

**Review: Robert Keohane (1984), “A Functional Theory of Regimes” in *After Hegemony: Cooperation and Discord in the World Political Economy*. Princeton: Princeton University Press. Chapter 6.**

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### **The Central Argument**

In this article, Keohane argues that international regimes can solve the problem of political market failure in international politics. Using the Coase Theorem analogy, which has frequently been used to demonstrate the effectiveness of bargaining without central authority (or government interventions in economic term), Keohane contends that it can also be applied in international relations (p.86). According to him, international regimes can establish patterns of legal liability, provide roughly symmetrical information, and arrange the costs of negotiation such that specific agreements can be reached more easily (p.88).

### **How International Regimes Solve Political Market Failure**

It is frequently has argued that government intervention with enforcement is the solution to market failure such as negative externality like pollution (p.86). In contrast, Keohane argues that an international regime can solve the problem of market failure by using some mechanism without the present of hierarchy. First, the international regime can facilitate quasi-agreement. In contrast to legal rule in the present hierarchal structure (state), legal liability according to Keohane is a quasi-agreement. Because of the lack of hierarchy in international politics, Keohane argues that this quasi agreement is based on mutual benefit rather than a legally enforceable agreement. However, according to Keohane, international regimes' quasi-agreements are frequently altered: their norms are adjusted, twisted, or broken to match the necessities of the present. They are frequently the subject of discussion and renegotiation (p.89).

Second, International regime also can reduce transaction cost with bargaining and negotiation. He gives an example from GATT (General Agreement on Tarif and Tax) negotiation to provide evidence of his claim (pp.89-92). Third, regarding the issues of uncertainty and information, Keohane argues that international regimes can solve some problems such as asymmetric information, moral hazard, and irresponsibility (p.93). For asymmetric information issues, international regimes may require precise information about its prospective partners' internal evaluations of a particular situation. As a result, it can reduce risks of making agreements. International regimes can reduce moral hazard using their agreements and negotiations.

The other important issue regarding uncertainty that Keohane underlines is irresponsibility. Some actors may be irresponsible, making commitments that they may not be able to carry out. Therefore, there will be the issue of uncertainty. To solve these issues, international regimes can assist states in dealing with all of these issues. Uncertainty decreases as a regime's principles and regulations narrow the range of predicted behavior, and as information becomes more broadly available, the asymmetry of its distribution is likely to diminish (p.97).

As a result, international regimes are beneficial to governments. Far from being a threat to governments, they enable governments to achieve goals that would otherwise be impossible to achieve. In part, they accomplish this by facilitating intergovernmental agreements. Regimes encourage agreements by increasing the expected costs of infringing others' property rights, changing transaction costs through problem clustering, and supplying members with trustworthy information (p.97).