

# Domestic Institutions and the Political Economy of International Agreements

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**Abstract** Constitutional rules according to which political power is acquired and exercised have a systematic influence on the nature of the political game and thus on policy outcomes. The present paper explores whether systematic differences in *foreign* policy outcomes follow from the workings of democratic accountability and from alternative constitutional arrangements. The following hypotheses linking domestic institutions to foreign policy choices are proposed. First, the number of institutional and partisan veto players is likely to affect the incentives of governments to use international agreements as a signaling device to lend credibility to reforms and as a tool to lock in domestic reforms. Second, electoral systems were found to influence the political decision to provide either public goods or benefits targeted to narrow groups. Politicians might find it useful to tie their hands through international agreements to thwart electoral pressures to please narrow groups. In brief, the focus lies on domestic political economy factors motivating governments to make use of international agreements.

Keywords: Political institutions, political economy, credible commitment

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## Introduction

Scholars have been debating about what explains differences in states' international cooperation efforts, taking into account that there is no enforcement authority at the international level. During the Cold War years most research followed the Realist tradition of international relations research, assuming that states behave at the international level like unitary actors. From the early 1990s on scholars increasingly looked at how domestic politics influence foreign policy.<sup>2</sup> Part of this more recent research looks at the internal political structures of states to understand differences in the willingness and ability of states to cooperate at the international level. According to this line of research politicians are subject to different incentives under different political institutions. As a result, states' political institutions should be systematically linked to certain patterns of policy outcomes, including those related to cooperation with other countries.<sup>3</sup> Arguments of this sort date back to Kant's "democratic peace" thesis, where it was proposed, crudely speaking, that countries that hold elections don't fight each other, because the majority of the electorate wouldn't support costly wars.<sup>4</sup>

But democracy takes many forms, and research shows that all democracies are not the same when it comes to international cooperation. There is no clear-cut empirical evidence showing that democracies as such are more likely to fulfill their international obligations. Even regarding security matters<sup>5</sup>, where the "democratic peace" - the inference that democracies almost never fight each other - appears as one of the most famous claims in International Relations, no consensus exists. Gaubatz (1996), Morrow (2007) and Dafoe (2011) do find empirical evidence that democracies behave more cooperatively in the security realm, while Gartzke (2007) fails to find such evidence. In the case of environmental cooperation, quantitative evidence by Neumayer (2002) leads him to the conclusion that "democracies exhibit stronger international environmental commitment than non-democracies" (Neumayer 2002: 139). But

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<sup>2</sup> Compare, for example, Moravcsik (1997) and Mansfield and Pevehouse (2008).

<sup>3</sup> Putting emphasis on domestic considerations in explaining foreign policy does not imply that strategic considerations in response to external pressures have no role to play. Nevertheless, domestic political constraints for foreign policy choices are generally not sufficiently appreciated.

<sup>4</sup> Before Kant, a more traditional view, manifested in the writings of the Greek historian Thucydides (400 B.C./1951: 2.25.70), was skeptical of the idea that democracies, the "inconstant commons", cooperate more. The reverse should be true, based on the understanding that democratic governments must be more volatile and unreliable.

<sup>5</sup> After Kant several sophisticated explanations for the existence of a democratic peace were suggested. It could be the result of shared norms (Maoz and Russett 1993), credible signals due to transparency (Schultz 1998), greater probability of stable bargaining outcomes (Lipson 2003), democratic audience costs (Tomz 2007; Fearon 1994), restraint on government (Bueno de Mesquita et al. 1999), among other explanations.

deeds do not always match words and it proves much harder to come up with evidence that democracies comply more with international environmental agreements as measured by environmental outcomes when compared with their non-democratic counterparts.<sup>6</sup> With regard to international economic cooperation, Mansfield et al. (2002) provide empirical evidence that democracies are more likely to establish Preferential Trade Agreements. Simmons (2000), on the other hand, offers evidence that democracies are less likely to comply with Article VIII of the International Monetary Fund.<sup>7</sup>

Faced with the inconclusiveness of the empirical research on the cooperative stance of democracies, scholars are trying to find an answer looking more closely to the institutional differences between states.<sup>8</sup> The challenge lies on making explicit the theoretical mechanisms that link regime features to foreign policy decisions.

In this paper the focus will lie on formulating hypotheses about the impact of two institutional features of countries' political systems on the decisions to delegate to the international level and comply with international commitments. First, the paper will look at the number of veto players, postulating that this variable is likely to affect the credibility of governments and the incentives to lock in policies through international agreements. The bottom line is that domestic political economy factors related to the degree of centralization of the state can be an important motivation for the establishment of and compliance with international agreements. Second, it will be elaborated how electoral institutions set incentives for politicians to make use of international agreements. The type of electoral institutions influences political incentives to provide public versus targeted goods. To escape electoral pressures to serve particular constituencies politicians might have incentives to tie their hands through international agreements. These theoretical arguments shall be tested empirically in subsequent research.

How does this approach relate to the general literature about what role international law plays and what motivates states to use it? First of all, the approach pursued here does not share the Realist assumption that international law is largely epiphenomenal since it merely reflects the

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<sup>6</sup> Compare Bättig and Bernauer (2009).

<sup>7</sup> Of course, the contradictory results partly arise due to disagreements about the appropriate empirical strategies to be pursued. No consensus exists about which theoretical mechanisms bring about cooperation, which makes disagreement about appropriate research designs likely.

