

# Toward a Methodologically Individualist Theory of the Modern State

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## Abstract

This paper seeks to make a case for a theory of the modern state that is premised on the constituents of the state: Its citizens. The central argument is that the chimera that has been termed the “state” is, in effect, primarily an institutional structure that constrains the actions and behavior of the agents that make up its core. While not dismissing the existence of the idea of a state in terms of rhetoric, conceptualization, and practice, we argue that the entity is best understood as a dispassionate, neutral institution that is shaped by both domestic and international events and pressures, through its citizen-agents. The paper begins with a critique of the existing approaches to establishing a theory of the modern state, followed by a review of common rebuttals; it goes on to sketch the theoretical framework that is the core of the paper. We argue that this approach, which allows for the state to be endogenous in its formation and change, while not possessing any imbued characteristics of its own, is a more attractive approach to understanding the modern state.

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## 1 Introduction

The *raison d'être* for state existence is difficult to collapse to a singularity. Existing theoretical approaches to the study of state formation have provided a range of justifications for the emergence of a national state, not all of which are mutually exclusive.

Historical precedent, such as the formalization of the occupation of new territory, was responsible for the founding of many states in Latin America. Closely tied to this is the militaristic rationale, especially in the context of imperialist expansion and conquest in North Africa, the Middle East, and large swathes of East Asia. State formation can also be understood as arising out of structuralist-institutional factors. The separation and subsequent reunification of Germany is probably best understood through the lens of ideological determinism, while an increasing sense of nationalistic identity led to the *Risorgimento* that gave rise to modern Italy. Economic considerations and conflicts between domestic economic actors was an integral process in the Meiji Restoration, and birthed modern Japan. Finally, states are also the response to socio-cultural stimuli: The desire to associate, affiliate and conjoin with peoples of a similar culture, ethnicity, or social class is a fundamental basis for many modern states.<sup>1</sup>

Such theories of state formation are likely to have contributed to the overwhelming (although not universal) treatment, within the discipline, of the state as a unitary actor. If the process of state formation can be narrowed to a single, driving theoretical determinant, then the operation of the state must surely be premised on how it best meets the needs that have legitimized its existence.<sup>2</sup>

<sup>1</sup>The structuralist approach that emphasizes the path dependency of historical institutionalism is probably the best proxy for historical precedence as a reason for state formation (Evans *et al.* 1985). The militaristic rationale for state existence was probably first introduced as by Weber (1968) through the state's expression of power and authority; Weber's writings are also the basis for an economic justification for state formation. Later authors such as Tilly (1992, 2003) and Mann (1986, 1993) develop the militaristic paradigm in fuller detail; while the rational choice school has built on the economic theory of the state usually based on either taxation or welfare provision (Alesina & Spolaore 2003; Iversen & Cusack 2000; Levi 1986; Spruyt 1994). Neomarxist and neoliberal authors tend to emphasize purely political logics; Jessop (1990) and Putnam (1993) are examples of each. The culturalist approach to the state probably found its intellectual roots in Foucault (1991), and is applied by the papers in the Steinmetz (1999) volume.

<sup>2</sup>There are, of course, other reasons for the unitary actor assumption common in the treatment of the state. One persuasive explanation is the rise of formal empiricism, and the constraints that both data availability and modeling complexity impose on treating the state as an institutional framework rather than a unitary actor. While we do not deny the validity of these alternative arguments, the focus of this paper is not to explain why this approach has captured the literature, but to make the case that the state is better understood without

For instance, a state that exists primarily to resolve the diverse economic concerns of its agents can safely be treated as an economic maximizing actor on the aggregate level, and the diversity of policy demands in other dimensions ignored (or glossed over).

This paper seeks to make a case for a theory of the modern state that is premised on the constituents of the state: The citizens. Its central argument is that the chimera that has been termed the “state” is, in effect, merely an institution that constrains the actions and behavior of the agents that make up its core. While not dismissing the existence of the idea of a state in terms of rhetoric, conceptualization, and practice, we argue that the entity is best understood as a dispassionate, neutral institution that is shaped by both domestic and international events and pressures, *through the citizen-agents*. The purpose of the state, therefore, is to effect the preferred policy of the agents that comprise it. This approach allows the state to be endogenous not just in its *formation*, but also in its *change*, while not possessing any imbued characteristics of its own volition.

