reserves, and would then force the withdrawal of the currency from the gold standard.[12] The run on the Schilling generated by the Creditanstalt’s difficulties threatened to trigger just this chain of events. The fear in the international community, an accurate fear as it turned out, was that the collapse of the Schilling would create a domino effect that would eventually threaten the position of Sterling, the most central currency to the Gold Exchange Standard (Feinstein *et al*, 1995).

The only solution available to the situation that would leave the Gold Exchange Standard intact would be to lend sufficient funds to Austria to allow it to ride out the crisis of confidence in the Schilling without having to suspend its convertibility into gold. This would fulfill the function of a lender of last resort, the international equivalent of central bank action to bail out banks in difficulty when their collapse would threaten the national financial system.[13] The nature of this solution was widely known both among central bankers and among the political leaderships of the relevant countries; the Bank of England and the Bank of France had acted together as international lenders of last resort on several occasions in the half century before the First World War (Kindleberger, 1993).

To the extent that the preferences of proximate negotiators, other things being equal, will tend to be the sound maintenance of the issue area of their bureaucratic responsibility, we can ascribe to the heads of the major central banks an interest in the stability of the international monetary system, and thus an interest in bailing out Austria. There is considerable evidence showing that this is in fact the case (for example, Eichengreen and Simmons, 1995). It had in the past often been the practice of major central banks to coordinate crisis lending activity in an informal way, bypassing extensive political involvement and debate (Kindleberger, 1993). This informality had the advantage, specific to the issue area, that it generated less moral hazard than would clear procedures for intervention, meaning that the absence of a guarantee of a bailout would encourage central bankers from countries other than the major financial powers of the time to keep healthy reserves. But this sort of informal coordination was no longer possible once the League of Nations had officially referred the Austrian crisis to the BIS – the BIS would formally, and transparently, coordinate the international response.

Although the central banks of Great Britain, France and the United States all preferred cooperation to monetary contagion, national preferences across the three countries were not quite identical. The British public was likely more disposed to a national leadership role in a bailout, drawing on two centuries of British leadership in the international monetary system. Great Britain's monetary reserves, however, were more tenuous than they had been through most of those two centuries. This meant that Britain could lead, but any attempt by the Bank of England to lead singlehandedly would be dangerous. The United States declared a clear decision rule with respect to cooperation in this context early on in the crisis, and stuck to it. This decision rule was that it would participate in any bailout of Austria that had general (which in this case meant primarily British and French) approval. In other words, its participation was contingent on Anglo-French cooperation. This decision rule would not have been viable, however, had the BIS not been providing institutional transparency at the international level, thereby providing a clear statement of approval. The greater reticence on the part of the United States when compared with the British position is likely a result of a broader isolationist bent in US foreign policy at the time.

The Bank of France, as noted above, had a long history of cooperating with the Bank of England as an international lender of last resort. But the broader French public was distracted from international monetary issues at the time by national security concerns. The Austrian government of the time was considering entering into a customs union with Germany. The French, with memories of World War One still intact, were highly suspicious of any developments that might increase Germany's power and ability to rearm. In this context, any bailout of Austria that allowed it to join into such a customs union with its currency intact triggered fear of Germany's potential to rearm (Eichengreen, 1992). This fear in turn provided scope for posturing by politicians competing to look tough on the question of German rearmament.

Whereas informal cooperation would have largely been a matter of coordination among central bankers, requiring tacit but not public support by governments, the BIS had to make formal requests to governments for participation. Therefore, bringing in the BIS to coordinate the international response to the crisis had the effect of creating a transparent decision point for national governments. This had little effect on the British response, but it did create opportunities for posturing by both the French and American governments. French posturing was designed to make politicians look tough with respect to German rearmament, whereas American posturing was designed to make politicians look like they were keeping the United States from being drawn into international leadership roles, and maintaining the American tradition of aloofness from European politics.