<sup>8</sup> See, for example, Rogowski (1999).

international distribution of power and is nothing more than “cheap talk”.<sup>9</sup> If international law is without effect, why is it proliferating even if this entails significant costs?<sup>10</sup> The present research also differs from neoliberal institutionalism, which focuses on the role international institutions play in supporting international cooperation. Neoliberal institutionalism takes on a macro-perspective and argues that international institutions decrease transaction costs for international cooperation, facilitate successful bargaining through the creation of forums for repeated interactions, and reduce information asymmetries that hinder successful cooperation.<sup>11</sup> Here, a political economy approach that looks more closely at the dynamics behind the political decisions to make use of international agreements will be pursued.<sup>12</sup> The aim is to contribute in addressing the following puzzles: Why do states enter into international agreements and when do international agreements affect states’ behavior? Why should rational governments voluntarily give up some of their sovereignty by delegating powers to the international level?

## **1. Why do states bind themselves through international agreements?**

Acknowledging that entering into international agreements or international institutions entails giving up national policy-making sovereignty how is it possible to rationalize such moves by nation states? Scholars of international relations benefited from ideas developed in a vibrant literature that tries to explain delegation at the domestic level. At the national level, scholars attempted to understand why power is deliberately delegated to more or less independent authorities like central banks (Lohmann 1992; Keefer and Stasavage 2003), regulatory agencies (Spiller and Tommasi 2005; Gilardi 2002), or the judiciary (Landes and Posner 1975; North and Weingast 1989; Salzberger 1993).

According to this work delegation can be politically attractive for office-holders for several reasons. Employing a principal-agent framework, delegation of authority can decrease transaction costs of policy-making when imperfectly informed legislators benefit from the expertise of agents about the likely consequences of legislation (Epstein and O’Halloran 1999). When political uncertainty about policy outcomes are high, office-holders might benefit from

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<sup>9</sup> See Goldsmith and Posner (2006).

<sup>10</sup> On the other hand, it might be argued that international law symbolizes shared principles on the international plane that can have an aspirational character. From this point of view, international law is not expected to have immediate effects, but embodies principles that might be respected at some future point as states gradually adapt their behavior.

<sup>11</sup> See Keohane (1982) and Abbott and Snidal (1998).

<sup>12</sup> See Voigt and Salzberger (2002).

shifting blame to agents. According to another argument, delegation can be an instrument to avoid cycling associated with majority voting (Voigt and Salzberger 2002). A government eager to signal to the public a strong commitment to particular policies might rely on delegation as way to constrain its own discretion to reverse policies (Levy and Spiller 1996). Delegating authority can also be a rational political choice when the current government wants to make it harder for future governments to undo reforms (Moe 1990).

Hawkins et al. (2006) and Tallberg (2002) build on insights from these political economy theories of domestic delegation to analyze international delegation. According to these authors international delegation can bring specialization gains, can help to cope with international policy externalities, can solve collective decision-making problems by giving international agents some agenda-setting authority, can help with dispute resolution, and can be a means for enhancing credibility and locking in policies. However, international delegation can be problematic because preference heterogeneity among the delegating states might make it difficult to control international agencies effectively. The authors argue that another problem is that international agencies might be ineffective when the power heterogeneity among the principals is not reflected in the institutional structure of the international agency. Hawkins et al. (2006: 4) find “(...) causes and consequences of delegation to IOs to be remarkably similar to delegation in domestic politics.” Pollack (2007: 3) sums some of the preceding arguments up by stating that:

“(...) instrumentally rational actors (voters or legislators at the domestic level, states at the international level) delegate powers to executive and judicial agents systematically in order to lower the transaction costs of policy-making, and that in doing so they tailor the discretion of their agents, again systematically, as a function of several factors including the demand for credible commitments, the demand for policy-relevant information, and the expected gap between the preferences of the principals and the agents.”

The present paper develops novel explanations for international delegation. The approach pursued here relies on theories of delegation and on insights about the consequences of constitutional design. Research on positive constitutional economics has developed quickly recently (Voigt 2011). As emphasized by this research this research constitutional rules according to which political power is acquired (electoral institutions) and exercised (political structure)

have a systematic influence on the nature of the political game and thus on policy outcomes. In the following, it will be explored whether systematic cross-national differences in the propensity to delegate powers internationally can be partly explained by variation between countries in the workings of democratic accountability and in constitutional arrangements.

The following hypotheses linking domestic institutions to foreign policy choices are elaborated in the first part of the paper. Firstly, the number of institutional and partisan veto points is likely to affect the incentives of governments to use international agreements as a signaling device to lend credibility to reforms or as a tool to lock in reforms. Secondly, electoral systems were found to influence the political decision to provide either public goods or benefits targeted to narrow groups. Politicians might find it useful to tie their hands through international agreements to thwart electoral pressures to please narrow groups.

### 1.1. International agreements as signaling and policy entrenchment devices

“For my part, I have no hesitation in saying that in the control of society’s foreign affairs democratic governments do appear decidedly inferior to others. (...) [A democracy has a tendency] to obey its feelings rather than its calculations and to abandon a long matured plan to satisfy a momentary passion (...).” (Alexis de Tocqueville 1835/1969: 228–29)

It has been recognized for long that the ability to make credible promises is essential to sustain cooperation in an anarchic international environment that lacks an effective central enforcement authority. Alexis de Tocqueville seems skeptical about the ability of democracies to make credible promises to other countries. Another feature that could make promises by democracies less reliable is frequent leadership turnover. Even so, Leeds et al. (2009) argue that democracies are actually the more reliable partners. This is the case because leadership change in democracies is an orderly process mediated by political institutions and does not lead to radical policy shifts whereas in non-democratic countries leadership change, even if less frequent, is often accompanied by significant policy reorientation.<sup>13</sup>

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<sup>13</sup> Leeds et al. (2009) find quantitative evidence for this claim in an empirical analysis of premature alliance termination: leadership change increases the probability of premature alliance termination only for non-democracies.