Relaxing the unitary actor assumption has both positive as well as normative implications. Modeling the state primarily as an institution clarifies the constraints faced by its constituent agents, who may possess diverse objectives across multiple facets of policy. This not only relieves us of the need to impute the faceless state with a set of preferences and objectives, but also allows the policies pursued by the state to evolve over time, in accordance with the underlying goals of its citizen-agents. While this does introduce some complexity in terms of pinning down a given policy vector, it avoids the pitfall of assuming that a unitary state can implement policy in partial equilibrium. Moreover, a univariate state policy is often purchased at the expense of possible feedback effects that may offset, or even completely negate, the initial policy prerogative.

From a normative standpoint, our theory frees us from the uncomfortable position of denying the choices of a state as ultimately reflecting the underlying preferences of its constituents. While this does not mean that special interests, whether domestic or foreign, may have an undue influence on state policy, it nonetheless situates the range of policy outcomes firmly within the domain of the relevant citizen-actors. This is appealing since it shifts normative debates about policy away from an ill-defined “state” to the actors that really matter.

The paper is organized as follows. After this introduction, we enter into a critique of the existing approaches to establishing a theory of the modern state. This section is organized in terms of the various theoretical boundaries that have been drawn between state, society, and economy, as well as interactions between the three levels of individual, national, and international (Waltz 1954). This is followed, in Section 3, by a brief discussion (and rebuttal) of the arguments made by some theorists that a theory of the modern state is (largely) irrelevant. We then proceed to the central contribution of this paper, which sketches a theoretical framework that attempts to account for the modern state established on its constituents; more specifically, these are the citizenry, special interests,

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recourse to the unitary actor assumption.

transnational actors, and domestic policymakers (Section 4). A final section concludes, and a technical appendix formalizes the arguments of Section 4.

## 2 Existing Approaches

This section explores the theoretical boundaries that have been drawn in the literature on state theory. One such boundary is that between the different spheres of social interaction; the other, between the levels of ontological separation. The purpose is to show that in the first case, the argument that there is a need to blur the boundaries between state, society, and economy is largely superfluous, while in the second, a consideration of the boundaries between the individual, state, and international is essential.

### 2.1 Boundaries between state, society, and economy

The study of interactions between the political state, economic producers and consumers, and the social sphere have occupied the minds (and writings) of the theorists seeking to clarify the nature of the modern state. However, we argue that the problematic of not addressing particular boundaries is largely a construct of academic theorizing. If anything, the real problem lies with arguing for the existence of *any* clearly-defined boundaries to begin with. In contrast, modeling behavior on the basis of methodological individualism avoids these constructs by allowing any state policy to arise endogenously as a function of interactions between the relevant actors.

One such boundary—that between society and state—is explored in the work of Mitchell (1991); he argues that the predominant paradigm for understanding the state—the state-centric approach exemplified by authors such as Evans *et al.* (1985)—is both limited and flawed, in that it imposes too stiff a boundary between the state and society. He introduces an alternative approach that, in his view, takes more seriously the uncertain boundary between society and state. To buttress his argument, he discusses this society-state interaction in a case study of U.S. foreign policy in the Middle East after World War II (the “Aramco Case”) (Mitchell 1991, pp. 89–90).

The irony of Mitchell’s case study is that it is, in fact, a perfect example of how independent state actors—in this case, special interests—may enter into the political calculus of state policymakers. Rather than a discourse about the porous barriers between the state and society, the Aramco case exemplifies the importance of accounting for how the subnational units that constitute the active players within a state are ultimately the source of the said state’s singular policy action on the international stage. The critical issue that needs to be recognized is that these substate actors each exert a separate and distinct influence on the final foreign policy outcome, with the outcome being jointly determined by an aggregation—perhaps imperfect—of their individual preferences. Moreover, in establishing their independent positions, these substate players will

naturally take into account the actions of the other players in their particular policy space.

The essence of Mitchell’s argument is echoed in the state-in-society work of Migdal (2001). Again, the shortcoming of this approach to the study of the state is not to deny the truth of state-society relationships, but that an explicit focus on this relationship does not provide greater utility in terms of providing a positive understanding of the modern state. This is for several reasons. First, the state-in-society approach privileges the social to the extent that important first-order interactions that also occur between the political and economic, as well as political and social, are largely ignored. Second, while the approach is certainly amenable to prescriptive rather than merely descriptive theory, researchers in this school have generally not sought to do so, rendering the methodology largely limited to an academic exercise.