As it turned out, the French government delayed but in the end participated in a first, small-scale loan to Austria, as did the United States. France did, however, make a repudiation of a customs union a non-negotiable condition of a second, more substantial loan. The state of Austrian politics at the time was such that no government could repudiate a customs union without falling.[14] As such, France did not participate in a second loan, preventing the United States, following its decision rule, from participating as well. In the end the Austrian government fell anyway, the French and American governments never did participate in a second loan, and the Bank of England attempted to bail out Austria by itself. As it turned out, Sterling was too weak to support this action, the Schilling left the gold standard anyway, and within a few months Sterling had been forced off gold as well (Kindelberger, 1973).[15] The international monetary system collapsed, and Germany successfully rearmed anyway. In short, from any version of the British and French perspectives, the outcome was the worst-case scenario, and the United States was ultimately drawn into the sort of leadership role in European politics that it was trying to avoid in 1931.

The proposed counterfactual here is that without the BIS and its formalization of the process of cooperation, some form of workable compromise may have been reached by the various central bankers involved. Either the French government would not have felt it necessary to hold the process for ransom to the customs union issue or the American government would have let the Federal Reserve participate without formal assent by the French.[16] This is somewhat speculative – absent the BIS, the Gold Exchange Standard may well have collapsed anyway. The outcome could certainly not have been any worse than it was. But there is a real possibility that without the increased transparency that the BIS brought to the issue by trying to create clear rules for cooperation, some kind of tacit coordination of international lending of last resort might have been possible (Eichengreen, 1992, p. 261).

The Salmon Treaty and US–Canadian Relations

The second example is the US–Canadian conflict over the regulation of the Pacific salmon fishery in the mid-1990s. The institution in question is the Treaty Concerning Pacific Salmon, a bilateral treaty signed in 1985 (Treaty, 1988). The context of the dispute is the increased pressure on the salmon fishery of the Pacific Northwest in the early-to-mid 1990s, caused by a combination of declining market prices for salmon, which encouraged salmon fishers to increase their catches in order to be able to pay off the fixed capital costs of participating in the fishery, and declining salmon stocks (Barkin, 2006). The existence of an agreement, with terms that the United States was unhappy with and Canada was inflexible about, may have delayed cooperation in the management of the fishery by several years.

Salmon hatch and spend their youth in freshwater streams and ponds, but then head out to the open ocean, where they spend the bulk of their adult lives.[17] They then return to the streams of their birth to spawn, and die. The salmon stocks of the Pacific Northwest, including those from the states of Alaska, Washington and Oregon, and the Province of British Columbia, swim around the Pacific in a clockwise direction (Barkin and DeSombre, 2000). This means that most of the salmon swim through the jurisdictions of both countries on their way back to their freshwater spawning sites, which in turn means that effective regulation of the fishery requires the cooperation of both jurisdictions. The Treaty Concerning Pacific Salmon was an attempt to set the ground rules for such cooperation. It stipulates that total catch limits should be set scientifically, at the maximum sustainable yield,[18] and that this total limit should be divided between the fisheries of the two countries according to the ratio of salmon that spawn in each country (Treaty, 1988). In other words, the decision rule for dividing the catch functionally assigned ownership of a fish to the country in which it hatched. The treaty provided clear decision rules, but did not provide specific numbers for either the total size or the division of salmon quotas. The specifics were to be decided in protocols based on these rules and current scientific data, and renegotiated annually as data on the current health of stocks became available. Beginning in 1992 these negotiations failed to generate agreed-upon quotas.

The original agreement provided a focal point for cooperation that would allow the continued operation of the fishery in the medium to long term. Continued overfishing would reduce the overall level of the salmon stock, and thus threaten the viability of the fishery in the long run. The Treaty was based on the ideas of equity and scientific management, principles that seem an appropriate basis for long-term cooperation in an issue area such as this (Treaty, 1988, Article 3). The Treaty also had the effect of increasing the transparency of cooperation, by basing annual negotiations on clear and public guidelines rather than on closed-door political negotiations. If one begins with the assumption that transparency aids international cooperation, then the Treaty should have provided a sound basis for effective joint national management of the Pacific salmon fishery.