Fearon (1994) advanced an influential argument why democracies have the ability to send credible signals to other countries. This ability helps democratic countries maintain peaceful relations with other democracies and might be advantageous for democratic efforts to cooperate internationally in general. The argument goes as follows: democratic countries are able to make credible threats to other countries by making their threats through public announcements. The rival country understands that the electorate will punish the leader if he doesn't follow through with the announced threat, and that is precisely what makes the threat credible. In fact, it is a strategy to tie hands by generating audience costs that will be suffered *ex post* if the leader does not stick to her announcement. Because democracies are then in a position to transmit information credibly to rivals, information asymmetries can be mitigated and coordination on peaceful resolutions becomes easier.<sup>14</sup>

These are two general arguments that compare democracies to autocracies in their propensity to cooperate internationally and live up to international commitments. They demonstrate how domestic political institutions and domestic politics matters for international affairs. The focus lies on explaining how political institutions and democratic audiences make credible communication between countries possible. However, these studies don't look at the role international agreements play. It will be stressed here that international institutions are deliberately used by governments to mitigate credible commitment problems and to enhance policy durability. While Fearon (1994) emphasizes incomplete information between countries, the approach taken here emphasizes incomplete information between governments and first, their domestic constituents and second, domestic and international investors. It is argued that international institutions are used by governments to reassure constituents and investors about government intentions. The benefits generated in this way might more than offset the costs that arise to governments due to lost discretion. In the following sections it will be discussed how the demand for credibility and policy durability combined with institutional factors that give rise to such a demand affect the decision of governments to bind themselves through international agreements. As will be discussed, states with diverse political institutions might differ in their inclination to enter into international agreements.

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<sup>14</sup> Weeks (2008) questions the hypothesis that audience costs are generally more pervasive in democracies as compared to non-democracies. She argues that dictators also have the ability to generate audience costs, if only there is a domestic elite that can coordinate to impose costs on the leadership in case it backs down from its foreign policy announcements.

### 1.1.1. Political structure and government credibility

It is a well known fact that the inability to credibly commit to a specific course of action can be very costly for governments (Kydland and Prescott 1977; Barro and Gordon 1983). A prominent example is the conduct of monetary policy where a low inflation policy is generally preferable, but the government has a political incentive to switch to expansionary monetary policy in the second period to spur employment creation and gain electoral advantage (Calvo 1978). Agents recognize the suboptimal dynamic incentive structure for the government in the setting of monetary policy. As a result, they do not believe in the credibility of a low inflation policy in the first place, generating inflationary tendencies. To cope with this problem, many governments relied on delegation of monetary policy authority to independent central banks as an institutional solution to dynamic time inconsistency (Rogoff 1985).

In a seminal contribution North and Weingast (1989) show how states have a hard time committing credibly to a reliable system of private property rights protection. States that are strong enough to enforce a regime of property rights are also in a position to arbitrarily confiscate private wealth. North and Weingast (1989) highlight that institutional innovations that came about with the Glorious Revolution and coped with commitment problems regarding property right protection are a crucial factor in explaining the economic upsurge that started in England at the end of the seventeenth century. The strengthening of Parliament relative to the Crown and enhancing the independency of the judiciary were useful in constraining arbitrary government and reducing the risk of wealth expropriation.

Empirical studies corroborate North and Weingast's (1989) claim that political credibility is an important determinant of cross-country differences in economic performance. Brunetti et al. (1998) demonstrate empirically that higher levels of government credibility are systematically related to higher investment and growth. Nooruddin (2011) finds that government credibility avoids savings and investment volatility and, thereby, growth-rate volatility. They argue that credibility is supported by a specific configuration of state institutions. Countries where policy-making authority is diffused over multiple actors achieve higher levels government credibility. As a result policies are perceived to be more stable. According to Nooruddin (2011: 16) "the diffusion of policymaking authority to multiple policymakers accountable to different constituencies (...) makes policy change more difficult and policy stability more credible". These



studies underline the importance of government credibility for countries' economic prospects. Norruddin's work points out that specific domestic institutional configurations are capable of ameliorating credibility problems. Further empirical work relying on cross-country panel regressions has shown that there is a strong negative association between policy uncertainty or volatility and economic growth (Aizenman and Marion 1993; Ramey and Ramey 1995; Bleaney 1996, Fatás and Mihov 2012).

Besides monetary policy and property rights protection, the problem of dynamic time inconsistency applies to a wide range of government activities. In fact, it "appears in any area of discretionary policy-making where long-run and short-run objectives are not aligned" (Majone 2001: 106). In fact, governments in general have a hard time at successfully implementing economic reforms. Here too, they are frequently subject to the problem of time-inconsistent incentives. Once agents react to reform measures, it becomes attractive for the government to reverse reform and extract benefits. Domestic and international (economic) agents anticipate that governments are caught in this trap and don't adjust their behavior to the reform measures taken by the government in the first place. As a result the reform measures don't have the intended effects, they lack credibility. Politicians would be better off if they could somehow commit credibly to the new policies.

Entering into international agreements can be seen in this context as a commitment device for reform-oriented governments. If violating the international agreement is associated with costs, governments that are tempted to reverse reforms in the second period must consider these costs in their calculations. If the costs are high enough, the tying-hands effect of international law fulfills its purpose in helping the government to successfully implement domestic policies. In such cases, international institutions serve the function of solving a common domestic political problem typically faced by governments.

There is another way how international institutions can be helpful in coping with commitment problems. In many instances voters have only incomplete information about the intentions of their political leadership. In other words, they are not sure about their leader's type. It is not possible for citizens to discern between leaders that are committed to reforms and those that are not. In this situation international institutions can act as screening device that allows the public to learn the type of their leader (Snidal and Thompson 2003). However, this screening

mechanism works only if the international institution has specific entry requirements that make it costly for states to accede. Only if accession costs are high enough a separating equilibrium will result where it does not pay off for insincere reformers to mimic sincere reformers by joining the international agreement. Thus, joining such agreements is a costly signal underpinning the commitment of the government to reform.<sup>15</sup> Observers can differentiate between committed governments that are willing to bear the accession costs and non-committed governments that refrain from joining the international agreement. International institutions can also play the function of information provider for countries that are already members. By way of monitoring and publicizing the behavior of member countries, international institutions inform the domestic public about their government's compliance record. Given that the average voter favors compliance, the risk of electoral punishment diminishes the temptation for the government to violate commitments.