This is clearly seen, for example, in his discussion of how state-society engagement works to sustain the state in the face of a rapidly changing environment. His argument here is that three dimensions of interaction—the law, public ritual, and informal public-sphere behavior—are the threads that stitch otherwise weak states together and render legitimacy to the state’s position. The problem with accepting these areas as a reflection of purely state-society engagement is these areas are as much shaped by economic and political forces as they are by social ones. In fact, Migdal (2001, p. 159) even acknowledges as much: “The connection between politics and theater has been made repeatedly”; public ritual can thus be as much a political signal as a social one. Likewise, while significant social changes usher in a proliferation of new sets of laws, there is also ample evidence that economic sensibilities may drive changes in the judicial system, or at least in specific aspects of any given law (see, for example, Wittman (2002)).

Other authors have attempted to question other boundaries. Granovetter (1985) problematizes the boundary between the state and market. Drawing on the work of economic sociology, he makes the case that “embeddedness”—defined as the constraints imposed by ongoing social relations on economic behavior—necessitates an analysis of economic action that is not independent of the social environment. His goal is a middle ground: One that balances between the undersocialized conception pervasive in economics and the oversocialized view of sociology. The argument is a critical one: After all, the former insists on an interpretation of human decisionmaking that is unrealistic and inconsistent with empirical reality, while the latter imposes too much structure on such choices.

We are extremely sympathetic with the need for any analysis of economic behavior to consider social strictures and their influence on choice; however, we contend that this view does not fully take into account two considerations. First, at the choice level, the critique is too dismissive of a formal approach in being able to capture these meso-level social constraints such as norms and customs. Recent advances in behavioral game theory have made great strides in capturing the impact of psychological and sociological context, for example in addressing preference interdependence (envy, reciprocity, spite, altruism) as

well as the mental modes of other players; moreover, many studies have also had some success in validating the approach at the experimental level (Camerer 2003). Second, at the preference level, the observed choices of individuals may already well take into account these constraints. Building on the theory of revealed preference (Samuelson 1948), it is possible to derive axiomatic theories of both group (Lensberg 1987; Ok & Zhou 1999) and population (Blackorby *et al.* 2002) level behavior; this suggests that at all these different levels of aggregation, it is possible that choices are made in a manner that is entirely consistent with respect for preexisting social factors.

In summary, we have made a case in this subsection that the existing literature that strives to blur the boundaries between state, society, and market are undertaking an unnecessary task. The existing distinctions are useful to the extent that they provide an intellectual edifice to analyze the different domains in which the state conducts its business. However, the act of *problematizing* the state's *modus operandi* into these distinct spheres does not imply that in the actual *conduct* of agents within the state does not take into account the important interactions between the different areas. Analysis of state behavior can proceed under a rubric where its constituent citizen-agents make rational or behavioral choices in an attempt to exert an influence on policymaking, and as has been argued, this framework is flexible enough to account for political, social, and economic influences. This view finds some support from (Evans 1992, p. 144), who states that:

[i]t would be foolish to deny that the neoutilitarian vision captures a significant aspect of the functioning of most states, perhaps the dominant aspect of the functioning of some states. . . the neoutilitarian view should even be considered an improvement on the traditional neoclassical vision of the state as neutral arbiter. Indeed, the assumption that state policies “reflect vested interests in society” partially recaptures. . . insights into the biases that characterize state policy.

Essentially, Evans insists that the primacy of the state requires that the market and social network be subsumed under a state-centric context. We consider this conceptualization strategy unnecessary, since the institutional impact of the state can simply be formulated as design constraints on the actual state problem. Ultimately, agents do take into account social, economic, and political forces in their decisionmaking process, and it is a criticism of our inadequate theoretical modeling, not their realized actions, that creates these artificial distinctions between them. Consequently, the model that we introduce does not draw these distinctions.

## 2.2 Interactions between the individual, state, and international

Beginning with the seminal work of Gourevitch (1978), state theory has sought to clarify the linkages between the first, second, and third images. Although

Gourevitch's primary contribution was in recognizing the potential for the international to affect the domestic—the “second image reversed”—he was acutely aware of the state's impact on the international system as well, a point that is occasionally forgotten (or ignored). He also emphasizes the primacy of the state in governing these international interactions, since “[d]espite interdependence, the state retains its ability to control transnational actors, if it is able to muster the political support for doing so” (Gourevitch 1978, p. 909).