When pressure on the fishery increased in the early 1990s, however, the opposite happened; the Treaty became an obstacle to, rather than the basis of, cooperation. In the short term, fishers in the United States came to see the terms of the treaty as favoring Canada, both because of the directionality of migration (they could catch Canadian fish more easily than Canadian fishers could catch theirs), and because Canadian stocks on the whole were healthier than those of Washington and Oregon (Williams and Gilmore, 1997). In prospect theory terms, the habitual quota volumes of these fishers became their cognitive zero point, whereas for Canadian fishers the terms of the Treaty became the cognitive zero point (*Seattle Times*, 1997). Both groups of fishers made great efforts to popularize their positions domestically. But cooperation would require either that the American fishers fish less, or that they be allowed to take a significant proportion of Canadian fish. In other words, the Treaty made transparent a zero-sum game in which both sides perceived incompatible *status quos* to be defended.

An interesting complication in this case is provided by the federal nature of government in the countries involved. In both countries the governments at both the federal and state/provincial levels are involved in making policy with respect to this issue, although the exact division of responsibilities differs in the United States and Canada. Although the median voter in neither country was particularly engaged with respect to this issue, the median voters in the relevant states and provinces were. And in both countries it was the fisheries officials and political leadership of the federal governments who were concerned with making the Treaty work, while the political leadership at the state/provincial level showed a much greater willingness to posture in a way that obstructed cooperation. But as the relevant provincial and, to an even greater extent, state governments have some constitutional authority over the issues in question, the net effect of posturing at that level of government was that the overall American negotiating position was forced away from the outcome specified by the Treaty, and the Canadian position became more fixed upon the Treaty outcome than would otherwise have been the case. The transparency created by the Treaty helped popularize the issue sufficiently in the relevant states and province that the proximate negotiators, in this case national fishery officials, were no longer able to act on their perception of national preferences without taking into account political posturing at the sub-national level (*Financial Times*, 1997).

The result was 7 years in which no quota was agreed upon, and in which the salmon stocks of the Pacific Northwest continued to be depleted (Morrison, 1997; Barkin, 2006). Furthermore, as the issue became increasingly publicized, and the political posturing more public, the rhetoric of debate came to be one of nationalism as much as one of conservationism (Canadian Press, 1997; Hinton, 1997). The dispute seemed to grow out of proportion to the issue at hand as the Canadians continued to insist on the implementation of the Treaty as signed, and the Americans continued to refuse. By the summer of 1996, for example, fishers in Prince Rupert, B. C., were assaulting an American ferry, and the government of British Columbia was trying to throw the US Navy out of its base on Vancouver Island (Wilkinson, 1997). In the end, a short-term agreement was finally reached in 1998, on terms considerably more concessionary to American fishers than those dictated by the Treaty, and a longer-term agreement was reached the next year (Bryden, 1998; Barkin, 2006). In other words, cooperation could only come about when the parties agreed not to be bound by the decision-making rules of the Treaty.

The proposed counterfactual here is that without the decision rule transparency of the Treaty Concerning Pacific Salmon, the United States and Canada would not have gone through 7 years of increasingly tense confrontation on this issue before agreeing on a quota for the salmon fishery. The issue would have been resolved sooner, and with considerably less confrontation and ill-will. Without the Treaty, fisheries officials would have been free to explore various workable compromises without having them compared with a publicly known baseline; there would not have been incompatible cognitive zero points that provided such appealing touchstones for political posturing. Canadian officials would not have been as pressured to get an agreement that divided the quota on the basis of where the salmon spawn, and US officials would have been less pressured to reject agreements based on this same principle. The transparency that was designed specifically to prevent the politicization of the management of the Pacific Northwest salmon fishery had the effect of politicizing it even further.

Conclusion

Both of the cases used to illustrate this argument are particularly pertinent to contemporary international politics. The Pacific salmon case is representative of a broad array of contemporary forms of institutionalized cooperation in specific issue areas. The conflict over the salmon fishery threatened neither to undermine broader patterns of US–Canadian cooperation nor to have serious global ramifications. By the same token, however, it is surprising how pointed and nationalistic the conflict became given the scope and institutionalization of the bilateral cooperative relationship, particularly as the fishery represents a fairly minor economic issue. In this sense, the salmon issue represents a hard case – if institutional transparency can cause this level of conflict in this setting, then we can reasonably expect that it could have even worse consequences in disputes between countries with less history of institutionalized cooperation, or that concern more vital interests.

