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GLOBALIZATION PROCESSES IN THE OECD WORLD

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DOES INTERNATIONAL GOVERNANCE MEET DEMAND?

THEORIES OF INTERNATIONAL INSTITUTIONS IN THE AGE OF DENATIONALIZATION

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Preface

The following two papers originate from the first part of a larger and still ongoing project on the „Societal Determinants of Political Integration and Fragmentation in the OECD Countries“. As they rely on the same conceptual and empirical basis we have decided to put them together.

In the first part of this project we asked whether there is a correlation between societal denationalization and political denationalization. We started out from the assumption that societal denationalization commenced in the seventies and that it has taken on a new quality if compared to earlier internationalization processes. With a certain time lag societal denationalization, so we assumed, will lead to political denationalization manifesting itself in both integrative and fragmentative tendencies. In order to gauge the extent of those macro-trends we developed indicators and gathered the relevant data. The conceptual framework and the empirical results of 72 indicators for societal and political denationalization as well as for a related trend (individualization) will be published in Marianne Beisheim, Sabine Dreher, Gregor Walter, Bernhard Zangl und Michael Zürn: Im Zeitalter der Globalisierung? Thesen und Daten zur gesellschaftlichen und politischen Denationalisierung, Baden-Baden: Nomos (January 1998).

Both working papers use these conceptual foundations and data in order to discuss two important aspects of the larger theme: The first paper by Gregor Walter, Sabine Dreher and Marianne Beisheim takes up the neglected arguments of the globalization skeptics and asks to what extent, when and where globalization (societal denationalization in our terminology) really occurred. The second paper asks to what degree societal denationalization has been matched by the rise of international institutions and thus whether international institutions actually meet the demand for governance beyond the nation-state that has been created by societal denationalization. Since both arguments use in part the same data, the corresponding tables and figures are documented in a joint appendix.

The project on „Societal Determinants of Political Integration and Fragmentation in the OECD Countries“ is funded by the Deutsche Forschungsgemeinschaft and carried out under my direction at the Institute for Intercultural and International Studies (InIIS) at the University of Bremen. We would like to express our thanks to the DFG and the people at InIIS for their support.

Michael Zürn
Globalization Processes in the OECD World

1. Introduction

The discussion on globalization – "the most fashionable word of the 1990s, so portentous and wonderfully patient as to puzzle Alice in Wonderland and thrill the Red Queen" (Barnet/Carvanagh 1994: 14) – has become so ubiquitous that today even reference to its omnipresence is just a truism. Scholte (1996: 45) noted that no matter whether as Chinese "Quan Qui Hua", as French "mondialisation", or as English "globalization" the very word itself appears to be globalized. Despite its prominence there is no consensus on the concept, the empirical manifestations or the consequences of globalization. On the one hand, there are authors who maintain that the recent debate on globalization and the flustering claims of "new, new, change, change" (Krasner 1994: 14) are as substantial as the declarations made in American political campaigns. Theoretical and empirical arguments are being made to illustrate that globalization is "not new" (ibid: 13). On the other hand, there is hardly any fundamental political institution of the western world – such as sovereignty, autonomy, or democracy – that is not said to be severely affected, challenged or undermined by globalization. Accordingly, some authors see the process as a "nail in the coffin" of the sovereign democratic welfare state that has emerged in the post-war era. From this perspective, the current process implies nothing less than a fundamental change in the nature of the most prominent objects of international relations: the state and the international system (see e.g. Camilleri/Falk 1992, Zacher 1992). And yet, the nature of globalization itself is not very clear. How does globalization manifest itself? Who is affected by it and to which extent? These questions appear to be largely unanswered. Given the far-reaching consequences some scholars assume globalization to have, it is rather surprising how little systematic information has been gathered with regard to the process itself. In some cases, the evidence presented as "proof" of globalization is of a rather anecdotal nature. Most contributions are highlighting some specific (new) forms of transboundary interactions rather than comprehensively illustrating the scope and intensity of globalization. To be sure, data on a number of econometric indicators such as the volume of exports or the volume of direct investment is readily available and has been published in a number of contributions4, but there remains a significant deficit with regard to more systematic studies that include a broader set of indicators.

In sum, the arguments of those who doubt the significance of the globalization process have not sufficiently been dealt with and the discussion on the consequences of globalization could benefit from a clearer empirical understanding of the independent variable. Within the limited space of this paper we will therefore outline some of the results of our own research5 to contribute to an empirical debate on globalization that has been neglected so far.

5 All data presented here was collected as part of a research project funded by the Deutsche Forschungsgemeinschaft (DFG) and conducted at the Institute for Intercultural and International Studies (InlIS), University of Bremen. For a much more comprehensive description and interpretation of empirical evidence on denationalization and its consequences see Beisheim et al. 1998. For further conceptual considerations and results see Beisheim et al. 1997a,
2. Theoretical Considerations

Before taking sides in this debate, some theoretical remarks have to be made in order to clarify our understanding of the phenomenon under investigation. First, it is necessary to point out that globalization is not global. Even without going into any empirical detail it is apparent that neither trade nor direct investment, neither the exchange of cultural goods nor foreign travel display a symmetrical distribution on a truly global scale. Most transboundary interactions are taking place within the OECD-world. From this perspective, globalization – understood as a process resulting in a status of globality – appears to be a misnomer. However, even if it is some sort of "OECDization" we are currently witnessing, the process itself is analytically and politically not less relevant. If more and more societal interactions are taking place within a territory larger than the state – no matter whether it is on a regional, on an OECD- or a global scale – the governance of these transboundary interactions will become more and more difficult. For example, if such interactions result in a market that covers more than one country, it will become increasingly difficult for a single state to regulate this market – even if this was politically desired. From this perspective, all societal transactions that transcend the state's borders may have political consequences. Generally speaking, it is thus the incongruency between the territorial boundaries of societal transactions and the territorial boundaries of the state and the regulations established by it that poses a fundamental problem for the nation-state's ability to govern. Karl Deutsch defined a border as "the place where there is some critical reduction in the frequency of a certain type of transaction" (Deutsch 1969: 99). In our opinion it is precisely the leveling of borders as thresholds of transactions that potentially challenges the state. Therefore, we prefer to use the term "denationalization" instead of "globalization" in order to signify the extension of societal transactions beyond the national level – no matter what scope the transactions actually attain.

Using this definition, our second conceptual assumption holds that denationalization not exclusively denotes exchange. Transboundary exchanges such as international trade are a part of denationalization, but they do not necessarily constitute the only form of societal transactions on the international level. Instead of being exchanged it is possible that certain goods are jointly produced by societal actors in different countries. This form of "transboundary production" is currently chiefly discussed with regard to transnational corporations (TNCs) in the economic sphere, but the concept can also be applied to other issue areas. The depletion of the ozone layer e.g. (although a "bad" rather than a "good") resembles "transboundary production" in being simultaneously caused by a multiplicity of actors in various countries. Thus, it is structurally different from transboundary air-pollution, a problem that is caused by the exchange of certain pollutants. Hence, in a variety of issue areas denationalization may assume the form of transboundary exchange as well as transboundary production.

6 For an empirical illustration of the global distribution of trade and investment see e.g. Hirst/Thompson (1996: 68-69).
7 In the remainder of the paper we will use the term "denationalization" to refer to the empirical processes and "globalization" to refer to the debate on this topic.
Finally, it is our understanding that denationalization is not necessarily only an economic phenomenon. Even though the current debate is mainly revolving around economic issues, there is a priori no reason to limit the observation to economic interactions. Rather, different issue areas can be identified by the respective objects of transboundary exchange and production in order to structure the observation. From this perspective the issue area "economy" is defined by the exchange or the joint production of goods, capital, and services. Signs and symbols, on the other hand, are the object of interaction in the field of "communication and culture", whereas the exchange of pollutants and the joint production of environmental risks constitute the issue area "environment". The transboundary movement of persons can be identified as the issue area of "mobility" and threats are the objects being exchanged or jointly produced in the field of "security".

Before presenting data gathered as part of our research based on this definition and conceptualization of denationalization, we will discuss some of the theoretical arguments of those who doubt the empirical significance of the denationalization process. We will then be able to evaluate these arguments in the light of our results and briefly comment on the consequences for further debate.

3. Empirical Doubts

As we have outlined above, a number of authors challenge the empirical significance of denationalization. Three arguments are of particular importance:

(1) It is not "out there" because we do not see the consequences.

It is a prominent supposition in the globalization literature that the process drastically reduces the autonomy of the state.\footnote{See e.g. Zacher 1992, Held/McGrew 1993, Held 1995.} According to this line of reasoning, this is due to the fact that a large number of policy instruments have lost their effectiveness. In particular, this is assumed for nearly all measures of macroeconomic steering. If capital mobility is high – a feature commonly associated with denationalization – e.g. lowering the interest rates will not result in an increase in investment but in an increased outflow of capital (if there are higher interest rates in other countries). Some authors have even claimed that the world market gains direct dictatorial influence over national economic policy (Frieden 1987: 112). Eventually, states are left with a very limited set of policy options. This constitutes a uniform challenge for all states affected by denationalization. As a result, it is therefore assumed that the reduced autonomy of the state leads to a convergence of national economic policies on the "lowest common denominator" of state intervention (see e.g. Andrews 1994). Empirical studies have shown that such a "convergence in non-intervention" has not been taking place. Empirically, there are not even first signs of convergence (Armingeon 1996) and high capital mobility correlates with high instead of low levels of state intervention (Garrett 1995). Based on these results, globalization skeptics have argued that the extent of the process is therefore greatly overestimated.
This, however, is a logical fallacy. The failure to observe the hypothesized consequences of a certain phenomenon does not prove that the phenomenon itself does not exist. It may simply be the causal reasoning or the observation of the dependent variable that is flawed. It is, for example, far from clear whether there is a necessary logical connection between reduced state autonomy and political convergence. It has to be kept in mind that the policy choices vary greatly between different countries (in terms of levels of intervention) and that these choices can be assumed to be highly path-dependent. It follows that the existence of denationalization cannot be refuted (nor proven) by observing any variable that is assumed to be dependent on denationalization. The same can be said about any processes supposed to cause denationalization. In our opinion, the empirical (non-) significance of denationalization has to be established by evaluating the process itself and not some potentially dependant or prior variable.

(2) It is not "out there" because relative indicators do not show it.

Globalization skeptics have also maintained that an observation of the process itself does not yield significant results either. Armingeon (1996) has pointed out that while there may be impressive increases in the values of a variety of econometric indicators (such as the volume of direct investment), it should not be forgotten that the absolute levels of these indicators are still rather low. Scholars should not neglect the scales of their graphs while concentrating on the slope of the curves. Of course this reasoning raises the question with what to compare, i.e. how to assess the significance of the absolute level of an indicator. How much is "a lot"? Already in the beginning of the globalization debate, Thomson/Krasner (1989) have made very clear with what to compare. They argued that transaction costs have not only decreased for international interactions but for all kinds of activities. Therefore, the rise in transboundary interactions comes as no surprise, if the rise in domestic interactions is taken into account. If there are more transactions today on all levels of activities, there should be more international interactions as well. Hence, increases in the absolute number of transboundary interactions are not valid indicators of denationalization, if this word is to signify more than the international aspect of the general increase of interactions. Denationalization as a relevant process only occurs if the ratio between international and domestic interactions changes in favor of the former. All indicators of denationalization therefore have to be relative rather than absolute. For example, denationalization in communication can not be measured by the number of international phone calls but only by changes in the ratio between international and domestic phone calls.

While we generally agree that the exclusive use of absolute indicators will lead to an overestimation of denationalization it has to be kept in mind that a quantitative comparison between transboundary and domestic interactions is not always possible. In some cases this is due to the fact that data is only collected for transboundary interactions. Transnational strategic alliances, for example, are covered by some statistics whereas the national cooperation of companies is not recorded in the same way. More important are cases of transboundary interactions for which domestic analogies do not even exist. There is, for example, no national process analogous to the depletion of the ozone layer. In this case, the identification of "equivalent" processes does not help either because it would be extremely difficult to identify a method for quantitative comparison. One could argue e.g. that national environmental problems (such as contamination of the ground) have to be compared to the
depletion of the ozone layer in order to arrive at an evaluation of the state of denationalization with regard to environmental problems. But to do so in a quantitative manner is almost impossible. In these cases in which relative indicators are difficult to construct absolute indicators can serve as a substitute in order not to neglect relevant transboundary processes. The existence of domestic "equivalents", however, has to be always kept in mind in interpreting the data. Therefore, the absolute indicators will have to display very significant changes in order to suggest that the domestic "equivalents" did not change in a similar or even faster manner.

(3) It may be "out there", but it is "not new" (Krasner 1994: 13).

Specifically with regard to relative indicators Thomson/Krasner (1989) have formulated a second equally important argument that can also be found in a significant part of the literature on globalization. According to this line of reasoning, it may be possible to identify increases in a variety of indicators, but in historical perspective, the current level of denationalization is not an entirely new phenomenon. If empirical observation is extended to the time before World War I it becomes apparent that denationalization used to be at least as pronounced in the 1870-1914 period than it is today. We are currently witnessing nothing more than the final stages of a "catch up" process in which the total collapse of the international economic relations during and between the wars is being compensated. Compared to the time before the World War I, there is no qualitative change, no "new dimension" of denationalization (see e.g. Hirst/Thompson 1996: 49). Accordingly, Friedman (1989: 8) maintained: "The world is less internationalized in any immediate, relevant, pertinent sense today than it was in 1913 or in 1929". Thomson/Krasner (1989: 198) have gone as far as to conclude "It is not clear that international flows are relatively more important today than they were a century or more ago". Without restricting our observations to international flows as elements of transboundary exchange, we agree that claims of the historical singularity of denationalization have to be verified empirically.

While the first of the above-mentioned arguments can be refuted on logical grounds the two other points can be transformed into two questions to be answered empirically:

1) Can we observe increases in relative indicators of phenomenons of transboundary exchange or transboundary production?

2) Are there aspects in the process that appear to be new when compared to the time before the World Wars?
4. Empirical Evidence

We conducted empirical investigations for the countries of the Group of Seven (G7). Although these states do not constitute the whole "OECD-world" they represent in all respects a significant part of it. With the exception of Mexico and Turkey, the G7 comprises the states with the largest populations of all the OECD-countries. It is generally assumed, however, that smaller states usually display higher levels of transnational interactions than large ones (see e.g. Geser 1992). Therefore, selecting the G7-countries makes the observation of denationalization rather unlikely. Hence, if even the largest countries of this group are indeed subject to this process, it appears to be very likely that denationalization takes place in the whole "OECD-world". The presentation of the data is primarily structured by the different issue areas identified above, but we will also provide data on both, transnational exchange and transnational production wherever this is possible.\(^9\) In addition to the general observations for the G7, we will also partly break down our results by country in order to identify differences within the G7.

4.1 Communication and Culture

As early as 1953, Karl Deutsch used information-flows to determine the boundaries of societies (Deutsch 1953). He maintained that there was a substantial decrease in the density of communicative transactions at the borders of existing nation states. Today, however, the issue area of communication shows clear signs of denationalization.