The first significant attempt to model the second-third image interaction was that of Putnam (1988). Although his paper limited its focus to a dual transmission channel—that of international fora on domestic negotiations, and domestic special interests on international policy—it set the stage for subsequent developments in modeling the interaction of domestic actors with international ones. In some senses, therefore, the present work may be regarded as inheriting the intellectual legacy first laid out by Putnam, but allowing for not just second-third image interaction, but also accepting how, ultimately, domestic politics are a function of its citizens: A first-second image interaction.<sup>3</sup>

The most prominent criticism of the present approach is likely to stem from the constructivist school, as exemplified by the works of Cox (1981) and Wendt (1987). The contention is likely to proceed along these lines: In employing the tools of game theoretic modeling, the (flawed) neorealist assumption of common rationality is promulgated yet again, and this disadvantages an analysis that is more cognizant of historical structures. This critique is well taken—after all, a greater attention to history both sets out a basis for how individual cases may vary, and also hosts an explanation for the observed variations in state behavior over time. From a modeling standpoint, however, this is relatively simple to incorporate; a dynamic model, we we briefly outline, can easily consider the impact of path dependence.

The need to address the different levels that constitute the state is an important one. The literature has made much progress in this regard, but much work remains to be done. The consensus appears to have settled on the view that the global is comprised of states, which are in turn made up of their citizens, and two-way feedback occurs between each level. The model that we develop breaks down these distinctions by allowing for interactions across all three levels.

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<sup>3</sup>The bureaucratic historian school, which emphasizes the importance of individuals in international diplomatic relationships, is another conceptualization of this first-second image. Insofar as policymakers in the present model are treated as independent from their personal policy preferences, our analysis continues to hold. This would be the case if diplomats are unable to exercise power in a manner that is inconsistent with the demands of the state's constituents. This “frictionless policymaking” assumption is obviously more pertinent in some contexts, such as those where specialized knowledge on the issue is more diffused (for example, in the low politics of international economic issues), and less so in those where expert knowledge and privileged information rests more in the hands of a few state policymakers (as is the case in the high politics of international security negotiations). In either case, it is difficult to imagine policymakers exercising complete independence, and so we will continue to maintain the frictionless assumption, while recognizing its limitations in some cases.

### 3 Rebuttals: On the (Ir)relevance of State Theory

#### 3.1 Hyperglobalizers, state-centricism, and seeking a middle ground

One major critique of a continued emphasis on the ontological study of the state may be summed up by the question, “whither the state?” The conventional wisdom *du jour* is that, with the increasing encroachment of globalization into formerly well-defined borders, the role of the state is being eroded, and hence any state-centric theory is in danger of becoming irrelevant. This hyperglobalization thesis holds a fatalistic view on political (Camilleri & Falk 1992) and economic (Ohmae 1995) sovereignty in a globalized world. As Ohmae (1995, p. 8–9) argues:

Public debate may still be hostage to the outdated vocabulary of political borders, but the daily realities facing most people in the developed and developing worlds—both as citizens and as consumers—speak a vastly different idiom. Theirs is the language of an increasingly borderless economy, a true global marketplace... the traditional nation states [have begun] to come apart at the seams... in economics as in politics, the older patterns of nation-to-nation linkage have begun to lose their dominance... [T]he uncomfortable truth is that, in terms of the global economy, nation states have become little more than bit actors. They may originally have been... independent, powerfully efficient engines of wealth creation. More recently, however, as the downward-ratcheting logic of electoral politics has placed a death grip on their economies, they have become—first and foremost—remarkably inefficient engines of wealth distribution... [W]hat this combination of forces at last makes clear is that the nation state has become an unnatural—even a dysfunctional—organizational unit for thinking about economic activity. It combines things at the wrong level of aggregation.

The key problem with the hyperglobalization thesis lies in the counterfactual: It cannot accommodate the empirical record of the continued existence of states, both now and through earlier historical periods of globalization, of which the current wave is but the third. Although there are certainly distinctions between the present globalization experience and those of the past—notably, the speed of information transmission due to advances in information and communications technology, as well as the rise of a more sophisticated network of transnational institutions of governance—the ability of nation states to find continued relevance in an increasingly connected world is both a troubling reality and a stylized fact that begs to be explained.

