Neo-Liberal Institutionalism

Idealism tainted by Realism
Reasons why liberals have doubts about Idealism

- Failure of Collective Security: League of Nations
- Appeasement of Hitler led to WWII
- Anarchy does make conflict and war possible

Neo-liberals thus borrow aspects of Realism:
• Neo-liberals recognize that cooperation is not harmony.

• Cooperation requires compromise and or mediation. Cooperation is possible when there is conflict.

• Harmony is the absence of all conflict. This is impossible.
Tenets of Neo-Liberal Institutionalism:

1. Agree with Realism that the system is anarchic.

2. Agree with Realism that states are rational-unitary actors.

3. Cooperation is nonetheless possible through international regimes and institutions.

4. Rational to focus on long-term benefits instead of short-term goals (collective goods).
Neo-liberals agree that anarchy leads to competition and conflict, but that problems can be managed through international institutions.

Thus, Neo-liberals are more optimistic about cooperation than Realists.

The key is reciprocity.

What is reciprocity?
Reciprocity means to do unto others as they just did unto you.

Notice how this is not the golden rule!

If someone does something nice to you, you do the same; if they treat you bad, you do the same.

Goldstein defines it as “a response in kind to another’s actions; a strategy of reciprocity uses positive forms of leverage to promise rewards and negative forms of leverage to threaten punishment.”
This idea can also be portrayed using the Prisoner’s Dilemma game, which we already used to demonstrate the Security Dilemma and rational behavior.

**TABLE 2.2 Payoff Matrix in India–Pakistan PD Game**

<table>
<thead>
<tr>
<th></th>
<th>Pakistan</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Cooperate</td>
</tr>
<tr>
<td>India</td>
<td></td>
</tr>
<tr>
<td>Cooperate</td>
<td>(3,3)</td>
</tr>
<tr>
<td>Defect</td>
<td>(4,1)</td>
</tr>
</tbody>
</table>

Note: First number in each group is India’s payoff, second is Pakistan’s. The number 4 is highest payoff, 1 lowest.
If the PD game is played only once, it is always rational to defect.

However, if the game is played multiple times with a strategy of Tit-for-Tat, it becomes rational to cooperate, otherwise both players are always left in a sub-optimal position.

This is the “Shadow of the Future”
This is how Neo-liberals claim that it is rational to look for long-term benefits, whereas Realists worry about relative power in the short-term and thus will defect.

If states interact frequently over time, they should learn that not cooperating means both states will enjoy fewer benefits.

International Institutions help provide these repeated iterations.
Example: International trade dispute

Imagine Japan charges American products with a high tax (tariff). What would you do if you were the United States?

Tax their products as well.

What do you get if both sides keep retaliating?

A trade war

Thus, both states will make less money from trade if this continues.

Over the long-run both states should learn to cooperate and not use tariffs.