Traditionally, linguistic signs are exchanged across borders mainly by the means of mail and telephone. Indeed, international mail flows show continuing growth from the 1950s on, but this expansion ends in the mid 1970s. Relative to domestic mail flows there are also increases in international mailing up to the 1970s, but the relative indicator starts to decline again afterwards. In telecommunications, however, denationalization continues beyond the 1970s at a significant pace. While the absolute number of international phone calls displays an almost perfect exponential pattern, the share of international in all phone calls has permanently been changing in favor of the former (Figure 1\(^{10}\)). By the beginning of the 1990s the average ratio for the G7-countries was more than seven times as high as in the end of the 1960s. The average is a reasonable approximation for the curves for Canada, Italy, and the United Kingdom, but there are two countries who significantly deviate from the overall pattern. On the one hand, while there are still increases, the growth of international relative to national phone calls is significantly slower in the United States than in other countries of the G7.\(^{11}\) Germany, on the other hand, displays above-average ratios and this deviation also intensifies over time.

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\(^9\) We do not assume an a priori hierarchical relationship among the issue areas. Therefore, they are presented in alphabetical order.

\(^{10}\) Figures and tables can be found in the joint appendix at the end of the second paper.

\(^{11}\) In this representation of the data the growth in the United States appears to be rather sluggish, but the share of international phone calls in all phone calls was forty times as high in 1992 as it used to be in the mid 1960s. The seemingly slow growth is due to the comparatively low level of the figures for the US.
The exchange of cultural goods – such as books or movies – also displays significant growth rates. In this context, it is interesting to note that the volume of imports of "books and pamphlets" has continuously risen in all countries under consideration (Figure 2). With the exception of Italy, the process proceeds almost parallelly in the different countries and clear-cut national patterns are hard to discern while Canada, the United Kingdom, and the United States – the English speaking countries in the "OECD-world" – display somewhat higher growth rates than the other states. While this data can only establish an absolute growth of transnational interactions, statistics on movies also show a very strong increase in the relative importance of transboundary exchange. With regard to foreign cinema productions (Figure 3), this results in a completely denationalized situation. The decline of the market share of domestic movies once again is an almost uniform pattern with the notable exception of the United States. The share of domestic productions for television is somewhat more stable, but – once again with the exception of the US – on a rather low level. This makes it very likely that the data reflects a form of "Hollywoodization" of the film industry that has strong denationalizing effects on the countries outside the US.

In the 1980s, the development of new information and communication technologies further increased transnational communication. Cross-border satellite television broadcasting and almost "global" TV-channels like CNN immediately come to mind. A more recent phenomenon of particular importance is the development of transboundary computer-networks, notably the emergence of the "network of networks": the "Internet". Greatly facilitating transboundary communication the Internet has characteristics of both, transboundary exchange and transboundary production. On the one hand, it constitutes an infrastructure for the exchange of signs and symbols just as a mail or telephone system. An example of this use of the Internet is electronic mail. Being one of the first applications of the net, the quantitative relevance of this form of communication has risen permanently. Three years ago the number of E-mail messages sent in only one of the major "arteries" of the net already exceeded one billion per month. In interpreting this numbers it has to be kept in mind that the proportion of international E-mails is probably relatively high and that the sum of all international phone calls and all international letter items in the whole of the G7 totals no more than 700 million per month. On the other hand, owing to its character as a gigantic "bulletin board" the Internet also has characteristics of a "transnational information pool" that is jointly "produced" and used by millions of "netizens" in various countries. As such the Internet cannot be adequately compared to the domestic communication infrastructure. Hence, the absolute growth of the Internet also has to be taken into account. The size of the "information pool" and the number of its users can be estimated by the number of Internet-Hosts. Figure 4a shows the exponential growth of the net that really "took off" with the beginning of the 1990s. While hosts used to exist only in the US up to the 1980s, the slope of the curves also shows that meanwhile the world-wide growth of the net is faster than the one within the United States. The large share of the US in the overall size of the net also implies, of course, that within the United States a purely domestic use of the Internet could exist to a

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12 The figure refers to the E-mail service on the NSFNET-Backbone as of October 1994.
13 The term "host" generally denotes any computer in a network that can be sender and receiver of information. Therefore, an "Internet-host" is a computer that is (a) hooked up to the Internet and (b) able to send and receive information using the specific information services of the Internet, i.e. Telnet, Gopher, FTP and WWW. The main differences between the services of the Internet and other information services are interactivity and the specific protocol (or "language") of the Internet (i.e. TCP/IP).
certain extend. Therefore, the extraordinary growth rates in the US have to be discounted when assessing the denationalizing consequences of the net for the United States. A breakdown for the rest of the countries under consideration (Figure 4b) shows, that increases are particularly pronounced in the United Kingdom, Germany, Canada, and Japan whereas France, and especially Italy, exhibit somewhat slower growth rates.

In sum, the issue area of communication and culture is characterized by significant tendencies of denationalization. The dynamic appears to be very pronounced with regard to telecommunication and computer-mediated communication. A comparison of the countries under consideration yields that Germany and the United Kingdom are particularly subject to this process whereas especially Italy, but also France and the United States show significantly slower changes.

4.2 Economy

While we have insisted that there is no a priori reason to see denationalization as a purely economic phenomenon, it is obvious that the discussion about this process is most prominent with regard to economic issues. In order to evaluate changes in this issue area we looked at various manifestations of economic transactions.

The absolute volume of transboundary exchanges of goods has increased dramatically. As figures 5a and 5b show, there is also a permanent though moderate increase in the ratio of trade to GDP in the majority of the G7-countries. Up to the middle of the 1970s this holds true for all countries except Japan and the United Kingdom with a significant peak for all countries in 1974. After this time the patterns get somewhat more uneven. An overall increasing tendency can still be identified for Canada, Germany, France, and the US (Figure 5a) whereas Japan, Italy, and the United Kingdom exhibit a rather constant and even declining development. With regard to international trade, it can also be shown that the export ratios (i.e. exp/GDP) in all countries of the G7 (with the exception of the United Kingdom) have reached and exceeded the levels of the time before World War I by the mid 1970s.

Growth can also be observed with regard to the transboundary movement of capital. Since banks are among the most important actors in this field, their foreign assets constitute an important indicator for capital movements. (Of course, short-term capital movements are not completely covered by this.) Once again, the absolute figures show almost exponential growth. At the same time, however, the domestic claims of deposit money banks have also increased. Still, even the share of foreign assets in all claims of deposit money banks is rising in the majority of the countries of the G7 (Figures 6a and 6b.). An overall increasing tendency can be seen with regard to Germany, France, Italy, and Japan (Italy undergoing a brief but significant decline in the mid 1970s). The United Kingdom and the United States also show growth on this indicator but only up to the beginning of the 1980s.\footnote{\textsuperscript{14} It has to be emphasized that the figures for the United Kingdom had to be plotted on a different scale in order to make the parallel movement in the UK and the US visible. This is due to the comparatively high level of the values for the UK.} From that time on, the share of foreign assets is declining which is also the case for Canada, but her values
had also displayed a rather continuous trend before. The foreign assets of banks can also include claims on foreign governments. In this respect, the developments in foreign assets imply for Canada, Italy, and especially Germany as debtors an increase in the share of the states' foreign liabilities relative to their total indebtedness.

Another indicator for the transboundary movement of capital is the volume of foreign direct investment (FDI) which is also measuring the rise of TNCs. Once again, the absolute volume of FDI-flows has grown almost exponentially. This cannot be attributed to the general extension of investment activities as the ratio of FDI to domestic investment shows (Figure 7a). On average the ratio has almost doubled in the G7. As figure 7b illustrates, this average is a rather good approximation of the processes in the individual countries with one notable exception. The United Kingdom displays significantly higher relative values for FDI and this deviation itself even shows increasing tendencies.

Not only has the relative importance of TNCs increased, but the TNCs themselves also have become increasingly transnationally intertwined by forming strategic alliances the number of which has strongly increased in the 1980s (Table 1). It is also specific with regard to TNCs that the metaphor of "transboundary production" takes on its literal content. Some products are no longer manufactured nationally and traded on the world market. Rather, production itself takes places in different countries. The emergence of such "transnational production chains" is indicated by the developments in the area of semi-finished goods. In all countries of the G7 more and more semi-finished goods are imported when compared to domestically produced semi-finished goods (Table 2). This implies that the production process itself increasingly occurs as a transnational interaction.

Another phenomenon that also represents the transaction type of transboundary production is the emergence of off-shore financial markets that no longer appear to be territorially bounded at all. Figure 8 illustrates the emergence of these markets by the almost exponential growth of the volume of trade on the eurocurrency markets. With a volume of about $ 4.5 billion as early as 1987 the eurodollar markets are by now even more important than traditional forms of international credit business. This is confirmed by data on the bond-markets that show an increasing gap between the volume of the eurobond-market and traditional forms of international lending (Figure 9).

Overall, the issue area of economy displays strong signs of denationalization. The process is visible but less pronounced with regard to transnational exchanges of goods and capital. France and Germany show relatively strong increases in terms of foreign assets of banks and international trade respectively. The United Kingdom should also be mentioned due to her exceptional high level of transnational banking activities. Otherwise, the comparison among the countries of the G7 yields no clear-cut patterns.

Of particular importance for denationalization are phenomena of transnational production notably the recent rise of TNCs and the emergence of transnational financial markets. While cross-country comparisons are less meaningful in this respect this type of transboundary interaction overall displays a very intense dynamic of denationalization that set in in the early 1970s.
4.3 Environment

Up to the early fifties, environmental problems were mainly understood as local, maybe regional problems. These types of problems, e.g. local waste disposal or damage done to the landscape, were characterized by the fact that cause and consequence of the pollution were restricted to a confined territory within one state. Since the mid-sixties, a new type of mainly industrially caused pollution, i.e. transboundary exchange of pollutants, has been observed. A well known phenomenon of this type is the long-range transboundary air pollution. The so-called "acid rain" measured in Scandinavia, for example, had been caused by sulfur- and nitrogen-oxide emissions originating mainly from the United Kingdom and Germany. Another phenomenon in this category is the transboundary transport of pollutants via another medium: water. For example, the pollution of rivers with toxic substances like heavy metals may have an international dimension for rivers crossing borders or reaching the sea close to frontiers. Especially in the seventies, problems of this kind were at the heart of environmental concern because of rising emissions of these pollutants. Because of national and international legislation, those emissions slowed down in the eighties in the countries under consideration. Consequently, since the late eighties, the share of transboundary air-pollution in the European countries of the G7 is almost constant or even decreasing (Figure 10). Since we argued that relative indicators are to be preferred with regard to transboundary exchanges, we chose the ratio of transboundary air-pollution to the average total deposition of oxidized sulfur within a country as an indicator for this type of denationalization. In this case, on the one hand national emissions of sulfur were decreasing significantly since the mid-seventies at the latest, on the other hand the share of transboundary pollutants in the total deposition within a country remained almost constant. Hence, supposedly transboundary air-pollution decreased as well. However, some European countries are still net-importers of oxidized sulfur and thus are furthermore heavily exposed to this kind of transboundary exchanges of pollutants. This is specifically the case for new types of pollutants such as biologically or chemically modified materials (e.g. hormone-like substances) that are not yet regulated very well.

In addition, since the mid-eighties, the most important environmental problems are those that have indeed world-wide dimensions. Both, the depletion of the ozone layer and the potential climate change, are truly global problems. According to our terminology, they represent phenomena of transboundary production. Instead of being characterized by a mere exchange of pollutants, these problems or collective "bads" are simultaneously caused by several countries and the whole globe suffers from the consequences. At the same time, it does not seem to be possible to quantitatively compare these global problems with national environmental problems by constructing relative indicators. Although, according to the regulation of CFCs in the Montreal Protocol, CFC-production almost ceased, the global concentration of these substances in the atmosphere is still rising because of the time-lag between the emission of CFCs, the actual damage done to the ozone-layer, and the final reduction of the substance. Therefore, stratospheric ozone levels are still declining on a global scale (Figure 11). The situation is even worse with regard to the issue of global climate change. Not only are the atmospheric concentrations of the main "greenhouse gas" CO₂ rising but world carbon emissions and the national emissions of the G7-countries are on the rise as well. Hence, in 1993, there was 13 percent more carbondioxide in the air than in

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15 Global emissions of sulfur- and nitrogen-oxide, however, are still rising.
1959. According to climatologists, this does already result in an ongoing rise of the global average temperature (Figure 12) and an annual rise of the average global sea-level for about 1-2 millimeter. Other problems of the transboundary production type are the unsustainable exploitation of natural resources throughout the world. A well known example for this is the depletion of selected fisheries due to overfishing. According to the FAO, all 17 major fishing areas in the world have either reached or exceeded their natural limits. In 1992, 69 percent of world fish stocks had been fully fished, overfished, depleted, or had collapsed and were recovering.

In sum, in recent years the recognition of the transboundary nature of more and more environmental problems has been growing. Opinion polls confirm the great importance given to global environmental issues compared to more national or local ones. Since the 1980s, the most serious problems – the depletion of the ozone layer, climate change, or the exploitation of other global commons – were problems of transboundary production and had attained a truly global scale. Thus, the issue area environment is characterized by significant tendencies of denationalization.16

### 4.4 Mobility

According to our conceptualization, the issue area of mobility is characterized by the movement of persons across borders. The observation of these movements can be structured according to the duration of the stay in the receiving country. Long-term settlement is usually registered as international migration.17 Just as in the case of international trade both "imports" and "exports" i.e. immigration and emigration have to be considered in order to cover all transboundary migratory movements. According to the argument about "relative indicators" mentioned above, it could be criticized that it should come as no surprise that migratory movements are expanding if the total population is also increasing. The more people there are the more can be expected to migrate. But just as the ratio of trade to GDP considers imports and exports relative to domestic production, it is also possible to construct a "migration ratio" that is based on the same concept. We compiled data on both immigration and emigration and computed the migration ratios by dividing the sum of immigration and emigration by the size of the total population. As figure 13 shows, these ratios display rather disparate patterns. The development is most striking in France. In this country, the relative number of immigrants and emigrants has very strongly increased from the 1970s on. It can be demonstrated that this is not due to inflows or outflows only. Rather, both types of transboundary movements are simultaneously increasing. The US and (at least until the mid 1970s) even Germany show positive trends. The United Kingdom exhibits a rather constant pattern (with a significant and lasting increase of the level of migration in the early 1960s) whereas the values for Italy are constantly falling since the early 1960s. Hence, it may be concluded that it is particularly France and to a much lesser extend also the US where transboundary migratory movements have increased relative to total population size. Italy, on the other hand, rather shows "renationalization" than denationalization according to this indicator.