Moreover, while the organization of economic and political activity within the strictures of a nation state may involve potential inefficiencies in terms of



production and redistribution, the optimal size of nations states are unlikely to be zero. The benefits inherent in increasing economic size are ultimately offset, at the margin, by the costs of service delivery and policy formation in a heterogeneous society (Alesina & Spolaore 2003). Moreover, the race-to-the-bottom argument may be mitigated by domestic political costs of reform. For example, Basinger & Hallerberg (2004) show that, using the framework of a tournament as a substitute for a race-to-the-bottom model, the political costs of reform—defined as both transactions costs as well as constituency costs—may alleviate pressures for the downward convergence of tax policy even in the presence of increased capital mobility. The argument is a more general one: If domestic politics matter, then the heterogeneity of preferences at substate level may offset any pressures for increased homogenization at state level, whether it is in the form of economic policy or foreign policy.

Even in the presence of technological advancements and international institutions, states can, and do, find legitimacy through other means. The adoption of differing policies over issues such as the environment, social welfare, security, and socio-cultural policies are a reflection that both economic policies and political outcomes may well be second-order determinants for states that are sufficiently similar in gross domestic product as well as political regime. To illustrate, while the demand for economic growth and development in countries such as India and Bolivia may trump concerns over deforestation and large-scale dam construction, the relative preferences of citizens in Sweden and France have led to distinct welfare policies, which to some extent conditions the choice of individual income tax rates, which in turn undergirds the relative strength of social democratic and Christian democrats vis-à-vis liberal parties. Therefore, as long as there is sufficient heterogeneity in the populace, the expression of this heterogeneity will provide a continued rationale for state existence.

In contrast to the hyperglobalizers, there are authors that have adopted a strong state-centric view. This approach insists on the primacy of the state, and suggests that the notion of a declining, ineffectual state is largely a fiction that has not taken into account the clear lessons of history, nor the inherent limitations of the utility of global governance (Held *et al.* 1999; Hirst & Thompson 1999). Hirst & Thompson (1999, pp. 2, 15–16) make a case for why the current *status quo* will remain dominant, albeit with some limited pressures from the external:

Globalization, as conceived by the more extreme globalizers, is... a myth... the world economy is far from being genuinely “global”... the maximum point of change in the post-1945 international regime does not seem to have produced an acephalous system based on unregulated supranational markets... the economic liberal push in the early 1990s has also failed to produce such an outcome... [Empirical] evidence is consistent with a continuing inter-national economy, but much less so with a rapidly globalizing hybrid system.

While the state-centric approach is definitely more cognizant of the lessons of the past, it suffers from being *too* insistent on the cyclicity of historicism. It

fails to distinguish the aspects that are unique to this current wave of globalization. The rise of transnational actors and institutions, assisted by technology, is more insistent than in the past. There is a need to understand not just state sovereignty, but state *authority*; this authority, however, is deeply impacted by transnational factors (Barnett 2001). Although these actors still need to work through the constraints of domestic political support (Gourevitch 1978), there is an undeniable change in the rules of the game, especially concerning the power and independence of the state vis-à-vis other key players.

In addition, the claim that empirical evidence supports an inter-national, rather than deeply interconnected, world economy glosses over several changes in the international political economy since the post-World War II period—changes that now lend greater support to transnational influence. First, the expansion of democratic enfranchisement has meant that national political processes now allow for greater plurality in voice and representation. In 2000, there were approximately 3.7 billion people living in 120 (self-declared) democratic states, more than 6 times the number at the turn of the previous century. This has meant greater participation by groups such as diaspora, migrants, and temporary workers. Second, the rise of the global corporation has assured greater independence of action for these actors. Large multinational corporations (MNCs) are now incorporated in multiple jurisdictions, and while the registered entity remains under the legal purview of a given state, such firms can and do exercise greater flexibility in their response to any given state mandate. This weakens the relative position of the nation-state laws in influencing, whether directly or indirectly, the behavior of the corporation. Furthermore, the absolute revenue stream of some large MNCs may exceed the government revenue (and sometimes gross domestic product) of some smaller nations. This financial leverage can be significant in influencing the actions of governments, either by legal or extralegal lobbying efforts. Finally, there are in today's world international institutions that did not exist before. These institutions both provide fora for international bargaining, as well as allow for the possibility of imposing policy preferences of their own (through their bureaucracy) (Vaubel & Willett 1991). This provides two additional channels by which supranational entities may enter into state policy formation.