The BIS case is in a way the opposite of the Pacific salmon case – a rare event with devastating consequences. There were no real parallels to the role of the BIS in the global financial crisis of 2008. The BIS itself was largely bypassed in coordinating the international response to the crisis. Coordination has been less formal, through forum mechanisms such as the G-7 or *ad hoc* meetings and arrangements, rather than through pre-existing decision-making structures (with the exception of responses to the Euro crisis). In the wake of the crisis, the issue of redesigning the international financial architecture, and the role of international organizations in that architecture, is being revisited. One of the questions that arises in this discussion is improving the institutional transparency of this architecture. Given both the potential for reform in the near future, and the potentially disastrous consequences of reform that encourages rather than ameliorates international conflict, a full knowledge of the effects, both good and bad, of institutional transparency on international cooperation is imperative.

The argument developed here is intended as a heuristic, rather than as a specific description. The two illustrative cases discussed here suggest that there are in fact cases when it reflects political realities, although not the frequency of such cases. But the fact that it can happen suggests that we should ask what the effects of increased information flows will be on the domestic politics of participant states before assuming that transparency should necessarily be designed into international organizations. Both cases are considerably more complex than the stylized argument, but they demonstrate the basic pattern suggested by the model. International institutions, through the mechanism of transparency, can have the effect of politicizing issues in broader national publics, where such issues might not otherwise have had much impact. This politicization can then obstruct cooperation even when those broader publics recognize cooperation on that issue as being in their interest.

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Notes

1 Barnett and Finnemore (1999; 2004) provide an exception to this generalization. They focus specifically on the internal mechanics of institutions, whereas this article focuses on the potential effects of the institutions on the domestic politics of participant countries.
2 For a general review of the transparency function in institutionalist theory, see Mitchell (1998).
3 Fearon (1995) goes so far as to make the argument that the international community can always maximize utility by cooperating. The implication of this is that the market-perfecting aspect of transparency will always improve cooperation.
4 Haas *et al* (1993) make this point with respect particularly to environmental issues, but the logic is applicable to patterns of international cooperation more broadly.
5 For a discussion of this process with respect to US foreign policymaking, see Hilsman *et al* (1993).
6 Although there is a sizable literature on the international effects of bargaining reputation (for example, Schelling, 1960; Fearon, 1994; Mercer, 1996), there is less literature on the domestic effects.
7 This is the case even when the leader/negotiator is constrained by other branches of government rather than or in addition to the electorate (Milner, 1997).
8 Unless the proximate negotiators are considering launching political careers.
9 For background and context on the economic history of the Great Depression, see Kindleberger (1973) and Eichengreen (1992).
10 On the creation of the BIS, see Simmons (1993).
11 A run on a large private bank put pressure on the currency because foreign debts tend to be denominated in foreign currencies, which in a gold standard system are equivalent to gold. Thus in order to pay them off, the bank had to buy gold (or its equivalent) from the central bank, depleting its reserves and thus its ability to defend the parity of the local currency.
12 For a more detailed description of this process see Eichengreen (1992).
13 On international lending of last resort, see Kindleberger (1978).
14 The Austrian government at the time was a coalition of parties, as tends to be the case in what is a fairly corporatist polity. On patterns of Austrian politics, see Katzenstein (1984).
15 The first loan was for US$14 million, the solo British loan for $7 million.
16 Most likely through the New York Fed, a step further removed from the government than the Federal Reserve Board.
17 There are actually several species of Pacific salmon with different life cycles, but all more or less conform to this general pattern (some spend a greater proportion of their time in freshwater) (see Kope, 2009, Unit 12). The life cycles of farmed salmon are somewhat more constricted.
18 The maximum sustainable yield is the largest total catch of a species that leaves enough stock to reproduce at a rate that will ensure that the same size catch can be maintained in perpetuity. This is usually figured somewhat conservatively to allow for scientific uncertainty and unforeseen sources of fish mortality.

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