Policy Area Discipline

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Research Puzzles

- What determines the features and characteristics of international institutions?
- What happens when an institution’s features prove ineffective?
- Why do so many international institutions fail / fall into obscurity if they are designed rationally?
Premise

- Rational design (e.g. Koremenos et al 2001; Hawkins et al 2006; Thompson 2010) common approach in study of IOs
- Considerable empirical work to support idea that institutions reflect rational design principles
- However, rational design might fail for a variety of reasons:
  - Constructivist critique (e.g. Wendt 2001)
  - Bounded rationality (e.g. Moe 2005)
  - Power (e.g. Moe 2005)
  - Rational ineffective design, e.g. intentional sabotage, short time horizons, optimizing other goals such as turf / bureaucratic positions
- My contribution: optimally designed institutions can emerge in the absence of rational design; need to consider implications
Theory

• Policy Area Discipline: institutions with well-designed features gain resources and come to dominate policy areas as countries reallocate resources
• Analogous to market discipline among firms; survival of the fittest according to design features
• Must be easy to create or shift resources to alternative institutions (this varies by issue area – see my forthcoming book)
• Implication: observation of seemingly “rational” design may be misleading → the institutions that have survived / that we pay attention to are those that were designed with effective characteristics
Operationalization: Decision Rules among Development Institutions

• Considerable variation in decision rules among development institutions

• Prediction: Issue area will come to be dominated by institutions with flexible decision rules that closely mirror underlying power
  – Do member countries have decision-making power commensurate with economic power (GDP)?
  – How easy is it to reallocate decision-making power in response to shifts in underlying power?

• If not, countries will create / shift to alternatives that better reflect their interests
Why Development Institutions?

- Useful characteristics for empirical examination
  - Meets theoretical premise: easy to create alternatives or reallocate resources to alternative institutions
  - Clear, objective measure of activity → aid disbursements
  - Diversity in institutional features
  - Long track record (1945-present)
Data

• New dataset of core disbursements by international aid organizations

• Important to strip out non-core disbursements
  – Non-core / co-financed disbursements often transfer decision-making authority to other parties, e.g. donor, other agency (e.g. Klingbiel 1999)
  – Oftentimes not really aid, e.g. aid IO brought in to domestic projects in Latin America to circumvent regulations, evade taxes (North et al 1996)

• Collected data for 29 aid agencies, 1945-present
UNDP Aid Disbursements
Including and Excluding Co-Financing
(Millions of 2012 US$)
Aid Disbursements by International Institutions: Ratio of Institutions with Weighted Voting Rules / Those with One-Country-One-Vote Rules
Disbursements by IFAD and One-Country-One-Vote UN Agencies, Normalized to =1 in 1995 (1979-2012)
OLS Regressions

• DV: % annualized change in core disbursements from 1970-present (or earliest available)
• IVs: Dichotomous indicator for one-country-one-vote rule; average deviation of voting share from GDP share
• Controls, indicators for:
  – Predominantly (>10%) lending, grant, both
  – Limited membership, limited issue, regional, UN agency
  – US membership
  – Leader from DAC / developing country / both by convention
• Result: OCOV & large deviation consistently associated with lower annualized change in disbursements
Rational Design based on Learning?: New Development IOs by Decade

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Institutional Reform?

• Very few instances of voting rule changes despite declining resources (IFAD only instance of major change)

• e.g. UNDP (2005) itself identifies lack of weighted voting as roadblock to increased resources, but no action taken

• ➔ For the most part, states reallocate resources and pursue non-core financing instead of attempting to reform institutions
Conclusions

• Among development aid institutions
  – Evidence consistent with policy area discipline → policy area has come to be dominated by flexible, weighted voting institutions
  – Mechanism = resources channeled towards flexible institutions and away from inflexible institutions
  – Very little evidence of rational design of new institutions or reform of existing institutions

• Important potential source of bias
  – Successful, well-known institutions will have optimal design features, but that may not tell us much about how countries generally design institutions