Evidence is accumulating that states rely on international delegation to enhance the credibility of their commitments. Is there evidence supporting the claim that international delegation in fact helps countries to increase their credibility? An empirical study by Voigt et al. (2007) shows that former British colonies that retained the Judicial Committee of the Privy Council as their final court of appeals even after independence achieved higher levels of economic growth. The authors argue that the recognition of a foreign court was a means for governments to increase the credibility of their promises. Dreher and Voigt (2008, 2011) present evidence that membership in international organizations indeed has a positive effect on governments' credibility as measured by country risk ratings and it is shown that this effect is stronger for countries with weak domestic institutions. According to these authors international delegation can be more attractive as a hands-tying device compared to delegation to independent domestic agencies because the costs of reversing the former are higher.

While Dreher and Voigt's (2008) empirical analysis focuses on the consequences of international organization membership, Pevehouse (2003) goes a step back and looks for the reasons behind the decision to join international organizations. But both papers refer to the underlying argument that international delegation has credibility-enhancing effects. Pevehouse

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<sup>15</sup> In a recent contribution Simmons and Danner (2010) employ credible commitment theory to explain the decision of states to join the International Criminal Court.

(2003) and Mansfield and Pevehouse (2006, 2008) find supportive quantitative evidence for the claim that new democracies are more likely to join international organizations. They hypothesize that governments in new democracies have particularly strong commitment problems, for several reasons. First, when empowered, new leaders of the reformist coalition might have incentives to use their new authority to reverse political liberalization and reinstall a dictatorial rule. Second, partial economic reforms might generate rents for some groups, who will have incentives to block the completion of these reforms. The last argument is that the political landscape is underdeveloped, leading to mutual distrust between competing political factions. Potential political leaderships lack a track record, typically there was no opportunity to build up a reputation of sticking to commitments. The authors reason that democratizing countries join international organizations to cope with these problems and enhance the credibility of the political and economic reforms. Elsig et al. (2011) also argue that new democracies are more likely to enter into international agreements to enhance the credibility of reforms and present empirical evidence supporting this claim.

Adding to the research on international delegation, I propose a new testable hypothesis arguing that states with a less developed system of checks and balances and less constraints on executive activity are especially inclined to enter into international agreements. Countries with an unconstrained executive have a harder time credibly committing to policies. For this reason these countries are more likely to recur to international agreements to add credibility to their announced policies.<sup>16</sup>

It is frequently argued in the literature that decentralized states – states with multiple constraints on the executive – are especially prone to “gridlock” and are not able to push through necessary economic reforms (Haggard 1990; Haggard and Kaufman 1995; Krebbiel 1996; Lohmann and O’Halloran 1994). This literature overlooks the fact that uncertainty about future policy stability can be very costly for business. Unconstrained executives are believed to be more capable of implementing growth-enhancing economic reforms, however they are also in a position to surprise the public with large policy swings that are detrimental for growth (Henisz 2004). Countries with constrained executives are more likely to provide a stable policy

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<sup>16</sup> Snidal and Thompson (2003), Drezner (2003), and Fang and Owen (2011) make a similar point.

environment. Shepsle (1991: 256), referring to the decentralized U.S. political system, notes that political systems relying on checks and balances benefit from higher policy credibility:

“(...) the unanimity game between House, Senate, and president – each dependent on different electorates and different timings of elections – gives existing policies credibility by empowering multiple veto groups.”

Gehlbach and Malesky (2010) present a formal model demonstrating that policy reversal is harder under a system with multiple veto players. Their model discusses the role of interest groups that influence policy-making to their private benefit. In a system that requires the consent of multiple authorities for passing new legislation, lobbying turns out to be costlier for interest groups because more veto players have to be compensated for their approval. As a result rent-seeking by interest groups should be less prevalent in states with decentralized political structures. For a sample of post-communist countries, the authors find that reform reversal is less likely when the number of veto players is higher.

The bottom line is that highly centralized states face more severe commitment problems. When policy-making authority is largely unchecked, then other actors are unsure that policy will not be reversed in the future and may refrain from taking actions desired by policy-makers. The credibility of policy reforms enacted by governments should be associated with the ease of policy change. The stability of the policy environment is associated with states' political structure. The ease of policy change should decrease in the number of veto players in the political system, where veto players are defined as independent institutional or partisan actors whose consent is necessary to make policy.<sup>17</sup> Countries with a more centralized state structure (equivalent to a low number of veto players) are subject to more policy volatility. The reverse is true for countries with a decentralized state structure, where multiple veto points are in a position to block policy changes. In these decentralized countries policies can be expected to be more durable on average and, therefore, policies enjoy a higher level of credibility.<sup>18</sup> MacIntyre (2003: 21) puts it this way:

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<sup>17</sup> See Tsebelis (2002).

<sup>18</sup> Keefer and Stasavage (2003) distinguish between policy stability and policy credibility. They argue that these are different concepts. Policy stability is high when, given the institutional arrangements, the set of policies that are preferred by politicians over the status quo is small. Policy credibility refers to the probability that politicians opportunistically break earlier promises when they observe that private agents believed in the promises and adjusted their behavior accordingly. Here it is recognized that policy stability and policy credibility are distinct concepts, but it is argued that policy credibility is easier to achieve when policy stability is high.