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16 Because of the global nature of these problems, it is difficult to employ cross-country comparisons.
17 Statistically, stays of more than one year are considered "long-term" or "permanent".
As in the case of FDI, it has to be noted, however, that the migration ratios only capture migration flows. Constant flows still imply ever increasing "stocks" of migrants. In order to clarify the relation between "stocks" of migrants and denationalization, two aspects have to be emphasized: First, migrants rarely completely "burn their boats" after arriving in the receiving country. Thus, the absolute number of immigrants indirectly measures various kinds of transboundary interactions only partly covered by other indicators presented here.  
Second, it has to be taken into account that an increasing share of foreign-born people implies that the society of the receiving country increasingly becomes "transboundarily" constituted. With regard to culture, this can be illustrated as follows: If migrants only partly stick to the language, the manners, the values of the cultures they originated from, a rising share of such migrants in the total population will gradually change the culture of the receiving country as the migrants are a part of the total population. Figure 14 presents data on these "stock values" as it shows the development of the share of "foreign-born" population in the total population for the United States and on the share of "foreigners" for four other countries of the G7. The statistics on the foreign-born population can be better compared to the migration flows because all migrants are foreign-born whereas only the sub-group whose members are not granted citizenship in the receiving country are "foreigners". In this regard, data for the United States shows that slowly increasing flow values can still result in significant increases in the share of the foreign-born population in the total population. Increases are also visible for France and Germany whereas the data on the United Kingdom and Italy does hardly show any significant long-term changes. For all countries besides the US the real process is underestimated due to the fact that naturalized migrants are not taken into account. It is specific with regard to France and the United Kingdom that this error can be assumed to be rather large because these countries have high naturalization rates. Overall, the data shows that the share of migrants in the total population has risen specifically with regard to France, Germany, and the United States.

Mobility also implies the short-term transboundary movement of persons a significant part of which takes on the form of international tourism. The World Tourism Organization measures international tourist activity trends using figures on the "arrivals" of tourists from abroad at the borders of all countries. This data shows enormous growth since the 1950s. Just as in the case of other indicators, however, it would be possible to argue that the tremendous increases of the absolute number of trips abroad simply reflect the general increase in tourist activity. Therefore, as a relative indicator, we computed the percentage of foreign travel to all travel. Figure 15 illustrates the outflow of citizens of the G7 traveling abroad relative to domestic travel. The extraordinary development in Germany makes the slopes of the other countries curves appear less steep but it is still possible to notice the increases for all the countries under consideration. Growth-rates are most impressing for Germany, where from the late sixties on more citizens traveled abroad than within the country. For France and the United Kingdom a growing trend to travel abroad can be demonstrated as well. The figures

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18 For example, phone calls of migrants to their "home" countries have been measured above whereas remittances (e.g. to relatives) were not covered.
19 In 1950, about 25 million arrivals of tourists from abroad were counted, in 1995 about 567 million foreign tourists arrived worldwide at the borders of a foreign country. According to a forecast of tourism growth issued by the World Tourism Organization, more than one billion international tourists will be travelling annually by the year 2010.
20 Since the national surveys the statistic is based on use different categories for "holidays" or "trips", the absolute level of the slopes may not be compared.
for the United States do not consider the trips to Canada and Mexico, thus the real extent of transborder flows is systematically underestimated.

In sum, the short-term transboundary movement of persons (as indicated by international tourism) has continuously increased in almost all countries under consideration since the 1950s. Partially complete denationalization can be observed and growth has been particularly pronounced in Germany. With regard to transboundary migratory movements, Italy shows a declining pattern rather than denationalization. On the other hand, it is especially France and – to a lesser extent – the United States who show denationalizing tendencies with regard to migratory movements. The increase of the share of migrants in the total population indirectly measures a variety of transboundary interactions while at the same time indicating a form of cultural denationalization of society. In this respect, denationalizing trends in Germany and the United States are at least as prominent as in France.

4.5 Security

The security of a state and its population can be endangered by threats from both, other states and non-state actors. Threats from other states are usually associated with the possession of weapons. Two aspects of weapons are of particular importance with regard to denationalization: First, modern weapons of mass destruction have the potential to affect areas that go beyond the borders of individual states. For example, an atomic bomb with an explosive force equivalent to 10 megatons TNT will bring certain death to almost all life in an area of about 1500 km$^2$ (approx. 580 sq.mi.). Non-lethal effects will spread much further. Biological weapons are even estimated to affect maximum areas of almost one million km$^2$ (approx. 390,000 sq.mi) with lethal effects for about 50 percent of the population. It can therefore be assumed that weapons of mass destruction have consequences that potentially transcend national borders. Second, modern weapon delivery systems such as long-range bombers, air-craft carriers, submarines, or missiles make it possible to threaten almost any geographical region of the world. While geographical proximity has been demonstrated to be historically one of the most important factors to increase the likelihood of inter-state war (Bremer 1992), modern delivery systems have the potential to substantially undermine this linkage. Thus, threats themselves can become denationalized. From this perspective, the proliferation of weapons of mass destruction and the proliferation of long-range delivery systems can be seen as indications of denationalization.

Truly global delivery systems proliferated slowly but continuously since the end of the 1950s to the "Big Five". Aside from this, it is especially the proliferation of missile technology that is considered a threat to the security of various countries. But, as table 3 shows, so far, this proliferation has not brought about a world in which any state could threaten the countries of the G7. Aside from the neighboring countries, all states of the G7 are vulnerable only to attacks from the "Big Five", who are themselves mainly able to threaten their neighbors (once again with the exception of France, the UK, and the US, of course). Figure 16 illustrates that the proliferation of nuclear weapons also continuously occurred since the mid 1940s. Here, proliferation proceeded beyond the permanent members of the security council of the UN because Israel, India, and Pakistan are known to be in possession of nuclear weapons. The even higher values for research on these weapons indicate that the
proliferation process cannot be supposed to be terminated. Data on the proliferation of biological and chemical weapons is highly unreliable, but especially the proliferation of chemical weapons is estimated to have increased in the 1970s. This process is supposed to have mainly occurred in the Third World because chemical weapons were considered "the poor man's atomic bomb". To assess the denationalization effects for the countries of the G7, however, data on the proliferation of weapons of mass destruction has to be seen in conjunction with the data on the proliferation of delivery systems. Hence, it can be concluded that for the countries of the G7 the denationalization of threats because of proliferation continuously but only incrementally increased since the 1950s.

The gigantic stockpiles of weapons of mass destruction and the respective delivery systems accumulated by the super-powers during the Cold War can be interpreted as the transboundary production of a global threat. While directing their weapons against each other the super-powers also threatened to destroy almost all life on the entire planet. The intensity of the transboundary production of this global threat permanently increased since the 1960s, the growth of the stockpiles being especially pronounced up to the beginning of the 1970s. With the end of the Cold War the stockpiles became smaller and reached again the level of the early 1970s.

Non-state actors can also pose threats to a state and its population. With regard to denationalization, developments in the area of international organized crime are of particular importance. This form of crime also has to be interpreted as the "transnational production" type of interaction because a variety of actors in different countries jointly bring about a threat to a state and its society. Unfortunately, data on organized crime is rather unreliable not only because of the unknown cases but also because organized crime does not easily fit the categories of criminal statistics. In the case of Germany, the internationalization of organized crime is estimated by the Bundeskriminalamt (i.e. the Federal Criminal Police Office) using the percentage of foreign suspects in the field of organized crime. The figures show a share of foreigners above 50 percent that has significantly increased in the 1990s reaching 63 percent in 1995. In addition, developments in drug dealing and smuggling can be used as indirect indicators for international organized crime because drug crimes constitute a significant part of all organized crime. Figure 17 shows that the number of cases of drug smuggling (a "transboundary" offense itself) in Germany has permanently increased since the early 1970s. In addition, the percentage of foreigners suspected to have committed these offenses also has permanently risen since the mid 1970s. Thus, it appears very likely that (a) organized crime in Germany has become significantly more international and (b) that the extent of organized crime has increased. Therefore, it can be concluded that in Germany the relevance of international organized crime has been constantly rising since the 1970s.

Overall, the issue area of security shows comparatively early signs of denationalization. With regard to threats from state actors, denationalization as the transboundary exchange of threats appears to be a slow but continuous process that started in the late 1950s and evenly affects all countries of the G7. The transboundary production of the general threat of global nuclear war also has permanently increased since the 1960s but declined with the end of the Cold War. In addition to this, threats can also be produced jointly by non-state actors from
different states. In this respect, data showed for Germany an increase in threats from international organized crime since the 1970s.\textsuperscript{21}

5. Conclusion

We started out from the observation that there is an intense debate about globalization and its consequences, but hardly any systematic studies about the empirical scope and intensity of the process itself. In trying to develop a better understanding of the issues at stake we argued that even a superficial glance at the empirical processes yields that globalization currently appears not to be geared towards geographical globality. According to our understanding, it is rather the geographical incongruency between governance and the societal transactions to be governed that is at the heart of the current debate. Thus, all societal transactions that transcend states' borders have to be considered no matter whether these transactions attain a binational, regional, or indeed global scope. Based on these considerations we introduced the concept of denationalization instead of globalization signifying the extension of all kinds of societal transactions beyond the national level. In addition, we differentiated between transboundary exchange and transboundary production as different types of transnational interactions both being part of denationalization as defined above. We also introduced different types of issue areas to structure empirical observation all of them being potentially subject to denationalizing tendencies.

We reasoned that in order to contribute to the debate on the empirical evidence for this process, the arguments of the denationalization skeptics have to be taken into account. On the basis of these arguments we derived two questions to be answered empirically. These questions can now be re-considered on the basis of our empirical observations:

1) Can we observe increases in relative indicators of phenomenons of transboundary exchange or transboundary production?

We agree that it has to be taken into account that not only the number of transboundary transactions has increased but also the number of domestic transactions. But even if transnational interactions are weighted by comparable domestic ones, significant denationalizing tendencies are visible for a large variety of issues. This is particularly the case for transboundary exchanges in telecommunication but also for the exchange of goods and capital, for international tourism, and to some extend even for migratory flows. A slow but continuous process of denationalization can also be observed with regard to threats from states. Cross-country comparison shows that Germany and the United Kingdom display comparatively strong signs of denationalization with regard to almost all issue areas. With the exception of communication and culture this is also the case for France. While the process seems to be less extreme in Canada, Japan, and the United Sates, it is particularly Italy that

\textsuperscript{21} The increasing prominence of international organized crime could empirically only be established for Germany. There are strong indications, however, that this is not only a German problem (see e.g. Nadelmann 1996). A recent UN-conference also dealt exclusively with transnational organized crime (UN conference in Naples November 21-23, 1994).
clearly lags behind the other countries on a variety of indicators. At the same time, a number of important developments resemble the "transboundary production" type of transaction more closely than transboundary exchange. We argued that objects can not only be exchanged between different countries, but that it is also possible that actors in different countries jointly bring about a phenomenon that is transnational in character and has a rather loose connection to any given territory. Owing to the transnational character of this process, cross-country comparisons are generally less meaningful for this type of transactions. With regard to the issue areas, however, it could be established that in all of them important "transboundarily produced" phenomenons have emerged. The evolution of the Internet and of off-shore financial markets, the rise of TNCs, the depletion of the ozone layer, global climate change, the transnationalization of societies, and the increasing prominence of international organized crime: All these processes constitute a particularly intense dynamic of denationalization.

2) Are there aspects in the process that appear to be new when compared to the 1870-1914 period?

While a variety of characteristics of the 1870-1914 period fits our concept of denationalization this does not imply that the current process is nothing more than a "repetition of history" after a period of decline due to the World Wars. It is rather difficult to provide reliable time series data from the 1870s onward. Still, at least with regard to export quotas in the issue area of economy it can be shown that the pre-World-War-I levels are reached and exceeded as early as the mid 1970s. Moreover, there are a number of phenomenons that could not have been observed before the Wars like transnational satellite TV-broadcasting or global weapon delivery systems. This makes it very likely that transnational exchanges have by now taken on hitherto unprecedented forms. Denationalization appears to be much broader than at the turn of the century. What is even more important, however, is that almost all the phenomenons of transnational production identified above constitute an entirely new dimension of denationalization that shows a very strong dynamic. The Internet, off-shore financial markets, the depletion of the ozone layer, or the threat of global nuclear war were unheard-of (partly even unthinkable) at the end of last century. As the 20th century closes, the challenge of denationalization appears to have reached new dimensions indeed.

Denationalization is real and it is far from being a purely economic process. Contrary to Karsner's (1994) statement, there is indeed something "new". However, the process does not appear to be a uniform "land-slide", but varies notably along issue areas, across countries and over time. Further debate on the consequences of denationalization should move beyond empirically poorly grounded macrocorrelative claims. Rather than asserting radical change or denying the whole phenomenon the analysis of the consequences of denationalization should match the multiformity of the process itself.
6. References


Does International Governance Meet Demand?
Theories of International Institutions in the Age of Denationalization\textsuperscript{22}

Effective governance depends upon the spatial congruence of political regulations and areas with dense social transactions. Therefore, the process by which the borders of areas with dense social transactions extend beyond national borders poses a threat to traditional notions of the democratic welfare state as the dominant mode of political regulation. Accordingly, accelerated denationalization\textsuperscript{23} has from the 1970s on increasingly undermined the national impetus of the post-war governance system.\textsuperscript{24} Up until the heyday of the Keynesian Welfare State the implications of interdependence were controlled by interventionist nation-states. Although social, economic and state activities abroad had considerable effects on the attainment of an individual country's political goals, these effects could be shaped or at least cushioned by an active nation-state. It therefore does not come as a surprise that the national economies with the highest foreign trade quotas have been governed by states spending an especially high share of the GDP (see Rodrik 1996). The Keynesian Welfare State and international interdependence ran smoothly together in the age of embedded liberalism.\textsuperscript{25}

Today in many respects there is much less distinction between domestic and foreign affairs. Since the mid-1970s hidden but significant changes have been taking place, all of them reflecting a „devaluation of borders.“\textsuperscript{26} The effective domains of economic markets and social transaction networks have come to coincide less and less with the jurisdiction of national governments. As a major result of these developments national policies have become less able to achieve desired ends. Paradoxically, post-war embedded liberalism has ruined its own shock-absorbers: "By lowering and eliminating point-of-entry barriers to the flow of economic transactions and by encouraging cross-border corporate ties and market forces, governments have also inadvertently undermined the efficacy of some of their standard policy tools of managing the consequences of liberalization" (Ruggie 1994: 8).

\textsuperscript{22} This paper is based on a research project on societal responses to denationalization. The project is funded by the German Research Association (DFG) and carried out under my direction at the Institute for Intercultural and International Relations (InIIS), University of Bremen. The paper uses data from a data set that will be published in Marianne Beisheim, Sabine Dreher, Gregor Walter, Bernhard Zangl and Michael Zürn: Im Zeitalter der Globalisierung? Thesen und Daten zur gesellschaftlichen und politischen Denationalisierung, Baden-Baden: Nomos 1997, in print. Earlier versions of the paper have been presented at the Max Planck Institute for Research on Societies, Cologne and at the Research Center for International Political Economy (Recipe), University of Amsterdam.

\textsuperscript{23} Just a brief look at any available data shows that the common term „globalization“ -- implying a process that may result in a status of globality -- is a misnomer. Most of the new boundaries are far from being „global.“ While at least some of the „environmental bads“ are genuinely global (for example global warming), trade, investment, financial flows, information and travel are clearly concentrated in the Triad of North America, Europe and Pacific Asia, with the majority of transactions even taking place within these regions.