We propose to adopt a middle-ground position that explicitly recognizes the rise of global forces, without compromising the validity of state sovereignty. This avoids the polarizing state-versus-globalization rhetoric, while allowing the model to focus on the more causal determinants of state behavior. This approach is not unprecedented in the literature. Berger (2000) has considered the impact of changes in the international economy on domestic society and politics, and finds the paradoxical result that globalization actually refocuses attention toward the role of the state, especially to the extent that it occurs within the boundaries of national territory. Clark (1998, 1999) has also sought to place the phenomenon of globalization within a theory of the sovereign state; his analysis treats national issues such as competition, security, and welfare as domains within which the state is able to continue to exert its sovereignty, while subject to global forces. His case for adopting such a position is straightforward:

By doing so, one is able to embed “a theory of the global... [as] an integral dimension of a more plausible theory of the state” (Clark 1999, p. 18).

Weiss (1997, 1998) contends that, while the impact of external economic pressures is tampered by the strength of domestic institutions, adaptations to the international environment nonetheless remains important in order to guarantee continued viability. States therefore retain the ability to intervene via policy decisions, while being subject to the checks and balances imposed by globalization: “[A] state’s capacity... primarily rests on institutional arrangement which make key decision-makers... at once ‘autonomous’ and in some respects ‘accountable’” (Weiss 1997, p. 20). Finally, Ong (1999) introduces the interesting notion of “graduated sovereignty”, where states remain relevant in the postdevelopmental world by assigning different “social destinies” to their populations, primarily through the “differential deployment of state power [where] populations in different zones are variously subjected to political control and to social regulation” (Ong 1999, pp. 215). She also argues that this was the case for the emerging Southeast Asian “tigers.”

### 3.2 Hegemonic power, world systems theory, and post-colonial globalization

Another critique of state theory rests on the notion that the underlying structure of global political economy is largely determined, and that this structuralism constrains the actions of individual states. The extension of the essentially Marxist dialectic argument to the international system of states has its intellectual roots in the work of Wallerstein (1974), but has since been expanded into several variants.

The central thesis of Hardt & Negri (2000) is that the concept of empire is unlimited by territorial, temporal, or social boundaries, and this imperialist project guides the actions of individual states. The problématique, therefore, is global in nature Hardt & Negri (2000, pp. xi, 3, *italics* in original):

Even the most dominant nation-states should no longer be thought of as supreme and sovereign authorities, either outside or even within their own borders. The decline in sovereignty of nation-state, however, does not mean that sovereignty as such has declined... Empire is determined in the first place by one simple fact: that there is world order. This order is expressed as a juridical formation... We should rule out from the outset, however, two common conceptions of this order that reside on opposing limits of the spectrum: first, the notion that the present order somehow rises up spontaneously out of the interactions of radically heterogeneous global forces... and second, the idea that order is dictated by a single power and a single center of rationality transcendent to global forces.

The singularity of Hardt & Negri’s notion of Empire, then, is predisposed in favor of the hegemon, to the detriment of individuals, groups, institutions, and

even states outside of Empire. It frames the enormous complexity of international relations as an essentially one of imperial sovereignty: The “outside” of modernity is rendered nonexistent. In addition, this worldview presumes that the center state is immune to both other states as well as transnational actors. This is not the case. Although the second Bush administration adopted a highly unilateralist stance with respect to foreign policy, the United States—arguably the most powerful hegemon in history—has not (cannot) ignore the enormous strategic implications of pursuing an entirely independent foreign policy. While America wields a tremendous amount of influence in international governance and the global economy, it does not retain the right to uncontested control over the United Nations Security Council, the World Bank, the International Monetary Fund, and the World Trade Organization; witness rulings by the WTO to overturn U.S. steel tariffs, or the forced resignation of World Bank president Paul Wolfowitz (which the U.S. opposed). Besides, other supranational bodies, such as the European Union, various multinational corporations, and transnational NGOs can and do regularly involve themselves in American domestic and foreign policy.