“Institutions can help overcome the problem of generating credible policy commitments. If leaders are institutionally bound by the need to obtain the consent of other political actors (for instance, a parliament) in order to alter policy or if they actually deny themselves control of the issue by delegating it to a third party (for instance, an independent judiciary or an independent central bank), then it becomes more difficult for them to renege on their promises. An institutionalized division of decision-making power helps to reduce the risk of arbitrary policy action, thereby increasing the scope for credible policy promises.”

Countries that lack checks and balances are likely to search for strategies to enhance the credibility of their commitments. Delegating powers to the international level might be a way to convince audiences that policies won't be reversed in the near future.

#### 1.1.2. Political structure and locking in

When assessing the reasons for why states engage multilaterally, scholars often refer to the motivation of the government coalition to entrench specific policies so that they can't be easily reversed by future governments. High political uncertainty about reelection prospects makes delegating authority to independent agents an attractive strategy for politicians (Moe 1990). The purpose is to restrict the range of policy options available to political opponents should they come into office. One way of entrenching policies is through the use of international agreements, but this argument only works if it is costly to violate or exit these agreements. There is a difference between this locking in or entrenchment rationale and the motivation for signing international agreements to enhance credibility as spelled out above. The credibility related motivation is associated with coping with one's own time inconsistent preferences. In this case, the purpose to sign international agreements is to tie one's own hands to avoid the temptation to defect when circumstances change. The locking in motivation is associated with tying the hands and thereby constraining the choices of *future* governments in case the actual government eventually loses power. Following this logic, Moravcsik (2000) argues that the formation of the European human rights regime (in form of the European Convention for the Protection of Human Rights and Fundamental Freedoms) in the aftermath of the Second World War was pushed forward mainly by recently democratized states that were aiming at locking in liberal political reforms.

Brewster (2004) argues that interest groups supporting the government coalition have reasons to press the government to entrench specific policies through international agreements, so that they endure even after a new government comes to power. The locking in of policies through international agreements is believed to make them more durable and hence more valuable for interest groups benefiting from them. Landes and Posner (1975) make a similar political economy argument to explain the existence of an independent judiciary in many countries. According to them, an independent judiciary serves the purpose of extending the duration of legislation. If legislation is considered a commodity, more durable legislation can be sold at a higher price by the legislature to interest groups demanding it. Locking in through international agreements might play a similar role for the durability and, thus, for the value of the respective policies.

This idea can be connected to differences in domestic separation of powers arrangements. Countries characterized by a low degree of separation of powers have few impediments for policy change when a new government comes to power and for this reason the expected policy durability should be low. For these countries interest group demand for entrenchment via international agreements should be higher. Putting it differently, where state centralization is high, the entrenchment of policies via international agreements is more valuable for interest groups demanding a set of policies and for the ruling coalition selling the policies. The reason is that the risk of policy reversal in case of government change is higher for centralized states.

The discussion so far emphasized two common problems politicians have to cope with. First, dynamic time inconsistency, which makes government promises lack credibility. Second, politicians are subject to political uncertainty about their reelection prospects, which means that policies are susceptible to reversal by future office-holders. International delegation is one option that politicians have to enhance the credibility of policies and to entrench policies making reversal more difficult. The following hypothesis follows from these arguments:

Hypothesis H1: As the number of veto points decreases (and political centralization is higher), countries are more likely to enter into international agreements as a means to enhance the credibility of their policy announcements or/and to lock in specific policies, *ceteris paribus*.

Note that this hypothesis stands in contrast to Ginsburg's (2009) expectation that countries with a fragmented state structure (more veto points) delegate more to national and

international independent agencies in order to solve a possible impasse between the veto points. Hypothesis H1 also stands in contrast to the “scapegoat” argument proposed by Vreeland (2002), according to which a reform-oriented executive “colludes” with an international organization to overcome reform-resistant veto players and tip the balance in favor of reform. International organizations make certain reforms feasible that wouldn’t pass if they were dealt with only at the domestic level. Vreeland argues that as the number of veto players increases it gets more likely that that there will be some of them opposing reform. The argument then proceeds stating that signing an international agreement to support reform efforts becomes more likely as the number of veto players increases. This expectation is contrary to Hypothesis H1 above.

A further contention can be made to the argument presented here. The discussion so far has ignored the possibility of leaders opting for domestic institutional lock in of new policies instead of lock in through international institutions. Domestic institutional lock in may occur for example through the creation of independent agencies or through changes in the constitution. Leaders most likely weigh the costs and benefits of domestic versus international delegation. The key question is how effective are these two options in assisting leaders to keep their promises. Abolishing a domestic agency or amending the constitution can be politically costly. The decision-maker has to compare these costs to the costs of violating or exiting an international treaty. If costs of breaking the promise are higher, leaders achieve a higher degree of self-binding and policy lock in. Here are some points that suggest that the costs of breaking or exiting international agreements might be of significance. According to experimental evidence by Tomz (2007) the public values that their countries don’t break international agreements, which implies that politicians risk incurring a political cost when they ignore international obligations. Additionally, breaking international agreements might lead to a reputational loss for the violating country. Besides reputational concerns, a risk exists that treaty violation is sanctioned. Another point is that, exiting international treaties might prevent countries from enjoying long term benefits that the international agreement provides. In sum, at times it can be optimal for leaders to prefer international over domestic institutional lock in.