\textsuperscript{24} By now, the volume of literature is enormous. A selection of the more important, books are: Böhret and Wewer 1993; Esping-Andersen 1996; Helleiner 1994; Held 1995; Hirsch 1995; Holm and Sørensen 1995a; Keohane and Milner 1996; Mittelman 1996; Scholte 1993. For an early formulation of my own view see Zürn 1992: 490-513; Beisheim and Walter 1997, is a very helpful review essay.

\textsuperscript{25} See Ruggie 1983: 195-231. See now also Ruggie 1996b: chaps. 4 and 5.

Functionalist accounts predict that political institutions will, after a certain time lag, adjust to these problems. Functional institutions are achieved through competitive selection or necessary adaptation to the changing opportunities and requirements of the environment. Accordingly, the nation-state prevailed in the 17th and 18th century over other forms of political organization, because it best matched functional requirements (North 1981 and Spruyt 1994: 527-557). In historical order, the nation-state (i) provided security against internal and external threats, (ii) delivered the prerequisites for an efficient allocation through the market, (iii) created mechanisms for political decision-making that allowed for broad participation and (iv) corrected socially undesirable market outcomes. To the degree that the nation-state has become dysfunctional in providing these goods, new political institutions are expected to arise. In a denationalized world, international institutions will then be most important in any conceivable new governance arrangement. In line with this thinking, some prominent authors suggest that postmodern forms of governance will prevail in the future. John G. Ruggie expects a fundamental transformation including the „unbundling of territoriality“, whereas James N. Rosenau expects „postinternational politics“ to be characterized by an enduring bifurcation between „sovereignty bound“ and „sovereignty free“ political actors. Others suggest the strengthening of international organizations. Contrary to functionalist accounts, currently dominating theories of international governance point to substantial obstacles to the supply of international institutions, with power, interests and ideas being the most important. These theories of international institutions lead us to expect that demand for international governance will outstrip supply. The question therefore is: Does international governance meet the new demand and if not, what are the reasons for this?

In tackling the question, this contribution focuses as a first cut on the aggregate level and asks whether the speed in the rise of international institutions matches the speed of denationalization. While such a more or less quantitative endeavor certainly has a number of inherent shortcomings, it seems a necessary complement to the current debate. According to the congruence principle, the demand for international institutions is dependent upon the speed of denationalization (section 1). We therefore need to ask whether the growth of international institutions in number and intensity of cooperation is taking place at all, and if so, whether it matches the speed of denationalization. The result of this exercise gives an answer to the question to what extent demand for international governance is met (section 2). As a second cut I ask to which extent international institutions help to provide public goods that are essential for good governance (section 3). In the concluding section the findings will be elaborated on the basis of important theories about international institutions. Besides functionalism, three theories of international governance that identify obstacles to the fulfilment of functional requirements will be discussed in order to explain the observed patterns and to understand the current deficits in international governance. In contrast to the current stream of self-critical assessments in the discipline, it turns out that the theories perform quite well (section 4).

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27 See Olsen 1996: 248-249 for an explication of this type of "state theory".
29 Rosenau 1990: chap. 15. See also the literature on transnational relations, for instance Risse-Kappen 1995a and on NGOs, for instance Princen and Finger 1994.
31 See Hasenclever, Mayer and Rittberger 1997 for a comprehensive review of literature on the conditions under which international institutions are established.
1. Denationalization and the Demand for International Institutions

Assessing the adequate supply with political institutions and regulations is a deeply normative issue. While deregulation is celebrated by neo-liberals, neo-marxists consider it a social catastrophe. In this sense, any academic assessment of adequate political regulation amounts to a comprehensive normative political theory which is definitely not the goal of this paper. How, then, can demand for international institutions be assessed? For this purpose I shall use the principle of congruence.

The principle of congruence states that effective governance depends upon the spatial congruence of political regulations with areas with dense social transactions. Consequently, the change of boundaries of socially integrated areas -- i.e. the place where there is some critical reduction in the frequency of social transactions (see Deutsch 1969: 99) -- requires an adaptation of political institutions, if regulations are to remain effective. In other words: For effective governance, denationalization must be accompanied by an extension of the area for which political institutions regulate behavior.

On the basis of the principle of congruence, the demand for international institutions is a function of the speed of denationalization. Denationalization, in turn, can be defined as the extension of boundaries of social transactions and identities beyond national borders, without being necessarily global in scope. Even though the scope of most of those cross-border transactions is indeed not global, they cause a problem for national governance, simply because the social space to be governed is no longer national. The degree of denationalization can be operationalized as the extent of cross-border transactions relative to transactions taking place within national borders. Thus, denationalization can be measured for each country separately. In the following, the speed of denationalization will be assessed for those six large OECD-countries which usually count as classic nation-states with an...
extraordinary high degree of regulative capacity: Great Britain, France, USA, Germany, Italy, Japan and Canada.

It is furthermore helpful to distinguish different types of denationalization processes. First, I employ the distinction between the integrated production of goods and bads and the exchange of goods and bads. When goods and bads are produced in a national context and then, later on, exchanged to a large extent beyond national borders, only the exchange of goods and bads is denationalized. It is, then, still possible and for many purposes sensible to distinguish between different societies. When goods and bads such as global warming or cars are already produced in transnational production chains, the distinction between separable units that exchange things becomes artificial. Integrated production thus indicates a qualitatively higher level of denationalization. Another, more obvious, distinction that I use here is the one between different issue areas as defined by different goods and bads that constitute the means of transaction. Social transactions are constituted by the exchange or common production of goods, services and capital (constituting the issue area of economy), threats (force), pollutants (environment), signs (communication) and persons (mobility).

With this conceptual framework in mind, it is now possible to assess the speed of denationalization and thus the demand for international institutions in different fields in the OECD World. The concrete questions to be tackled in this section are: Can we observe a denationalization thrust in the G-7 countries? If so, in which issue areas and when? Do we see an increasingly integrated production of goods and bads in the OECD-World, or is it mainly an intensified exchange?

1.1 Economy

With respect to the exchange of goods, services and capital the following picture of denationalization arises: International trade among the most developed countries has grown constantly since World War Two in absolute as well as in relative terms. In spite of an acceleration of this development from the early 1970s on, the export quotas of the G-7 countries in 1985 did not significantly exceed the 1913 level. Since 1985, international trade has not grown any further in relative terms (Figure 1). At that time, however, the often-mentioned thrust in the development of Foreign Direct Investment set in. The sum of FDI stocks of the top seven countries of origin increased by a factor of three within only five years. However, even in this area things look slightly more complicated when FDI flows are considered relative to overall investments. While the share of FDIs have on average clearly increased (Figure 2), this is not a uniform trend across all countries (Table 1). Similar trends can be seen with respect to portfolio investments, foreign credits and bank debts. In sum, the growth of international trade is, with some conjunctural variations, constantly growing, while a significant yet not uniform denationalization thrust can be observed in the field of foreign direct investments, portfolio investments and international lending from the

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36 Also for Reich 1991 the distinction between the transnational exchange of goods and the transnational production of goods seems to mark the difference between traditional international interdependence and globalization.

37 Figures and tables can be found in the joint appendix at the end of this paper.

38 FDI growth came to a standstill from 1990 to 1992. This was, however, more than balanced by the enormous growth rates after 1992, with 40 per cent only in 1995. See Deutsche Bank Research Bulletin 1996: 6.
1980s on. The overall situation, however, still does not seem to be very different from that of 1913.  

The more unique changes occurred with respect to the integrated production of goods and capital especially over the last decade.

- The production of goods is increasingly organized in chains of transnational production, as can be seen by the rapid increase in the relative amount of imported semi-finished goods in the most important industrial countries (Table 2).

- The rapid growth of strategic alliances between Multinational Corporations (MNCs) is another new phenomenon indicating a growing role for the integrated production and development of goods. These increased from about 400 strategic alliances in the 1970s to almost 3000 at the end of the 1980s. Moreover, at 1.7%, the percentage of R&D spending in sales of German affiliates in the US come very close to that of US companies at home (2.1%).

- The development of de-territorialized financial markets is perhaps the most dramatic development. The size of the Eurodollar market alone increased from 110 billion US$ in 1970, to 1515 billion US$ in 1980 and to 4509 billion US$ in 1987. This is not only an impressive growth in itself. Today the Eurodollar market constitutes a major place of lending and is more important than traditional international lending markets (Figure 3). Moreover, overall international lending meanwhile plays a significant role in state debts. In the case of Germany, its share increased from about 5 per cent in the mid 1970s to over 36 per cent in 1990.

1.2 Communication

The exchange of information was one of the most important indicators for assessing the boundaries of societies in the work of Karl Deutsch. His data showed a steep reduction in the frequency of communication along national borders (Deutsch 1953). Some notable changes have taken place since then. The data on international letters shows continuous absolute growth up until the mid 1970s, and a mild relative growth when compared to national letters. After the 1970s there is a slight downward movement on the absolute and the relative count. This decline is mainly due to an exponential growth in the absolute number of international phone calls that continues today (Figure 4). The share of international phone calls has also increased significantly, though this rate is only in Germany more than 2 per cent.

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39 See Hirst and Thompson 1996: chaps. 2-4. The most radical statement is of course from Friedman. "The world is less internationalized in any immediate, relevant, pertinent sense today then it was in 1913 or in 1929" (1989: 8).

40 This change does not necessarily require a convergence in the internal structure of MNCs with different national origins. Pauly and Reich (1997: 1), maintain that "durable national institutions and distinctive ideological traditions still seem to shape and channel corporate decisions". This finding supports only the importance of path dependence in general. It does not establish the pre-eminence of national domestic structures which would lead to transnational actors organizing "themselves differently in different countries." (Krasner 1995: 257-279).

41 See Pauly and Reich 1997: 14. Foreign affiliates of Japanese and US based MNCs have substantially lower rates.
The growth rates of imports and exports of cultural goods such as books and movies have also been significant over the last two decades. The average value of imported „books and pamphlets“ more than doubled between 1980 and 1993 in the G-7 countries (Figure 5). The same is true for „newspapers and periodicals“. With respect to movies shown in movie theaters, the share of domestic movies has, from an already low level, declined further (Figure 6). Although, with the exception of the FRG, it remained more or less constant with respect to movies shown on TV, the share of foreign (to a large extent Hollywood) movies is already so large (ranging between 60 and 95 per cent) that one can easily speak of a denationalized movie industry -- at least from a perspective outside the US.

Most spectacular, however, is the boost of international communication as indicated by the exploding number of Internet hosts over the last five years (Table 3). Two remarks are here in order: First, by October 1994 the use of the Internet for the exchange of e-mail had already surpassed the level of 1000 million messages per month. This is more than twice the added number of international letters and international phone calls. Since it seems safe to assume that the share of international e-mail messages is significantly higher than international letters or phone calls, the absolute rise of Internet users with an e-mail account can already be seen as a boost in the denationalization of communication. Secondly, the Internet contains much more than just the possibility to exchange e-mails. The information that is made available by Internet is, in spite of American dominance, an example of an integrated produced good. The recent rise in the number of Internet hosts thus indicates not only international exchange, but also integrated production of signs.

1.3 Environment

The development of environmental risks follows an ideal-type pattern of denationalization. Until the 1950s, the first wave of industrially caused environmental problems were mainly local in scope. The factories that polluted the air were located within the same area of jurisdiction where the environmental damage occurred. In the 1960s and 1970s a second wave of industrial pollution took place. Sulfur (SO$_2$) emissions and nitrogen (NO$_x$) emissions caused acid rain, while phosphate (P), ammoniac (NH$_4$), lead (Pb), cadmium (Cd) and chrome (Cr) were the most important industrial river pollutants. Acid rain and industrially polluted rivers are environmental risks that clearly transcend national borders, since the major polluters are often not located in the country where the damage first occurs. However, this type of environmental damage, which appeared on the political agenda in the 1970s and 1980s, was still regionally restricted and resembled the notion of exchanged as opposed to commonly produced bads. Emissions of the mentioned pollutants subsequently decreased more or less uniformly in the 1980s and 1990s in the G-7 countries. Furthermore, the foreign share of the overall amount of SO$_2$ -- the only pollutant for which such data is available -- deposited in the G-7 countries dropped again from 1992 on (Figure 7).

The third wave of modern environmental pollution is genuinely global in scope: climate change and ozone depletion are buzzwords in this context. The awareness for environmental damage mainly caused by CO$_2$ emissions and by CFC 11 and CFC 12 grew in the 1980s as the world average temperature rose significantly and the ozone layer became notably thinner (Figures 8 and 9). Other global ecological risks such as deforestation, desertification and loss of biodiversity are still less prominent in the political realm. With the exception of the ozone hole, these new global ecological risks are not only a by-product of more or less successful economic development. They are, to a significant extent, poverty-induced. In any case, environmental dangers of the third wave are truly integrated produced bads.
1.4 Mobility

The development of permanent, temporary and short-term movements of persons in the OECD-World falls under this heading. Briefly, most indicators in this area show notable growth rates, especially in the 1970s and 1980s.

- With regard to short-term movement, the number of journeys to foreign countries has grown much faster than domestic journeys in all countries. In Germany, foreign travel by now exceeds the amount of domestic travel and is thus a completely denationalized field. The importance of transnational travelling holds true at a lower level for other countries too (Figure 10).

- The number of foreign students and asylum seekers are the most important components of temporary migration (up to 5 years). The absolute number of foreign students has grown steadily, although the share of foreign students is not above 5 per cent anywhere. Growth in the number of asylum seekers accelerated from the mid 1980s on, but has gone down in recent years.

- Finally, permanent or long-term migration has increased more continuously. By now the relative numbers of immigrants and foreign workers in the G-7 countries have in most countries reached levels of 7 per cent and above. These figures reflect, at least for some European countries, enormous growth rates within a relatively short period of time: the proportion of so-called „foreigners“ in Germany for instance grew from 1 per cent in 1960 to almost 12 percent in 1994 (Figure 11).

1.5 Force

Any war with weapons of mass destruction has a global effect and the notion of regional wars as a dispersed field of unconnected ventures has ended. Hence, the proliferation and stockpiling of weapons of mass destruction are major indicators for denationalization, since the destructive potential reaches far beyond the target country and moreover, in connection with new delivery technologies, such weapons can almost immediately reach countries outside the region. The respective growth rates were most impressive in the 1960s and early 1970s, at this time more or less exclusively due to the armament programs of the superpowers. Since then, the world-wide stock of nuclear weapons has decreased, while the number of states with nuclear capabilities and medium or long-distance delivery systems has only increased slowly (Figure 12).