Nye (2002) has argued this very point at length. Nye’s definition of power is fairly broad: It is “the ability to affect the outcomes you want, and if necessary, to change the behavior of others to make this happen” (p. 4). This definition encompasses military, economic, as well as “soft” cultural power. Yet, despite hegemonic capabilities of the United States, Nye outlines factors that tamper an unchecked exercised of power. Military dominance may be worn down through the rise of challenger nations or unions of states, such as China and the European Union, or from globalized paramilitary and terrorist networks, such as *Al-Qaeda*. Moreover, international institutions such as the United Nations (and its agencies) and the Bretton Woods institutions, coupled with advancements due to the information revolution and concomitant economic globalization, threatens to diffuse the strength of American economic dominance. Nye concludes that there are limits to American power, and this power is best exercised via the “soft” aspect—and even then, to be conservative in bringing it to bear.

Another variant of the structuralist argument is that of postcolonial theory. Here, we follow the literature and adopt the broad definition of postcolonialism that is more than just the period after independence has been achieved; postcolonialism encompasses the entire manner of discourse that thematizes the issues that arise in the aftermath of independence from colonization. Hoogvelt (2001) makes the case that the present situation of (neo)colonial states are a result of an interaction between external forces and local struggles that arise out of their former colonial relationship. In this case, despite the impact of globalization, structure continues to be imposed by the evolution of these states along path-dependent historical trajectories.

The main problem of this interpretation is that it places a greater weight on the historical condition of an ex-colonial state than it does on the transformative power of current developments in global forces. We see no reason for this bias. Moreover, it is possible to find cases that display seemingly contradictory developmental patterns—consider the differential experiences of Egypt

and Singapore, both former British colonies—which suggest that the impact of a colonial past is far from clear. The postcolonial scholarship is also unable to account for the cases where colonization has *not* occurred. Thailand, for example, has never been colonized, in contrast to their neighbors in the Southeast Asian region. Why was this the case? Postcolonial theories are silent on this issue, whereas less deterministic theories allow for existing institutions and actors to play a role in shaping a given experience.

In sum, we reject theories that argue that the state is impotent because of globalization, or irrelevant because historical-structural determinism. States continue to seek niches in this era of globalization by responding to the demands and desires of its citizen-constituents. Likewise, externally-imposed determinism seems implausible in a world where states continue to exercise an amount of independence that is not in accord with the fixity of such theories. In the model developed in the next section, we attempt to capture the impact of global forces by allowing transnational actors to play a role in state formation and development, and by considering the constraints imposed by the international regime on the state. We also recognize the temporal dimension. As stated earlier, we allow for historical path dependence by tracing the dynamic effects of state evolution.<sup>4</sup>

## 4 A Theoretical Framework

This section will outline the theoretical framework by which we seek to examine the modern state. We will proceed by, first, outlining the purpose and operation of the state as an institutional effector of its citizen-agents' preferred policies; second, by discussing the respective actors that influence these policies; and third, by outlining a sketch of the process of policy formation according to the model.

### 4.1 State action and purpose

States exist to effect a policy vector  $\hat{x}$ . This policy vector includes domestic policies, such as socioeconomic and welfare policies, as well as foreign policies, such as security policy. Ultimately, the purpose of the state is bound by the universe of policies that its citizen agents wish to pursue over time. This conceptualization is a departure from existing theories of the state that treat the state as a rational actor. It also differs from theories of state formation that are premised on action in one dimension, whether economic, political, or social, or historical. Hence, it is extremely flexible in that states can both demonstrate changing policy outcomes, as well as exist to satisfy more than one rationale. That is, as time progresses, states can change their *raison d'être* to adapt to the

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<sup>4</sup>A caveat should be made here. Although the model does allow for temporal effects, the dynamics that are introduced are fairly primitive, and any path dependence is modeled in a relatively simple manner. Here, the goal is to begin a research agenda, leaving the greater task of generalizing the model to a dynamic setting that can capture explicit path dependence to future research.

changing preferences of its constituents. Note also that the theoretical framework that we employ does not draw a sharp distinction between state policy *per se*, and state purpose, preferring to treat them as different facets of the same underlying problematic.