## 1.2. Particularistic electoral pressures and international hands-tying

At least since Olson (1965), scholars are concerned with the fact that well defined interest groups with a lot at stake find it easier to act collectively than large and unorganized groups of

individuals. Interest groups are likely to use this advantage to lobby their governments for policies that promote their particular objectives. This can take illegal forms, but there are also legal ways to accomplish this, for example through campaign contributions. For utility-maximizing politicians it is often rational to sell policies to these interest groups, even if this is not in the best interest of the disorganized, median voter. “Protection for Sale”, the classical article by Grossman and Helpman (1994) applies this logic to trade policy and shows that establishing trade barriers to garner interest group support may be a rational tactic for politicians, even if this goes against general welfare and imposes costs on trade partners. The creation of international trade agreements can act as a device for politicians of participating countries to fend off protectionist demands. Ideally, multilateral trade agreements serve the purpose of tying politicians’ hands so that they can escape the prisoners’ dilemma Nash equilibrium of protectionism and implement mutually beneficial open commerce. But does the pressure to reward protectionist interest groups in violation of international trade obligations vary with the type of political institutions in place? An accumulating body of research shows that political institutions have an influence on whether the general public or interests groups weight more in the electoral calculus of politicians.<sup>19</sup>

### 1.2.1. Electoral institutions and political responsiveness

The main conjecture of this paper is that systematic differences in foreign policy outcomes follow from the workings of democratic accountability which depend on the configuration of domestic political institutions. One important dimension along which countries’ political institutions differ is the type of electoral system. As shall be discussed in this section, theoretical and empirical contributions suggest that the type of electoral system was found to influence the political decision to reward either narrow or more general interests in society. In this paper an extension of this argument is proposed stating that politicians might find it useful to tie their hands through international agreements to thwart electoral pressures to please narrow groups, which are higher under certain types of electoral systems. Importantly, it is argued that domestic political institutions not only constrain politicians’ choices regarding domestic policy issues but also affect politicians’ foreign policy options. Foreign policy does not operate under a completely different logic than domestic politics, being only responsive to external strategic

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<sup>19</sup> See Helpman and Persson (1998).



factors. Instead, foreign policy decisions are made by politicians aiming to win elections and operating in a given institutional framework.

The political economy literature that serves as the theoretical foundation for the proposed hypothesis will be briefly reviewed. Influential political economy models link the type of the electoral system to the tendency of governments to provide narrow and targetable benefits versus broad public goods. Electoral systems can vary along at least three dimensions: first, the average number of representatives per electoral district (*district magnitude*), second, the *electoral formula*, according to which vote shares are translated into seat shares in the legislature, and third, the *ballot structure*, that is, whether, for example, the names of the candidates appear on the ballot or votes are rather cast for pre-established candidate lists from the different parties. In practice, specific combinations are common, for example, a relatively high number of representatives per district, proportional representation as electoral formula, and party lists frequently come together.<sup>20</sup>

An early model by Weingast, Shepsle, and Johnsen (1981) offers a rationale for the inefficient political provision of targeted goods, defined as goods “that concentrate the benefits in geographically specific constituencies, while spreading their costs across all constituencies through generalized taxation.”<sup>21</sup> It is precisely the fact that these expenditures generate diffuse costs while providing concentrated benefits that makes them attractive for politicians seeking reelection. Numerous such policies get adopted simultaneously, as a package, despite their inefficiency. “Log-rolling” or exchange of support by politicians is fundamental in this context, because each policy wouldn’t pass individually. The authors built the model having the U.S. political system in mind, with its single-member electoral districts, where representatives are directly accountable to their constituencies and, consequently, the incentive to pork barrel<sup>22</sup> is relatively large. The incentives for providing targeted goods are expected to decrease with the number of representatives per district, because individual accountability to constituents should also diminish.

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<sup>20</sup> Nevertheless it makes sense to distinguish all three aspects, because there are also several examples of mixed systems and the different aspects are associated with different hypotheses and could have different effects.

<sup>21</sup> Weingast et al. (1981: 643).

<sup>22</sup> Pork barrel spending refers to government expenditures that are financed by broad-based taxation but provide benefits limited to specific geographic constituencies.

“Larger districts diffuse electoral competition, inducing parties to seek support from broad coalitions in the population (and from the whole population in the extreme case when the whole legislature is elected in a single district). Smaller districts instead steer electoral competition towards narrower, geographical constituencies, which are thus the primary beneficiaries of the electoral promises of both candidates.” (Persson and Tabellini 2003: 17)

This is an argument related to the district magnitude. Considering the ballot structure, reliance on party lists instead of individual candidates also implies no direct accountability to geographically delimited electoral districts, reducing incentives for politicians to make use of targeted benefits.

Subsequent work adopted more explicitly a comparative perspective and provided further theoretical arguments linking electoral systems to public good provision. Persson and Tabellini (1999) compare the ideal type proportional system (proportional representation combined with one nationwide electoral district) to the ideal type plurality system (plurality combined with single member electoral districts). Public good provision under the proportional representation (PR) system is larger in equilibrium compared to a plurality system because the governing fraction needs the support of at least 50 per cent of the voters under PR. The equivalent “minimum winning coalition” for the plurality systems consists of only slightly more than 25 per cent of voters (at least half of the votes in half of the electoral districts) and, hence, politicians are under higher incentives to target benefits under plurality rule compared to PR. The fact that competing parties usually are relatively certain winners in a number of districts leads to the strategic targeting of benefits to pivotal districts.<sup>23</sup> This reinforces the claim of public good under-provision in plurality systems. Statistical findings are supportive of the theoretical expectation that a higher average number of representatives per district and reliance on PR as electoral formula both push fiscal policy towards greater public goods provision. Persson and Tabellini (2003, 2004) perform a statistical analysis with a global sample of democratic countries and come to the result that social security and welfare spending, which is their indicator for public goods provision, is 2-3 per cent of GDP higher in countries with PR systems compared to plurality systems. The result holds if the non-random nature of electoral systems is accounted for.

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<sup>23</sup> See also Strömberg (2008) for a model of the U.S. Electoral College system that predicts strategic candidate attention to decisive districts, a prediction corroborated by data on the U.S. presidential campaigns in 2000 and 2004.

Milesi-Ferreti et al. (2002) arrive at similar results with a sample of Latin American and OECD countries. Funk and Gathmann (2010) constrain their empirical analysis to one cultural environment by looking at the variation in the implementation of proportional representation across Swiss cantons. Their findings are also in line with theoretical expectations. According to their evidence proportional systems spend more on goods benefiting broad constituencies, like education.