Much more recent is the growth of threats by transnationally organized non-state actors. The number of attacks by transnationally organized terrorist groups increased in the 1970s and has oscillated since then. The rise of transnational organized crime operations seems to be even more recent. Although the data available in this field is certainly not very reliable, the figures of the BKA (Bundeskriminalamt, FRG), for instance, show a sharp increase in transnationally organized crime in Germany in recent years -- correspondingly the share of foreigners suspected of participation in organized crime has risen by over 10 per cent since

\[42\] In this sense, force can be considered as the first globalized field of transaction. It may be recalled that especially Jaspers 1963 already considered World War II and especially the bombing of Hiroshima as the event in history which signified world unity.
1991. Furthermore, the share of foreigners suspected of trade with drugs -- an area controlled by organized crime -- has also increased (Figure 13).

In conclusion, denationalization is a process that encompasses all issue areas and can be observed in all G-7 countries. It is, however, not a uniform, but rather a jagged process that differs notably among issue areas, countries and over time. Denationalization, in the sense of growing significance of cross-border transactions, has in mild forms been taking place since the 1950s. Accelerated denationalization first occurred in the 1960s with the massive deployment of nuclear weapons. From the 1970s on, the growth of cross-border exchanges accelerated with respect to goods and capital, information, travel, migration and regional environmental risks. Surprisingly, however, the growth of many of these exchange processes levelled off in the 1980s. Literal denationalization thrusts, however, occurred in a number of very specific issue areas just as the growth in cross-border exchanges slowed down. These developments are most significant with respect to global financial markets, global environmental dangers, the Internet and organized crime. The common feature of all these more recent developments is that they constitute cases of integrated production of goods and bads, rather than the mere exchange of goods and bads across national borders.

2. The Development of International Governance

Following the principle of congruence, societal denationalization should be reflected in the provision of international institutions. Otherwise, governance cannot be expected to be effective. The lack of congruence between national political regulations and denationalized areas of social transactions calls into question the capacity of the nation-state to provide what made it the dominant political institution in the first place. In this predicament, governments are expected to regain control by establishing new international regimes, networks and organizations to coordinate and harmonize their policies, i.e. to establish governance beyond the nation-state.

Governance, in general, is distinguished from anarchy -- the unrestricted interplay of actors driven by self-interest -- in that social actors recognize the existence of obligations and feel compelled, for whatever reason, to honor them by their behavior. Governance refers to the governing of purposive systems of norms and rules. In this sense, „governance is order plus intentionality“. Governance in modernity has been ideally provided within the nation-state by a government that claimed a monopoly of legitimate force and thus ruled by hierarchical orders. Governance took the form of governance by government.

The form of governance has, however, to be distinguished from its function, i.e. the provision of goods the attainment of which is considered worthy and desirable by most people. These

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44 The distinction between form and functions of governance is reproduced in theories about the rise of the nation-state. While some authors explain the success of the nation-state by its functional superiority (see North 1981 and Spruyt 1994: 527-557), others point to the rise of standing armies which enabled some rulers to impose a monopoly of force against competing rulers and wandering armed mobs. Furthermore, these militarily superior groups had to monopolize the use of force because among rulers only those with a monopoly of force on their own territory could survive. See Tilly 1975 and Elias 1969.
goods can be provided by a government, but also by governance with or without a government. Governance on the international level, specifically, lacks a central authority or a “world state” equipped with a legitimate monopoly over the use of force.\textsuperscript{45} Thus, governance above the level of the nation-state cannot take the form of governance by government, but rather it needs to be governance with governments, as in international institutions, or governance without government, as in transnational regimes. So far, Governance without government does not seem to play a significant role in international relations.\textsuperscript{46} Of course, transnational regimes in which non-state actors publicly agree upon certain rules of behavior to achieve collectively desirable outcomes without resorting to the state are theoretically possible and do exist to some extent.\textsuperscript{47} Arguably, the role of governance without government has even increased over the last two decades. The number of transnational organizations “with a regulatory purpose” such as associations of libraries, banks, foundations and so on grew from 278 in 1981 to 633 in 1992.\textsuperscript{48} Some of these organizations are standard-setting associations that work as part of a larger international institution set up by intergovernmental agreement, others are part of an issue-area specific policy network with national governments still in the position to accept or veto agreements. As Risse-Kappen puts it: „The more regulated the inter-state relationship by cooperative international institutions in the particular issue area, the more are transnational activities expected to flourish.” (Risse-Kappen 1995a: 30). Thus, it still seems safe to say that the share of governance without government in global governance can be neglected for the purposes of this paper.

Therefore my focus is on governance with governments regulating state and non-state activities the effects of which extend beyond national borders. Central to international governance are international regimes, defined as social institutions consisting of agreed upon and publicly announced principles, norms, rules, procedures and programs that govern the interactions of actors in specific issue-areas. As such, regimes contain specific regulations and give rise to recognized social practices in international society.\textsuperscript{49} Regimes contain both substantive and procedural rules and are thus distinct from mere inter- or transgovernmental networks which frequently only contain informal, procedural rules. Those networks meet on a regular basis and may develop coordinated responses to specific situations, but they do not govern behavior in a certain issue area for a prolonged period of time.\textsuperscript{50} Other components of international governance are international organizations which are material entities and can be the cover for both international regimes and inter- or transgovernmental networks.\textsuperscript{51} Finally, constitutional principles encompass notions of

\textsuperscript{45} See Young 1978: 241-263, for arguments why a world state is neither possible nor desirable.
\textsuperscript{46} See Mayntz and Scharpf 1995 for state-of-the-art analyses of different forms of governance with and without government within the nation-state. Corporatist regulation in modern welfare states is an example for governance with government (the government being one actor among others) within the nation-state. See Lehmburch and Schmitter 1982. For an analysis of regulations in the German banking system that come close to governance without government within the nation-state see Ronge 1979.
\textsuperscript{47} See the discussions in Haufler 1993: 391-430 and Rosenau 1995: 13-43.
\textsuperscript{48} These figures are based on data of the Union of International Associations (UIA), specifically those coded as type F-IGOs. See Shanks, Jacobsen and Kaplan 1996: 596.
\textsuperscript{50} The distinction between international regimes and international networks is similar to the one drawn by Mayntz 1996: 148-168, between networks for the management of ad-hoc problems and institutions for the regulation of recurring problems.
\textsuperscript{51} The formal term is International Governmental Organizations (IGOs), as opposed to Transnational Non-Governmental Organizations (TNOs). The latter consist of any kind of professional association, like the International Political Science Association, and also of profit-seeking TNOs, that is
conduct such as sovereignty or reciprocity which are valid across all issue areas. Any of these components of international governance beyond the nation-state can be regional or global in scope. The sum of all international institutional arrangements, including the existing transnational regimes, make up regional or global governance systems. Moreover, the interplay of different forms of governance beyond the nation-state with the cooperation of nation-states can produce political systems of a new quality, as attested by the European Multi-Level Governance System. The question then is whether, and to what extent, has governance beyond the nation state grown parallel to societal denationalization. In a first cut, I look at the growth-rate of international organizations and international institutions. In a second cut, I discuss to which extent quasi-functional requirements are met.

2.1 International Organizations

A first measure for the extent of international governance is the number of international governmental organizations (IGOs). Up until the early 1980s this figure grew continuously to a total of 378, thus reflecting the permanent growth of the importance of cross-border transactions. In the late 1980s, as the growth of some cross-border transactions slowed down, the overall number of international organizations declined rapidly to less than three hundred. Only recently has the number of international organizations been increasing again. Currently the number of IGOs is still below the 1980 figure, unless IGO-emanations are counted.

The decline in the absolute number of international organizations during the 1980s is at best partially explained by the breakdown of the Socialist bloc and its organizations. A look at the development of memberships in international organizations of only the G-7 countries shows for all countries a more or less parallel development to the overall number of international organizations, with only two differences. The rise in figures was less sharp and the temporary decline set in five to ten years earlier (Figures 14 and 15). It is noteworthy that the development of IO memberships of the G-7 countries is uniform, irrespective of whether they are European countries or not.

Analysts of regional integration may be surprised about these findings. They have observed a number of regional initiatives all over the world in the last decade. Among others these include the Canadian-United States Free Trade Agreement (CUSTA), the North American Free Trade Agreement (NAFTA), the Asian Pacific Economic Cooperation (APEC), the Association of Southeast Asian Nations (ASEAN), and the Australia-New Zealand Closer Economic Relations Agreement (ANZCERTA). Although most of these initiatives mainly contain rules condemning tariffs and state intervention to protect domestic industry, they usually include a secretariat and can thus be qualified as international organizations. However, the number of regional IGOs declined in the 1980s even faster than global and inter-regional IGOs (See Shanks, Jacobson and Kaplan 1996: 596). Of the overall IGO

_multinational enterprises. For the issue of international governance, we need to focus here exclusively on IGOs, whereas the growth of NGOs is mainly an indication for denationalization._

52 The definition of global governance used by Rosenau 1996: 13, goes even further: “all systems of rule at all levels of human activity.”


54 Emanations include those organizations that have another IGO’s name in its title, have been created by a provision in another IGO’s charter, are a joint or internal IGO committee or an international center or institute. See Shanks, Jacobson and Kaplan 1996: 597.

55 The only exception is the FRG. Its membership grew slightly after 1975, mainly because of accords with the GDR which made it possible to join the United Nations and some special organizations.
memberships, the percentage of the aggregate European and American (North and South) memberships in regional IGOs declined slightly during this period: in Europe from 39.4 per cent in 1982 to 31.0 per cent in 1990 and in America from 40 per cent to 34.5 per cent in the same period.56

2.2 International Institutions

The number of international organizations is only a very rough measure for international governance. It is easily conceivable that a relatively constant number of IGOs has produced a higher regulatory output and thus strengthened international governance. For instance, while the number of IGOs declined, the number of IGOs emanating from them increased significantly.57 It is therefore necessary to complement the data on international organizations with figures on international agreements and the regulatory output of existing international institutions in different fields.

The number of EU directives, regulations and decisions grew significantly until the 1980s, when IGO-memberships of the G-7 countries had already begun to decline. The total number of directives, regulations and decisions increased from 36 in 1961, to 347 in 1970 and 627 in 1980. The number of EU-rules has remained quite constant since then, with a temporary peak of almost 800 in 1986. It is noteworthy that the relative weight of EU legislation clearly increased when compared to national legislation in Germany, France and Great Britain, where the yearly legislative output has remained more or less constant from the 1960s on (Figure 16). Similarly, the number of new international environmental treaties and agreements grew continuously up until the 1980s. The number of treaties newly agreed upon per year has remained at a constantly high level over the last decade (Figure 17). A very similar pattern applies to the development of new international economic treaties and agreements (Figure 18). In the field of culture and communication, the regulatory output of existing international regimes, such as the ITU-based telecommunication regime, again shows a steady growth up to the 1980s. The growth of regulatory output stopped in the 1980s when liberalization and deregulation set in.58 This pattern only differs slightly in the field of international security. The regulatory output of the nonproliferation regime and Security Council resolutions showed no clear pattern for a long time and were quite erratic.

56 This is calculated with data drawn from Taylor 1993: 25-26. Taylor’s analysis needs to be commented since he arrives at seemingly contradictory conclusions regarding the development of international organizations. He writes: „The main feature of the evidence set out in Table 2.1 is a comparison of the total number of memberships in international organizations of countries in a region with the number of regional memberships. Both intergovernmental and nongovernmental organizations are included. Two important overall conclusions emerge from the evidence in the tables: first, that the total amount of international organization has increased at an astonishing rate since the early 1980s; and, second, that the weight of regional compared with total organizations has also increased markedly.” (Taylor 1993: 24). For reasons I do not understand, Taylor uses indicators that obviously skew the data completely. First, he does not control for the number of states that grew rapidly in the 1980s. Second, he does not draw a distinction between IGOs and NGOs (the latter make up more than 95 per cent of all IOs and thus numerically completely dominate over IGOs).

57 See fn. 27.

58 See Zacher with Sutton 1996. These authors demonstrate convincingly that this pattern also applies to the development of international regulation of other infrastructure industries. In this field it is hard to assess the precise amount of regulatory output in the most recent period, since a de facto decline of ITU importance relative to other regulating agencies has taken place. See Genschel 1995.
Since the end of the 1980s however, the output of Security Council resolutions has grown dramatically.

A quantitative examination of the development of international organizations and regimes shows that international governance indeed for some time increased at quite a similar rate to the growth of cross-border exchanges. Until the mid 1970s, at the height of the Keynesian Welfare State, both international transactions and international institutions on average had steady, though not dramatic growth rates. In the following decade, however, the growth of international transactions accelerated, while the number of international organizations and regulations - with only a few exceptions - remained constant or even decreased. Although in the 1980s the growth of cross-border exchanges slowed down and some international institutions experienced new growth from the late 1980s on, possibly catching up on some of the deficits of the prior decade, it still seems plausible to speak of a deficit in international governance on the aggregate level. Most importantly, the very recent denationalization boost through the common production of goods and bads across national borders does not so far seem to be sufficiently counterbalanced: the rise of global financial markets, global environmental dangers, the Internet and organized crime are so far not sufficiently regulated by effective international institutions.

3. Governance Deficits

Can this gap in the development of denationalization on the one hand and international governance on the other really be interpreted as governance deficits? Governance deficits arise when political institutions fail to achieve public goods the attainment of which, in democratic political systems, is considered worthy and desirable by most people and at the same time a condition for the proper functioning of the society.\(^{59}\) There are a number of plausible ways to classify these goods. For the purposes of this paper, I employ a historically informed classification which states, in historical order, that the modern democratic welfare state (i) provided \textit{security} against internal and external threats, (ii) laid down the conditions that made \textit{economic growth} possible, (iii) created mechanisms for political decision-making that \textit{increased rational legitimacy} and (iv) \textit{increased social welfare}.\(^{60}\) For analytical purposes,

\(^{59}\) For a similar formulation see Benhabib 1996: 67. These goods have a double status as normatively desirable on the one hand and functionally necessary on the other. Both components of these goods, the normative and the descriptive, are historically contingent and have changed over time. In the days of Adam Smith, the state duties were seen more narrowly than today: „According to the system of natural liberty, the sovereign has only three duties to attend to; three duties of great importance, indeed, but plain and intelligible to common understanding: first, the duty of protecting the society from the violence and invasion of other independent societies; secondly, the duty of protecting, as far as possible, every member of the society from the injustice or oppression of every other member of it, or the duty of establishing an exact administration of justice; and, thirdly, the duty of erecting and maintaining certain public works and certain public institutions, which it can never be for the interest of any individual, or small number of individuals, to erect and maintain; because the profit could never repay the expense to any individual or small number of individuals, though it may frequently do much more than repay it to a great society.‟ Smith [1776] 1937: 651.

\(^{60}\) This classification to a large extent parallels the famous one on the development of citizenship rights by Marshall 1950. For a similar taxonomy of state functions to the one used here see Cerny 1996: 123-137. See also Benhabib 1996: 67. For a general analysis of state functions or tasks see the contributions to Grimm 1994.
the four goods need to be separated from the type of policies that were empirically used to 
attain them, even if each of the goods can be associated with typical policies.  

According to the principle of congruence, denationalization, when it gives rise to the 
incongruence of political and social spaces, implies a challenge to the provision of some of 
these goods by reducing the effectiveness of national policies. One can distinguish three 
causal pathways through which long-standing national policies may be challenged as a result 
of denationalization:  

1. Most national regulations affect international trade by having a protective impact. Thus, 
each national regulation that is not harmonized on the international level separates 
markets and creates a barrier for the efficient allocation of goods through the market. In a 
world in which the barriers between different markets are dissolving, R&D costs rise and 
product cycles shorten, larger markets and unhindered cooperation with other enterprises 
are seen as essential to remain competitive. To put it differently: in a denationalized world 
the "static efficiency costs of closure" increase (Frieden and Rogowski 1996: 35). In this 
sense, economic integration will create demand for overcoming the disadvantages of 
political segmentation to maximize the gains from economic exchange by harmonizing 
national policies or by common rules that prohibit national intervention. These demands 
for market-making policies on the international level are due to 
efficiency pressure.  

2. Political regulations may have only little impact if they cover only a part of the relevant 
social space. A national regulation by Sweden alone could do little to prevent that acid 
rain in part of Scandinavia. Moreover, different national policies directed at an integrated 
social space may interfere with each other. The attempt to cool down an economy by 
raising interest rates may easily be offset by another government which drives interest 
rates down. As a result, there is a demand for the harmonization of policies at the 
international level which is due to a lack of 
efficacy of national policies.  

3. The establishment of a regulation that does not apply to all social actors within an 
integrated social space can even be counter-productive. In particular, those policies that 
create costs for the production of goods may turn out to be self-defeating in terms of 
competitiveness for the area in which the policy is implemented. In the national context, 
this logic strengthens especially those groups which do not favor cost-intensive market-
correcting or redistributive policies. On the other hand, groups in favor of redistributive 
policies will demand the establishment of common redistributive or cost-intensive market-
correcting policies at the international level to avoid the 
race-to-the-bottom dynamics.  

These challenges for the effectiveness of national policies and thus the attainment of public 
goods at the national level can lead to two possible outcomes: governance deficits or the rise 

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61 Sometimes policy typologies are mingled with the goods to be attained by effective governance. 
Majone 1996: 54, for instance, speaks of three main functions of government in the socio-economic 
sphere, the redistribution function, the stabilization function and the regulatory function. In this 
classification certain goods like economic growth or social justice are seen as exclusively achieved 
by a certain type of policies. The policy typology used here builds on Majone's distinction between 
policies that include the employment of resources and those without the employment of resources. 
When this distinction is combined with the distinction between negative (common rules that prohibit 
national policies or intervention) and positive regulations (common rules that prescribe state 
activities to correct market-outcomes) a four-fold typology comes up that comes very close to the 
original one by Lowi 1972: 298-310.  

62 For a different discussion of causal pathways leading from social denationalization to politics see 

63 For a similar argument about challenges see Junne 1996: 513-530.
of international institutions. The question is which of the two has prevailed in the OECD-world in the last decades?

a) Security: It is generally seen as a task of politics to regulate social relations so that the physical integrity of both the national territory and the population is protected from external and internal threats. The absolutist nation-state effectively attained this good by monopolizing the legitimate use of force. In doing so, the state substantially reduced the use of private force within the country (through police forces) and deterred or held back at the borders public, but external forces (through military forces). The challenge of denationalization for the national attainment of public goods is mainly one of decreasing efficacy. In the age of mass destruction weapons, external threats can hardly be held back by the unilateral military protection of borders. Furthermore, when private force and law violations are increasingly transnationally organized, national policing to constrain these activities are at a serious disadvantage. In short, political regulations in this field loose efficacy if they cover only a part of the social space in which such threats arise.

For a long time, states built up international institutions in order to improve security. The power concert of Metternich after 1815 is considered the first comprehensive international security institution that was more than just a temporary alliance. The main purpose of international security institutions remained unchanged for a long time: to aid external defense against military threats from other states and against the risk of interstate war. Post World War II security institutions such as the UN (1945), the NATO (1949), the CSCE (1975), and the IAEA (1957) were established mainly to reduce the likelihood of interstate war. International treaties such as the Nuclear Non-Proliferation Treaty (1968), the Test-Ban Treaty (1963), and the first arms control treaties (1970s) were signed to reduce war risks. Since then, additional regulation took place but remained within the institutional frame set up earlier. Arms control agreements in recent times such as the CFE (1987), the START treaties, the „Convention on the Prohibition of the Development, Production, Stockpiling and use of Chemical Weapons and on their Destruction“ (1993) the prolongation of the Non-Proliferation Treaty (1995) and the now „Comprehensive Test Ban Treaty“ build on old principles. In terms of organizational developments the record is more mixed: Most of the institutional changes that accompanied the transformation from the CSCE to the OSCE did not relate to interstate wars, and those that did are not of substantial but of procedural character and aim at improving the timeliness and quality of information. While public debate on the pros and cons of a formal NATO extension continues, it seems clear that it will take time to extend the credibility of NATO’s commitment in effective terms. At the same time, there is an academic debate as to whether the NATO has after the end of the Cold War already weakened and a renationalization of Western defense policies has taken place. Overall, it thus seems fair to conclude that international institutions for the avoidance of interstate war progressed since 1975 not at a faster rate than before.

64 The conceptual description of both the goods to be attained and the challenges of denationalization refer to ideal types instead of real cases. Even the democratic welfare state in its heyday did not provide these goods perfectly and the denationalization challenges are in many ways mediated. However, the question whether international institutions meet demand is analyzed with respect to real (as opposed to stylized) regulation of nation-states and international institutions, since the relative speed in the rise of denationalization and international governance is our measure.


67 For a balanced assessment see Wolf 1996: 129-141.
Yet since the 1970s international security institutions have increasingly tackled states' problems in providing internal protection and securing the legitimate monopoly of force. The task of the UN to maintain the monopoly of force of states has become more important than that of assisting states in the provision of external defense. The UN has been more often engaged in civil than in interstate wars. This shift explains the enormous rise in Security Council resolutions mentioned above. A similar trend can be observed in the CSCE region. The CSCE, which was originally established to reduce the risk of interstate wars in Europe, is nowadays called OSCE and mainly deals with threats posed by civil wars. Moreover, the function of the IAEA, which was originally to reduce the proliferation of nuclear weapons in other states, has now been extended to include the prevention of nuclear weapons coming under the control of terrorist groups. In addition, the fight against terrorism has become a central issue of many international organizations. While in the 1950s and 1960s one could hardly find any significant effort to fight terrorism by collaboration within international institutions, from the 1970s a new dynamism set in. Interpol’s activities were extended to terrorism. Even international institutions such as the UN and the G-7 are now dealing with terrorism. Eight out of a total of nine major multilateral conventions relating to states' responsibilities for combatting terrorism have been signed since 1970 (see Global Issues 1997). While these efforts to fight terrorism on a global scale still remain limited, the efforts made in Europe go further. Some member-states of the EC formed TREVI (Terrorisme, Radicalisme, Extrémisme, Violence Internationale) in 1975 to cooperate not only in the arrest of terrorists, but also in the respective investigations. The exchange of relevant information was made possible and improved by the creation of a computer-based system. This new kind of collaboration between the European states was then strengthened and formalized with the Schengen Accord (1985/1990) as well as with the Treaty of Maastricht (1992).68

Furthermore, within the UN system the organizations that coordinate efforts to fight organized crime, especially drug trafficking, were vastly strengthened. In the 1950s and 1960s Interpol was considered as a private ‘policemen’s club’, whose main function was to provide police with the opportunity to exchange experiences. It was an international non-governmental organization (INGO) and as such enjoyed consultative status within the Economic and Social Council of the UN (ECOSOC). In the 1970s, however, Interpol was systematically transformed into an international governmental organization (IGO) with the public duty of providing states with assistance in arresting criminals. Since 1985 it includes a computer-based network that can be used by police all over the world. A quite similar development can be observed in Europe. After World War II, it was the Council of Europe that was assigned the task of dealing with crime. The Council served as an arena for negotiations on the European Agreement About Extradition (1957) and the European Agreement About Mutual Legal Aid (1959). Both agreements, however, only multilateralized those forms of collaboration that were already existent in bilateral agreements signed before the war. Then in the 1970s, the European states started to collaborate more intensively in their fight against organized crime within the context of the EU. As already mentioned above, the creation of TREVI in the 1970s as well as the Schengen Accord and the Treaty of Maastricht in the 1990s were landmarks of the trend towards an intensification of European efforts to fight crime, especially organized crime (see Busch 1995).

In sum, we can observe a changing focus of the functions international institutions have to fulfill in the field of security. While in the 1950s and 1960s, international institutions were mainly dealing with state-induced insecurity, from the 1970s on international institutions have

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68 For an account of the history of the international institutions dealing with the fight against terrorism see Busch 1995: 255-350.
become increasingly involved with overcoming society-induced threats and risks. This change clearly reflects the pattern of denationalization in the field of force. Denationalization in this field first took place with respect to state threats in the form of mass destruction weapons in the 1960s, but declined later on. From the mid-1970s, new forms of denationalization such as transnational terrorism and organized crime became more important in this field. As a result, international institutions nowadays assist OECD states not only in fulfilling their function to provide external defense, but also to secure the legitimate monopoly of force and to provide internal protection. International institutions have thus changed their character: While international institutions that tackle state-induced risks and threats regulate the way states interact with each other in a world of interdependent, yet still distinct nations, international institutions dealing with society-induced risks and threats seek common international solutions to common transnational problems and thus regulate the relationship between states and the world society. Arguably, international institutions have so far not adequately met these new demands. Terrorism and transnationally organized crime are still on the increase in the OECD world. At the same time, however, international institutions have rightly become the target of critical inquiry. Traditional international security institutions mainly comprised constraints for state activities and could be built on the principle "the more international cooperation, the better for humankind" -- only few disagreed with this idea. To the extent, however, that international institutions today aim at strengthening state capacities for transnational interests and movements, it has become necessary to ask whether they undermine liberal principles.

b) Economic Growth: Politics is expected to regulate social relations so that it increases economic efficiency and allows economic growth. The liberal nation-state effectively fulfilled this function by establishing property rights, by guaranteeing the free movement of labor, goods and capital, by standardizing weights, measures and education, and by drawing up necessary product regulations in a non-discriminatory way. In doing so, national economies with more or less uniform price levels arose as transportation and communication costs decreased. How is the national attainment of this good challenged by denationalization? In a denationalized economy, access to large markets is necessary for cost-efficient production. Thus, economic denationalization by way of efficiency pressure will create demand for overcoming the disadvantages of national segmentation by the "establishment of common rules that prohibit national policies or intervention".

Most existing international economic institutions are a direct response to these efficiency pressures. The development of the GATT Regime is a case in point. The early GATT removed government intrusion at the borders, that is tariffs on manufactured goods. Over time this led to a growing importance of non-tariff barriers and thus induced demands for a new type of market-making regulations that focused on behind-the-border issues. The Tokyo Round of negotiations (1973-1979) began to deal with non-tariff barriers such as anti-dumping, government subsidies, government procurement and customs and licensing procedures. The results of the Uruguay Round (1986-1994) are a major step forward in this respect. Above all, the section of the new WTO on the manufactured goods trade brought in new monitoring and dispute settlement procedures to deal more effectively with behind-the-border issues. To the same purpose, regulations on technical standards aim at introducing the principle of mutual recognition of national standards and, where necessary, some international harmonization. GATT furthermore established an institutional framework for the trade with services that resembles those of other sections of the new WTO and the Trade-Related Aspects of International Property Rights (TRIPS) Agreement regulates an essential

69 This is Corbey’s 1995: 263, definition for a negative regulation. See also Scharpf 1996: 109-140.
field in any market-making process. Finally, the Trade Related Investment Measures Agreement mainly contains regulations that facilitate FDIs but do little to control the conduct of MNCs. In sum, with the successful conclusion of the Uruguay Round, a regime has emerged that has enlarged its scope and has sharpened its organizational profile as well as its monitoring and enforcement mechanisms (see Kahler 1995: 46).

Similar institutional developments have occurred on the regional level: the Single European Act was initially a market-making program that, on the basis of the logic of mutual recognition, aimed at removing national barriers for economic exchange. And also „NAFTA’s goals, like those in CUSTA (and other regional trade agreements, M.Z.) were largely a clearing away of obstacles to exchange, not the construction of a framework for policy coordination“ (Kahler 1995: 103). Furthermore, a common feature of the more successful attempts is that they established relatively strong monitoring mechanisms to deal with the-behind the-border issues involved.

Finally, the international regulation of those industries that provide the infrastructure for transnational exchanges also adapted to efficiency pressures. While up until the 1970s, liner shipping, air transport, postal services and telecommunication were organized to increase state control over these activities, the removal of impediments to international movements became the central concern in these issue areas during the last decade. Particularly in telecommunications and air transport, the national monopolies were broken up in favor of competition and re-regulation by transnational, independent agencies mainly in the field of standardization (Genschel 1995). The regulation of technical standards has grown from 3,400 up to 20,000 pages over the last two decades (Zacher with Sutton 1996: 157). In effect, this institutional change significantly decreased costs for transnational transactions -- for instance for telecommunications services by 8 per cent per year since the late 1960s -- and thus met the demand for more efficiency on the transnational level.

In sum, the provision of regulations that make economic growth possible has been successfully internationalized. Negative international institutions strengthened the process of denationalization in the first place but were further strengthened when denationalization accelerated in the last decades. Rigorous information and monitoring mechanisms make these institutions very effective. It seems fair to say that with respect to this governance good, supply easily meets demand.

c) Social Welfare: It is generally seen as a political task to regulate social relations so that undesirable market-outcomes are corrected. On the one hand, markets underproduce some goods such as a sufficiently clean environment and economic stabilization that are socially desired and in the long run even neccessary for a market economy to work. On the other hand, markets produce distributive inequalities that clearly go beyond the provision of adequate incentive structures. These inequalities may in the long run destroy the social fabric on which the market economy is built. The Keynesian welfare state provided social welfare by drawing up numerous regulations on production processes (for example, environmental prescriptions) and by steering the national economy in conjunctural as well as structural terms (macroeconomic and industrial policies). Moreover, the nation-state imposed taxes amounting to a significant share of the national wealth in order to redistribute wealth in turn through state-controlled institutions (redistributive policies). Owing to denationalization, some of these national policies have lost effectiveness. For instance, the impact of demand side economic steering is reduced to the extent that the economy is open. Furthermore,

70 Among others see the apt phrase "Market Without a State": Joerges 1991: 225-268.
those policies that create costs for the production of goods and services may turn out to be costly in terms of competitiveness for the area in which the policy is implemented. In these cases international regulations are necessary in order to avoid race-to-the-bottom dynamics.