### 1.2.2. Electoral institutions and political incentives to join international agreements

Given the political incentives related to specific types of electoral institutions, joining international agreements may be an instrument employed by domestic political actors to realize specific political goals. As discussed in the previous section, a legislature elected through majoritarian electoral institutions faces incentives to reward concentrated interests. The corresponding executive branch, elected through a national vote, is more dependent upon the average voter. In this case, it is a rational strategy for the executive to try to tie its hands signing an international agreement as an attempt to fend off particularistic pressures coming from the legislature.<sup>24</sup> The ideal point representing the policy preferences of the executive is different from the legislature's ideal point. Committing to an international agreement shifts the policy space closer to the executive's ideal point and away from the legislature's ideal point.<sup>25</sup> For the hands-tying strategy of the executive to be viable, violating the international agreement has to be costly also for the legislature. The costs can be viewed as reputational costs, costs stemming from reciprocal punishment, or as costs due to cross-retaliation.

An additional argument is that legislators themselves might be interested in delegation to become less constrained by the pressure of their own constituency. Voigt and Salzberger argue in this line:

“If legislators are also interested in a more national minded decision-making, or if they are enforced by party discipline to vote for decisions which do not benefit their constituency, then they might have an interest in constraining their power by

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<sup>24</sup> In many countries the executive needs approval from the legislature to entering into international agreements. It will be discussed why legislators might also have an interest in tying their hands.

<sup>25</sup> Compare, for example, Goldstein (1996).

transferring it to an independent agency that does not depend on the support of individual districts.” (Voigt and Salzberger 2002: 304)

In short, the domestic politics explanation for entering into international treaties offered here is based on the idea that politicians use these treaties as a hands-tying instrument to get more independent from particularistic electoral pressures. Milner (1997: 184) argues that politicians can have an interest in relying on international agreements to counterbalance the power of interest groups:

“Powerful groups within a state may be able to prevent the adoption of policies they dislike in a unilateral setting, even when political leaders favor them. International cooperation can allow political actors to overcome this domestic opposition and adopt policies they otherwise could not.”

It is necessary to make explicit, under what conditions politicians have incentives to reject pacts with interest groups and follow this tying-hands-through-international-agreements strategy instead. A starting point is to consider under what conditions hands-tying is an electorally rewarding strategy. Models in the tradition of Grossman and Helpman (1994) demonstrate that electorally-motivated politicians have to deal with conflicting demands. Politicians have to balance incentives to cater to the median-voter against incentives to deliver benefits to interest groups in exchange for campaign contributions. It is interesting to reflect under what conditions politicians have a higher incentive to maximize national welfare instead of entering into pacts with concentrated interests. When these pacts become too apparent for the broad public voters might punish this behavior at the polls. Giving in to interest group demands might end up being a risky strategy for politicians. More risk averse politicians might prefer to find ways to fend off interest group demands. Milner (1997) argues that entering into international agreements is a possible way to accomplish this. She emphasizes:

“(…) the binding effect that international cooperation may exert on domestic politics. If domestic groups want politicians to take actions that the politicians believe would be deleterious for the economy as a whole, then they may wish to prevent themselves from being forced domestically to adopt such policies. International cooperation may be one way for political leaders to commit themselves to *not* doing something.” (Milner 1997: 184)

In sum, politicians might find it useful to tie their hands through international agreements to thwart electoral pressures give benefits to narrow groups. The political economy research discussed previously shows that electoral pressures to please narrow groups are higher under majoritarian electoral institutions when compared to proportional representation electoral institutions. Incentives to thwart electoral pressures from narrow interest should be higher in countries where such narrow interest group pressure are most pronounced, which is the case for states with majoritarian electoral institutions.

The following hypothesis follows from these arguments:

Hypothesis H2: Countries with majoritarian electoral institutions are more likely to enter into international agreements benefiting dispersed interests, than countries with proportional representation electoral institutions, *ceteris paribus*.

## **2. Domestic politics and compliance with international agreements**

Domestic institutions might also be related to decisions to comply with international obligations. In the following sections theoretical arguments are developed with the focus how state structure and electoral institutions affect the actual implementation of international agreements.

### **2.1. Veto points and compliance with international agreements**

What actors have a voice and veto power in foreign policy-making is crucial for compliance with international agreements. The legislature sometimes has incentives to delegate foreign policy authority to the executive.<sup>26</sup> Nevertheless, when this delegation occurs, it does not mean that the legislature ends up with no influence over foreign policy decisions. Executive-legislative interaction plays a role here, because the legislature remains an important actor for the implementation of international agreements. As a result the executive has to anticipate the probability of implementation by the legislature in the negotiation phase of international agreements. Through this anticipation, the preference of the legislature (or of other veto points needed for implementation) is accounted for by executives during international negotiations.

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<sup>26</sup> See Martin (2000).

Hence, as the number of veto players that have to be accounted for by the executive increases, resistance in the implementation of international agreements is less likely, leading to less violation. Furthermore, systems with a higher number of veto points are associated with less policy volatility (status quo bias)<sup>27</sup>, making the policy reversal in violation of international agreements less likely.

Hypothesis H3: As the number of veto points increases (and political decentralization is higher), countries are more likely to comply with international agreements, *ceteris paribus*.

## 2.2. Electoral institutions, political clientelism, and compliance with international agreements

As discussed above (chapter 2.2.), the type of electoral institutions was shown to be systematically linked to the provision of benefits targeted to specific groups. The main argument here is that international cooperation that results in the mutual/international provision of public goods runs counter to the incentives of politicians that maximize their probability to stay in office by providing targeted benefits to well defined groups. From this follows that countries with electoral institutions that are biased towards the provision of targeted benefits are less likely to comply with international agreements favoring dispersed interests (political clientelism argument).