The rise of negative international institutions -- i.e. the establishment of common rules that prohibit national policies or intervention -- has increased the demand for positive international institutions which prescribe common policies to control exchange activities. In the field of environmental policy, this demand seems to be met to a large extent, especially on the regional, but partially also on the global level. International environmental institutions in general became important from the 1970s on. Since then, international organizations such as the UNEP and the EU as well as the OECD, the Council of Europe, the G-7, the ITO, the WMO and the WTO (former GATT) include regulations for the protection of the natural environment. Risks stemming from the depletion of the ozone layer, trans-boundary air-pollution, marine pollution and many other environmental problems are being tackled by cooperative efforts. Ninety-five out of 122 of the international environmental agreements and instruments established since World War II were signed in the 1970s and the 1980s, thus directly responding to accelerated denationalization. This trend is even more pronounced within the EU. The European Commission, in cooperation with the European states with traditionally strict environmental regulations, has quite successfully created an astonishing level of regulation in favor of environmental and health protection (Vogel 1995). These regulations partially compensate for the lack of effectiveness of national policies and partially check the race-to-the-bottom dynamic. While in the 1960s, the EEC passed on average one environmental legal act per year, this number increased to more than five per year in the 1970s and more than 20 per year in the 1980s.

The balance sheet looks worse in the field of social policy. On the global level new initiatives like the Social Summit in Copenhagen did not result in substantive regimes, the ILO could not extend its role and WTO has so far remained silent on these issues. In the European Union there are at least some signs of hope. A progressive regulation in the area of work protection (Eichener 1992), gender equality (Ostner and Lewis 1995: 159-193), and significant components of regional redistribution (see Anderson 1995: 123-158, and Rieger 1996: 97-123) makes it plausible to talk of "... the transformation of sovereign welfare states into parts of a more complex, multi-tiered system of social policy" (Leibfried and Pierson 1995: 44). The race-to-the-bottom pressure on national redistributive policies has, however, so far not been sufficiently cushioned by international institutions. At the same time, this pressure did to a large extent because of institutional inertia not lead to a significant retrenchment of the welfare state (Pierson 1996). When compared to the height of the Keynesian Welfare State, there is arguably an even more remarkable regulatory deficit in the field of macro-economic steering. The EU and other regional institutions have so far done little to compensate for this. On the OECD level, the G-3 and G-7 meetings have achieved some policy coordination to regulate exchange rates, the most successful attempt of macro-economic steering is, however, not very recent: it happened at the Bonn Summit in 1978. Even in the European Union, things do not look much better, although the European Currency Union could turn out to be a major step towards the international coordination of macro-economic steering.

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71 For a survey of the most important international environmental regimes and their effectiveness see Haas, Keohane and Levy 1993 as well as Gehring and Oberthür 1996.
Most importantly, international institutions are to a large extent lacking when it comes to problems caused by the integrated production of goods and bads. Only in the case of the ozone depletion, can one speak of an effective and timely regulation at the international level. The Vienna Convention (1985) led to a number of subsequent protocols; the London (1990) and Copenhagen (1992) Amendments to the Montreal Protocol (1987) prescribed the phasing out of CFCs within a short period of time. For other global dangers such as climate warming, deforestation, desertification and the decline of biodiversity, only negotiation networks have been established so far, but there is very little regulatory output suited to amend the problem. For instance, the Conference of Parties of the Rio Convention in Berlin (1995) brought about restrictions in the CO\textsubscript{2} emissions. They come, however, without a binding timetable, making it hard not to comply with. The rise of global financial markets has also created a demand for a number of regulations. So far, the BIS Capital Adequacy Rules are the only major intergovernmental achievement in this area (Genschel and Plümper 1996: 225-253). Currency relations are to some extent supervisioned by the G-3 to G-7 summit meetings. These meetings, however, have so far produced not so much an institutionalized set of rules that could be qualified as a monetary regime, but rather a sort of crisis mechanism based on an intergovernmental network (Hirst and Thompson 1996: 131). In addition, some transnational organizations of the banking industry, such as the International Organization for Securities Commission, have adopted conventions to stabilize international banking. Nevertheless, many other areas in need of regulation, for example the control of purely speculative activities on the financial markets (Eichengreen, Tobin and Wyplosz 1995: 162-172), remain under-regulated when compared to the height of the Keynesian Welfare State (see Helleiner 1994). While the Internet came about by a coordinated effort to produce international Info-Highways, the regulation of contents, property rights, etc. seems hard to achieve in the near future.

In sum, too little has been done to restore governmental capabilities to steer the economy toward a higher degree of social welfare. The deficits are especially problematic when it comes to macro-economic steering and redistributive policies. Moreover, an institutional response to the new challenges posed by the integrated production of goods and bads is still missing to a great extent.

d) Legitimacy: Political decision-making should be organized so that it enjoys a high degree of legitimacy. The democratic state attained this goal by following the principle of self-determination, giving political rights and autonomy to an increasing number of constituents from the late 18th century on. However, denationalization poses a fundamental challenge to the principle of self-determination, since democracy depends on the congruence between those who are affected by decisions and those who participate in decision-making. To the extent that national decisions affect people outside the national jurisdiction -- which is the adverse effect of the efficacy challenge -- a democracy-problem arises (see Held 1995: 16).

International institutions can help to restore legitimacy to the extent that they involve deliberative decision-making instead of mere bargaining processes. With the help of independent experts, international institutions regulate externalities and are thus under certain circumstances able to take into account the rights and interests of all societies concerned (Joerges and Neyer 1997). In this sense, international institutions restore the principle of congruence by bringing experts, representatives of those involved in collective decision-making, and representatives of those affected by these decisions to one table. For a certain type of decision such a non-majoritarian model of democracy may suffice, especially

\footnote{For a survey see O’Brien 1992: 102.}
if efficiency-oriented policies have to be formulated under conditions of high uncertainty and complex technical expertise (see Majone 1996: chap. 13).

However, for redistributive policies and decisions which involve little technical uncertainty but some weighing of values, a majoritarian element of decision-making seems necessary, given that for all practical purposes deliberative processes must be cut short before complete consensus is achieved. Yet international institutions hardly fulfill the prerequisites for majoritarian decision-making. First, majoritarian decision-making requires that those involved in the decision-making process have a collective identity. A *demos* does of course not have to be an *ethnos*, but the members of a *demos* have to recognize each other as members. This is least often true when international decision-making is concerned. Second, majoritarian democratic systems with a representative element must be able to reverse personnel decisions. Whenever the constituents are dissatisfied with the proficiency of a representative, it must be possible to vote him or her out of office. The re-election or voting-out of representatives requires a minimum of information on their achievements and activities. The problem of international institutions is, however, that this information is not sufficiently provided. This democratic shortcoming is especially dramatic when international institutions regulate the relationship between the state and society, for example with respect to transnational crime and terrorism. Societies then lose control over their states. In absence of majority decisions, the „joint decision trap“ as identified by Scharpf with respect to the EC begins to work. "In *long-term* decision-making systems without *exit* options or with high exit costs, the reversibility clause is changed. With an increasing density of regulations, the failure to reach an agreement means that earlier decisions are more frequently upheld, and there is no return to a state in which there is no collective regulation." (Scharpf 1988: 239-278). Therefore, the quality of decisions deteriorates over time; input as well as output legitimacy of decisions of international institutions become problematic in the age of denationalization.

According to the principle of congruence, denationalization either leads to the rise of international institutions or to deficits in the attainment of socially valued goods when compared to the democratic welfare states of the 1970s. A comparison of the speed of *denationalization with the speed in the rise of international institutions* has shown that until the late 1970s, international institutions grew at a similar pace to denationalization in almost all issue areas. For this period, we can state that international institutions meet demand achieved by the continuous rise of international institutions. A gap arose only in the early 1980s when the exchange of goods and bads accelerated while the rise of international institutions stagnated. This gap is only partially ameliorated by the revival of international institutions in the 1990s, since at the same time a qualitatively new thrust in societal globalization took place.

If the principle of congruence is violated, *challenges to the effectiveness of national policies* arise endangering the provision of public goods if international institutions do not step in. On this count the following picture arises out of my analysis:

- Since the denationalization in the field of force mainly took place before the 1970s, it can be stated that the governance goal of security against state threats has been successfully internationalized.

- Negative international institutions set up to foster transnational efficiency have been successful for the whole time period under consideration. The governance goals of
security against state threats and of allowing for economic growth has been successfully internationalized.

- Positive international institutions established to correct undesirable market outcomes have been relatively successful in the environmental field, yet they display significant deficits with respect to macro-economic steering and redistributive policies. Therefore, the provision of social welfare has deteriorated.

- In particular, the denationalization of the common production of goods and bads in areas such as global warming, global capital markets, organized crime and the Internet has not been counterbalanced by effective international institutions so far. In this way, security deficits of a new kind have arisen.

- The democratic legitimacy of some international institutions is inadequate.

4. Theories of International Institutions in the Age of Denationalization

In the remainder, these findings will be discussed against the background of theories of international institutions. The questions are whether the findings can be explained by these theories and, in turn, what can these theories tell us for the future of international institutions in the age of denationalization. There is an abundance of literature on the conditions under which the demand for international governance is met. Roughly, four perspectives can be distinguished. In the first section I introduced functionalism as a benchmark theory: in its ideal (or straw type) form it predicts that demand for international governance determines supply. The other three theoretical perspectives on international institutions cast doubt on hopes for a smooth translation of demand for international institutions into supply. They point to different conditions that must be met before an adequate provision of international institutions can be expected and deem power, interests and ideas are seen as the determinants for the establishment of international governance.

4.1 Functions

Robert O. Keohane's "After Hegemony" (Keohane 1984: chap. 7) contains the most elaborate formulation of a functional theory of international governance. This version of functional theory is actually quasi-functional. It explains the demand for international regimes without suggesting that this demand is automatically translated into provision, as a purely functional theory would do. Accordingly, interdependence creates a demand for international cooperation, since cross-border interactions and the number of collective action problems rise in parallel. A prerequisite of cooperation in problematic social situations, however, is international regimes which (i) stabilize mutual expectations in regard to future behavior, (ii) reduce transaction costs, (iii) provide information not otherwise available and (iv) provide a frame of reference which guarantees that interaction repeat themself frequently enough in order to generate a "shadow of the future". Interdependence thus creates a need

\footnote{See Merton 1949. Mitrany 1975 probably comes closest to a purely functional theory of international institutions. For a neo-neo-functionalist interpretation of the stop-and-go process of European Integration see Corbey 1995.}
for international regimes which in turn are usually managed and run by international organizations.\textsuperscript{74}

Given the currently dominant thinking on international institutions, it comes as a surprise that functionalism, even in its pure form, is not completely off the mark. Up until the end of the 1970s, the rise of international institutions ran more or less in parallel to the increase of international transactions. Although the gap between denationalization and governance that arose during the subsequent years remains a puzzle for simple forms of functionalism, the overall growth of international institutions recovered from the late 1980s on. Regarding the existing governance deficits, one could argue that they mainly show up in relation to very recent challenges such as global environmental changes or global financial markets and thus will be dealt with after some delay.\textsuperscript{75} The ozone regime can be seen as a first indication for that.

This finding is not meant to revive an outmoded theory of international institutions. Some of the mentioned governance deficits can hardly be accounted for by functional theory, especially some of the deficits regarding the provision of social welfare. More generally, functionalism and neo-functionalism fail to account for the differences with respect to different policy types.\textsuperscript{76} However, the findings should serve as a reminder to acknowledge that international institution-building is driven by both demand and supply. Functionalism focuses on demand and can thus be combined with each of the supply theories.

4.2 Power

Waltzian Realism essentially denies that international institutions play any role in world politics (Waltz 1979). The theory of hegemonic stability,\textsuperscript{77} a modification of neo-realism, suggests that international institutions may help to maintain a liberal and peaceful international order. However, the creation and maintenance of international institutions depend upon a hegemon. Only a clearly superior power is in a position to provide the means for maintaining international order. With the relative decline of the hegemon’s power, its willingness and capacity to maintain these institutions decrease. Accordingly, it was expected that the decline of US hegemony in the 1970s would lead to a demise of international institutions, irrespective of the demand for them. However, historical and theoretical analyses have led to a consensus that hegemony is neither necessary nor sufficient for the creation or the persistence of international institutions.\textsuperscript{78} Nonetheless, it is still a widely believed argument that the absence of a strong power asymmetry poses a hindrance for the supply of international institutions.

\textsuperscript{74} The argument is an application of the Coase theorem to international institutions. See Coase 1988: esp. chaps. 1, 5 and 6. See Zacher with Brenton 1996: 26-27, for a comprehensive list of market failures that can be solved by institutions.

\textsuperscript{75} As the cases of East-West relations in Europe and some relative to polar issues (especially Antarctica and seal fur) attest, it is not uncommon for one or two decades to elapse in the effort to reach agreement on the terms of an international regime. Rittberger and Zürn 1990: 9-63, and Young and Osherenko 1993: 223-261.

\textsuperscript{76} The differentiation between high and low politics clearly does not help in explaining the systematic differences reported here. See Majone 1996: 63 for a very similar argument.


\textsuperscript{78} See Keohane 1984; Snidal 1985: 579-614; Eichengreen 1989: 255-298; Rittberger and Zürn 1990 and Young and Osherenko 1993.
A power-based explanation of international institutions, and then, this is the second surprise, can at least on the aggregate level account for a great extent of institutional development beyond the nation-state since 1945. The time period in which institutional development clearly lagged behind demand is identical with the time period in which the relative decline of US power was most obvious. While up until the early 1970s, US hegemony was, at least in the Western hemisphere, quite uncontested, the 1980s saw a revival of US power. The US economy regained relative strength and demonstrated what Susan Strange has called 'structural power' (Waltz 1979). With the breakdown of the USSR, the US are clearly dominant in the field of security policy -- some analysts saw the international system moving from bipolarity to unipolarity (Krauthammer 1991: 23-33) -- and the US were in terms of 'soft power' arguably more dominant than ever (see Nye 1991). The distribution of power over time hence roughly matches the development of international institutions. Moreover, the current deficits in the attainment of certain goods are much less significant when looked at from a supply-side economics point of view (measured against the Keynesian Welfare State of the 1970s). In so far as the US interests in the last decade or so were shaped by supply-side economics, power may explain the findings to an even greater extent. Again, this interpretation is not intended as uncritical support of the theory of hegemonic stability. As the study of specific cases has shown, international regimes can persist without a hegemon and international regimes can come into existence in absence of a hegemon. However, power seems to play a role, not only with respect to regime formation but also with respect to regime content.

4.3 Interests

Like the functional theory of international regimes, interest-based explanations assume that the demand for international institutions rises with international interdependence. Accordingly, economic and social integration gives rise to new problematic situations -- in which individually rational strategies may lead to collectively undesirable outcomes -- on the international level and thus creates the necessary condition for international institution-building. The supply of institutions, however, varies according to the specific constellation of interests and the features of the envisaged regulation. At least in some types of problematic social situations, namely in those resembling coordination games and dilemma games, a strong state that can serve as leader is conducive to regime formation. The major insights of functionalist and power theories can thus be integrated in an interest-based theory of international institutions. Moreover, an interest-based explanation of international governance can also account for two of the most important features of institutional development in recent years.

First, according to interest-based theories the effective operation of international regimes depends on the belief that all cooperation partners will comply with its rules. Cooperation (and subsequently the institution fostering cooperation) is likely to break down when this belief erodes. For this reason, information on the extent to which regime participants comply with the norms and rules is essential (see Ostrom 1990: 52, and Zangl 1995: 279-312). From this point of view, monitoring is the key to success. To be sure, in some cases the provision of information is no serious problem. It is quite easy for any exporter to find out if a state raises its tariffs. It is much more difficult, however, to find out if a government pays underhand subsidies to its national industries or not. In short, the need for monitoring and thus the difficulty for institution-building increases if effective regulation cannot be achieved solely by controlling flows at the borders.
It is therefore important to emphasize the finding in Section 2 that the intensification of international transactions has produced more and more problems that require more than controlling cross-border flows. The trade regime must increasingly focus on trade-inhibiting national regulations and subsidies rather than cross-border tariffs. Environmental pollutants such as river pollution can no longer verified at the border, instead the production process itself must be monitored, as in the case of air pollution. This is even more relevant in the integrated production (instead of cross-border exchange) of goods and bads. The new information and communication technologies make the control of information or capital flows at borders ineffective. The CO$_2$ and CFC concentration found in the atmosphere cannot be traced back to the originating countries. Even organized crime can hardly be fought at the borders. In short, the international regulation of newly arising issues complicates the issue of compliance in new ways and requires vastly intensified monitoring mechanisms to be effective. Against this background, it is no surprise that the most celebrated instances of recent, effective international institutions, be it the WTO, the ozone and other environmental regimes or the European Union, have involved unknown levels of dispute settlement, monitoring, and review mechanisms. 

The second important feature is that in the absence of a central authority redistributial policies resemble -- in game-theoretical terms -- a suasion or rambo game in which one or more actors reach their optimal outcome by acting unilaterally. Self-interested 'rambos' do not cooperate in these situations, unless they are 'persuaded' that cooperation is in their long-term interest, or important for the survival of a community they feel part of, or linkages with other issues can be constructed (see Martin 1992: 765-792, and Zürn 1992b). Even in a less malign constellation of interests, distributional issues are one of the most significant obstacles in international relations.

To be sure, international environmental regimes and some regulations of the European Union attest that international cooperation can achieve more than just the removal of government intrusion at the borders as a response to efficiency pressures. Positive international regulations in response to effectiveness problems and race-to-the-bottom dynamics are possible. However, international institutions whose purpose is the redistribution of resources are indeed extremely rare at the international level. Moreover, international institutions that are regulatory in intent but embody strong distributional effects are extremely hard to establish. Consequently, the only significant redistributial policies beyond the nation-state are either largely due to linkage strategies, as in the regional and agricultural funds in the EU, or must be legitimized by long-term interests as, for instance, in debt remission to the poorest countries. Moreover, international institutions that aim at policies which have an impact on the competitiveness of national economies as a whole seem to be much more difficult to establish than those with only sectoral implications. The most effective international environmental regimes regulate the practices of delimited industries, as in the ozone regime or the regime for the prevention of intentional oil pollution from ships. If the economic impact appears to extend beyond restricted sectors, negotiations are much more tedious as in the climate case. Finally, it is noteworthy that successful international environmental regimes most often contain rules that take into account the economic situation and capacities of the member states in order to minimize distributional impacts (Zürn 1997).

In sum, the role of distributional issues as conceptualized by interest-based theories account to a large extent for the deficits in the redistributial function of international governance. Straight redistribution among units acting at the international level is very rare. Moreover,

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79 The importance of these mechanisms is emphasized by Kahler 1995 for the WTO and by Victor, Raustiala and Skolnikoff 1997 for environmental regimes.
international economic regimes with almost necessarily strong distributional effect such as the coordination of macro-economic steering or the establishment of social policy standards, are still lacking.

4.4 Ideas

A further theory of international institutions emphasizes the role of ideas and beliefs. According to this theory, "state interests do not exist to be ‘discovered’ by self-interested rational actors. Interests are constructed through a process of social interaction (...) What matters is how identities and norms influence the ways in which actors define their interests in the first place" (Katzenstein 1996: 2, 30). In this view, international regimes are then best described as institutionalized ideas. If the underlying beliefs and principles change as a result of social interaction in a given institutional setting, institutions will also change. The source of international regimes therefore mainly lies in changing the construction of actor identities and in transnational expert networks, or to put it differently, in prevailing beliefs about good governance. The likelihood that international institutions arise will increase to the extent that transnational expert groups consider international cooperation necessary and that existing identity construction leaves room for the formation of international institutions.

While demand, power and interests can largely explain the pattern of institution-building after 1945, the extent of some institutional deficits can indeed hardly be accounted for without reference to ideas. While efforts to build an international climate regime with unquestionably far-reaching distributional impacts are quite well developed, attempts for coordination in the area of macro-economic steering or social policy standardization is almost non-existent. One important reason for is arguably the existence of a strong transnational expert community pushing for CO₂ reductions, while the current transnational economic expertise is dominated by ideas about the need for deregulation and to some extent obsessed by issues of national competitiveness.

A number of international economic regimes could be conceived of which would decrease race-to-the-bottom pressures in national redistributive policies, or increase the capacity for macro-economic policies without creating situations that resemble suasion games. A Tobin tax (not only increasing tax revenues but also limiting speculation on financial markets), the introduction of an OECD-wide energy tax taking the varying national productivity rates into consideration (not only increasing tax revenues but also reducing unecological transnational production chains) or differential social standardization (again considering different economic productivity rates) do not appear to have more distributional impact than an effective global climate regime. To put it differently and in an optimistic tone, the major deficits of current international governance could be remedied relatively rapidly with only a modest change in attitudes on the part of key elites (Hirst and Thompson 1996: 7).

In sum, contrary to the current stream of self-critical assessments in the discipline, it turns out that theories of international institutions perform quite well in explaining their growth pattern since World War II and in understanding the most notable governance deficits. While functionalism and a power-based theory of international institutions already account to a

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81 See Frey, Pommerehne, Schneider and Gilbert 1984: 986-994 for an empirical analysis of economic beliefs among economists in different countries. Unfortunately, the survey was carried out in the early 1980s.
notable extent for the overall institutional development, interest and idea-based theories point to the aspects of international governance that are most important in the age of denationalization. Negative international institutions that reduce the costs for transnational activities and thus respond to efficiency pressures are well-developed. A strong leadership of the US with Great Britain as their most important ally fostered the building of those market-building institutions that enabled economic growth. International institutions that positively regulate economic and social transnational integration (regulatory regimes) are possible and already play a significant role. However, some notable deficits are discernible in this area. The most important factors for those regimes to come into existence are workable monitoring and review systems, the crafting of rules that avoid strong redistributional effects between states and the existence of a transnational expertise that pushes for international regulation. Finally, international governance that aims at redistribution (redistribution regimes) is most difficult to achieve. Redistributional policies are therefore better achieved by regulatory regimes that harmonize social policies at the national level. For that purpose, change in the belief systems of transnational expert communities and governments is necessary. As long as this change does not take place and the other conditions necessary for regulatory regimes are not sufficiently met, demand for governance will outstrip supply, especially with regard to social welfare.
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The source for all tables and figures is Beisheim et al. (1998), where not only the graphical representations but also all numerical data can be found.
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Table 1: Development of the Global Number of Strategic Alliances

<table>
<thead>
<tr>
<th>Period</th>
<th>Number</th>
</tr>
</thead>
<tbody>
<tr>
<td>1970-1979</td>
<td>804</td>
</tr>
<tr>
<td>1980-1984</td>
<td>1552</td>
</tr>
<tr>
<td>1985-1989</td>
<td>2630</td>
</tr>
</tbody>
</table>

Table 2: Development of the Ratio of Imported to Domestic Semi-finished Goods in the G7-Countries except Italy (Percentage Points)

<table>
<thead>
<tr>
<th>Period</th>
<th>CA</th>
<th>DE</th>
<th>FR</th>
<th>GB</th>
<th>JP</th>
<th>US</th>
</tr>
</thead>
<tbody>
<tr>
<td>Early 1970s</td>
<td>34</td>
<td>-</td>
<td>21</td>
<td>16</td>
<td>5</td>
<td>7</td>
</tr>
<tr>
<td>Mid / late 1970s</td>
<td>37</td>
<td>21</td>
<td>25</td>
<td>32</td>
<td>6</td>
<td>8</td>
</tr>
<tr>
<td>Mid 1980s</td>
<td>50</td>
<td>34</td>
<td>38</td>
<td>37</td>
<td>7</td>
<td>13</td>
</tr>
</tbody>
</table>
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Figure 11: Total Column Ozone as a Global Annual Average (Dobson Units, Satellite Data)

Figure 12: Development of the Deviation of Global Average Temperature from the 1961-1990 Average

![Graph showing the development of deviation of global average temperature from the 1961-1990 average.](image)

Copyright: Hadley Centre for Climate Prediction and Research, Meteorological Office, Bracknell, UK

Figure 13: Development of Migration-Ratios in the G7-Countries except Canada and Japan (Percentage Points)

![Graph showing the development of migration-ratios in the G7-countries except Canada and Japan.](image)
Figure 14: Development of the Share of Foreign Born Population in Total Population (Canada, United States) and of the Share of Foreigners in Total Population (France, Germany, Italy, Japan, United Kingdom, Percentage Points)

Figure 15: Development of the Share of Travel Abroad in all Travel (Percentage Points)
Table 3: The G7-Countries as Potential Targets of Countries With Ballistic Missiles With a Range of More Than 100 km (as of 1994⁶)

<table>
<thead>
<tr>
<th>Origin</th>
<th>Range in km</th>
<th>Potential Targets within Range</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Shortest Range</td>
<td>CA</td>
</tr>
<tr>
<td>Belgium</td>
<td>125</td>
<td>-</td>
</tr>
<tr>
<td>Germany</td>
<td>125</td>
<td>-</td>
</tr>
<tr>
<td>Italy</td>
<td>125</td>
<td>-</td>
</tr>
<tr>
<td>Netherlands</td>
<td>125</td>
<td>-</td>
</tr>
<tr>
<td>Taiwan</td>
<td>100</td>
<td>-</td>
</tr>
<tr>
<td>Korea, South</td>
<td>~200</td>
<td>-</td>
</tr>
<tr>
<td>Afghanistan</td>
<td>280</td>
<td>-</td>
</tr>
<tr>
<td>Egypt</td>
<td>280</td>
<td>-</td>
</tr>
<tr>
<td>Iran</td>
<td>280</td>
<td>-</td>
</tr>
<tr>
<td>Yemen</td>
<td>280</td>
<td>-</td>
</tr>
<tr>
<td>Libya</td>
<td>280</td>
<td>-</td>
</tr>
<tr>
<td>Poland</td>
<td>280</td>
<td>-</td>
</tr>
<tr>
<td>Romania</td>
<td>280</td>
<td>-</td>
</tr>
<tr>
<td>Syria</td>
<td>280</td>
<td>-</td>
</tr>
<tr>
<td>Czech Republic</td>
<td>280</td>
<td>-</td>
</tr>
<tr>
<td>Hungary</td>
<td>280</td>
<td>-</td>
</tr>
<tr>
<td>Pakistan</td>
<td>300</td>
<td>-</td>
</tr>
<tr>
<td>Slovakia</td>
<td>500</td>
<td>-</td>
</tr>
<tr>
<td>Bulgaria</td>
<td>500</td>
<td>-</td>
</tr>
<tr>
<td>Iraq</td>
<td>600 (150)</td>
<td>-</td>
</tr>
<tr>
<td>Brazil</td>
<td>600</td>
<td>-</td>
</tr>
<tr>
<td>Korea, North</td>
<td>~1000</td>
<td>-</td>
</tr>
<tr>
<td>Israel</td>
<td>1450</td>
<td>-</td>
</tr>
<tr>
<td>South Afrika</td>
<td>1450</td>
<td>-</td>
</tr>
<tr>
<td>India</td>
<td>2500</td>
<td>-</td>
</tr>
<tr>
<td>Saudi Arabia</td>
<td>2700</td>
<td>-</td>
</tr>
<tr>
<td>France</td>
<td>3500</td>
<td>+</td>
</tr>
<tr>
<td>UK</td>
<td>4700</td>
<td>+</td>
</tr>
<tr>
<td>USA</td>
<td>&gt;10000</td>
<td>+</td>
</tr>
<tr>
<td>USSR/Russia</td>
<td>&gt;10000</td>
<td>+</td>
</tr>
<tr>
<td>China</td>
<td>&gt;10000</td>
<td>+</td>
</tr>
</tbody>
</table>

- **CA**: Country could be hit by ballistic missiles.
- **(+)**: Theoretically, the country could be hit, but practically this is extremely unlikely. Either the distance between origin country and potential target is at the limit of the technical range or it is only possible to hit minor extra-territorial areas.
- **(-)**: Country could not be hit by ballistic missiles.
- **N/A**: Not applicable; origin and potential target are identical.

1) Neither the Italian peninsula nor Sicily or Sardinia could be hit, but Lampedusa a minor island of the Pelagian Islands south of Sicily. Libya already tried to hit Lampedusa with ballistic missiles in 1986 in retaliation to the US air-raids on Tripolis and Benghazi.
2) IRBM = Intermediate Range Ballistic Missile.
3) In the Second Gulf War the facilities of the Iraq missile program were severely damaged. In the aftermath of the war, the program was completely dismantled under UN-Security Council resolution No. 687. The resolution also stipulates that in the future Iraq is not allowed to acquire or to research missile technology with a range of more than 150 km.
4) ICBM = Intercontinental Ballistic Missile.
5) By their technical range these missiles have to be identified as IRBMs, but either a part or all of them are stationed on submarines. Therefore, taking into account the range of the submarines, the missiles can be deployed almost everywhere.
6) The proliferation and de-proliferation of missile technology as a consequence of the break-up of the USSR and the following agreements and self-restraints of the successor states of the USSR are not taken into account.
Figure 16: Development of the Number of Countries with Research on, Potential for and Possession of Nuclear Weapons

1) For the category „research on nuclear weapons“ the year was coded in which a country initiated a research program on nuclear weapons. Civil research programs were only taken into account if it could be reasonably assumed that they were driven by a strong interest in developing nuclear weapons. Differences in status and scope of the programs over time were not taken into account. For the category „potential for nuclear weapons“ the year was coded in which a country had accumulated enough fissile material (highly-enriched Uranium or Plutonium) to initiate a nuclear explosion. The accumulation of fissile material is a necessary, but not a sufficient condition for the possession of nuclear weapons because other research has to be conducted concerning e.g. the metal processing of fissile material. Therefore, for the category „possession of nuclear weapons“ the year was coded in which a country was first able to use fissile material in a nuclear weapon.

Figure 17: Development of the Number of Cases and the Percentage of Foreign Suspects in Cases of Illegal Dealing and Smuggling of Drugs in Germany under § 29 BtmG
Figure 18a: Number of IO-Memberships of Germany, France, Great Britain and Italy

Figure 18b: Number of IO Memberships of Canada, Japan, and the USA
Figure 19: Acts of the Council of the EU and Legislative Output in Germany, France, Great Britain, and Italy

Figure 20: Development of the Number of New International Environmental Agreements (According to Two Different Sources)
Figure 21: Development of the Number of New International Economic Treaties