Hypothesis H4: Countries with majoritarian electoral institutions are more likely to violate international agreements benefiting dispersed interests, than countries with proportional representation electoral institutions, *ceteris paribus*.

A recent contribution by Rickard (2010) offers a first empirical test of the argument contained in hypothesis H4. She is interested in the differences in compliance of democracies with international trade law. Her study emphasizes differences in how electoral competition gets itself manifested, depending on the type of electoral institutions in place. In a second argumentative step, she links the differing incentives provided by alternative sets of institutions to compliance with GATT/WTO restrictions on subsidies targeted to individual industries or firms.

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<sup>27</sup> See Henisz (2004).

“The argument made here suggests that governments choose to provide illegal narrow transfers in violation of international agreements when the domestic electoral benefits of doing so outweigh the costs. This is more likely to occur in plurality rule democracies where narrow transfers provide unique and important electoral benefits to politicians facing competitive democratic elections.” (Rickard 2010: 716)

Efforts to test empirically compliance with international law are complicated by the problem of how to measure compliance. Rickard’s approach is to measure instances of non-compliance with GATT/WTO restrictions on subsidies. These are indicated by the cumulative number of complaints over illegal subsidies that a democratic GATT/WTO member is faced with per year. The sample of the study consists of an unbalanced panel of democratic GATT/WTO members covering the period from 1980 to 2003. In a pooled times-series cross-section analysis the author finds robust evidence that countries with majoritarian electoral rules are more likely to violate GATT/WTO rules prohibiting targeted subsidies, as measured by the number of complaints filed against these countries. Rickard employs two measures of electoral institutions, a dummy variable indicating if the lower (or only) legislative chamber is elected via plurality rule and the mean district magnitude. Each indicator has a statistically significant effect on the compliance measure as expected, after controlling for other factors. Rickard interprets this result as evidence in favor of the hypothesis that politicians in countries with majoritarian electoral rules are more likely to cater to special interests, even when this violates international commitments.

A weakness of the study lies in the operationalization of the dependent variable, the number complaints for breaking GATT/WTO rules on subsidies. Countries with majoritarian electoral rules usually have larger markets. If this happens to be the true reason why they receive more complaints, the association between electoral rules and complaints might be spurious. The author recognizes this problem and includes the defendant’s market size as control variable. But there might be other strategic factors not accounted for that influence the decision to file a complaint, which means that the problem of a spurious correlation cannot be ruled out. A further point that lends itself to discussion is the threshold used to define countries as democratic. Rickard includes in her sample countries that score 8 or higher in the Polity IV “democraticness” scale ranging from 0 to 10, and checks if the results still hold if the sample is expanded by lowering the threshold to 6. Interestingly, augmenting the sample to include countries with lower

democratic standards weakens the effects and leads to a lower statistical significance. Thus, the theoretical reasoning linking electoral institutions to (foreign) policy outcomes seems to be at work within a group of more established democracies. This sounds plausible, given that formal political institutions are more likely to have a binding effect on politicians in these countries.

This paper set out to develop testable hypotheses about the impact of domestic institutions on the incentives of politicians to make use of international agreements. First the focus laid on the decision to delegate powers to the international level, considering the effects of the structure of the state and of its electoral institutions. Subsequently, the analysis shifted to how these domestic institutions influence compliance patterns. The following table summarizes the propositions.

### **Domestic institutions and international agreements**

<b>Constitutional structure and international delegation</b>	
<b>H1</b>	As the number of veto points decreases (and political centralization is higher), countries are more likely to enter into international agreements as a means to enhance the credibility of their policy announcements or to lock-in specific policies, <i>ceteris paribus</i> .
<b>H2</b>	Countries with majoritarian electoral institutions are more likely to enter into international agreements benefiting dispersed interests, compared to countries with proportional representation electoral institutions, <i>ceteris paribus</i> .
<b>Constitutional structure and compliance with international obligations</b>	
<b>H3</b>	As the number of veto points increases (and political decision-making is more decentralized), countries are more likely to comply with international agreements, <i>ceteris paribus</i> .
<b>H4</b>	Countries with majoritarian electoral institutions are more likely to violate international agreements benefiting dispersed interests, compared to countries with proportional representation electoral institutions, <i>ceteris paribus</i> .

### **3. Conclusions**

Evidence is accumulating that domestic politics matters for foreign affairs and that it pays off for international relations scholarship to open the black box of the state.<sup>28</sup> Furthermore, institutional variation across countries appears to have a systematic effect on foreign policy

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<sup>28</sup> Compare Trachtman (2010).



decisions. Relying on credible commitment theory and political economy, four hypotheses were put forward which are summarized in the table below.

First, the degree of centralization of a polity influences policy-making patterns. A polity characterized by a high degree of centralization is less constrained by a system of checks and balances opening up the risk of high policy volatility. In this context it might prove helpful for politicians to rely on international agreements to signal commitment to policies by making reversal costlier. Second, certain political institutions put politicians under pressure to please specific interests in order to get reelected. Furthermore, special interest groups have more influence in some polities relative to others. Under these circumstances, it may be optimal for politicians to resort to international agreements as a hands-tying device that gives them the opportunity to fend off particularistic demands.

Other hypotheses were proposed for the compliance stage. A low degree of centralization makes it harder to achieve a consensus among all relevant veto points in favor of joining international treaties. But once international agreements are ratified, low centralization countries will be more likely to uphold their commitments because interests of actors that could block implementation had to be accounted for in the delegation stage. Furthermore, politicians in countries with majoritarian institutions are inclined to violate international obligations that regulate the provision of targeted subsidies more frequently. This is the case because tailored subsidies are an important instrument to win close elections that are typical for majoritarian systems, which usually have only two parties competing for office.<sup>29</sup>

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<sup>29</sup> Duverger (1954).

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