## 4.2 State actors

### 4.2.1 General citizenry

The general citizenry may be subdivided into different groups, each with membership that is approximately homogeneous within but heterogeneous without. Subject to a restriction on preferences (the standard single-peakedness assumption), it is possible for each group to possess a single, distinct preference over the policy vector  $\mathbf{x}$ . Depending on the political regime that prevails in the country, these groups may or may not possess voting power. In the case where there is a democratic regime, let the conception of the term democracy be flexible enough to accommodate either direct or indirect democracy (including parliamentary and presidential regimes), as well as a range of plurality rules; this restriction on outcomes is then consistent with weak revealed preferences for all individuals. In the case of a nondemocracy, let the definition of the autocracy be flexible enough to capture both *de jure* autocracies, such as military dictatorships, as well as *de facto* autocracies, such as one-party systems.

Among democratic regimes, voters may be divided into either informed or uninformed voters. Informed voters are fully informed and make voting decisions that are dependent only on their policy preferences. Uninformed voters, in contrast, are affected in two ways: By monetary expenditures due to special interest lobbying, as well as by the change in sentiment induced by the increased information due to nonmonetary lobbying. Elections are conducted under an environment of competition between political parties, which, for simplicity, we limit to two. Each party holds a unique policy platform, given by the vectors  $\mathbf{x}^a$  and  $\mathbf{x}^b$ .

For nondemocratic regimes, there is an absence of (consequent) voters in the general populace, and so there is no need to distinguish between the voting (or nonvoting) populace.<sup>5</sup> Let there be one individual—call him or her the dictator—that sets policy for the country, in a manner consistent with his or her preference, regardless of those of the other groups. Dictators, however, may be benevolent, in that they place a positive weight on the welfare of the general populace.

Of course, within the broad set of citizens, we may further distinguish the general populace from a well-defined subset that is able to obtain concentrated benefits, while diffusing the costs to society at large.

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<sup>5</sup>Note that this does not deny that the citizens have independent preferences of their own; simply that the only individual whose welfare is of consequence in policymaking is that of the dictator's.

### 4.2.2 Special interests

Some of these groups in the population are able to overcome Olson-style collective action problems, and organize themselves as special interests. These groups are able to influence policymakers' eventual domestic implementation of the policy vector  $\mathbf{x}$  in a manner that is congruent with their group's preferences. There is no unified definition of special interests in the literature; however, the taxonomy used by Persson & Tabellini (2000, Ch. 7) divides special interests to lobbying groups or (in democratic regimes) electoral constituencies. These constituencies may be construed along geographic or some other socioeconomic dimension, and are represented by either parties or legislators.

For the case of democracies, we capture the idea of lobbying influences by adopting the common agency approach (Bernheim & Whinston 1986; Grossman & Helpman 2001). For monetary contributions, each lobby offers a list of campaign contributions to parties, in accordance to how close the realized policy vector is to their preferred policy vector. These contributions, in general, reflect the truthful preferences of each lobby group. Parties then treat this menu of contributions as auctions for a final policy. These contributions affect only the *uninformed* voters, by biasing their preferences toward a particular party.

While this menu auction of contributions may be a plausible strategy of influence for many special interest groups, this approach is less helpful in explaining civil society-based NGOs. These groups often exert special interest pressure not so much through the medium of campaign contributions, but through their potential to influence the individual voter. Hence, we model nonmonetary lobbying as one of information dissemination. NGOs—perhaps through the channel of the media or other means—change the information set available to *uninformed* voters, which in turn affect a candidate's chances of election or reelection. This form of persuasion depends on the effort expended by NGOs that are concerned about the particular policy in question; in general, the greater the effort, the more likely the individual will prefer a particular party.

Special interests may well exist in the case of nondemocracies. However, the favor of certain groups within society is dependent not so much on their ability to influence electoral politics, but on bribes—or their equivalent—made to the dictator.

While domestic special interests are clearly important in the political calculus of policymakers, the modern state is firmly embedded into the more general global system; we therefore need to account for the potential impact of transnational actors as well.

### 4.2.3 Foreign states

Foreign states are assumed to have arrived at their preferred policy through a similar process to the domestic state. For simplicity, we regard this process as exogenous, and take as given the vector of policies preferred by the foreign state for the home state. Let this vector be  $\mathbf{x}^*$ . This may related to economic policies, such as the tariff barriers enacted by the state; militaristic, such as a

buildup of the domestic airforce; environmental, such as the amount of cross-border pollution; or any of the policies for which the foreign state may have a preference for vis-à-vis the home state's policy choice. We limit the extent of interaction between states in any period to a one-on-one basis; that is, in each time period, only bilateral interactions are allowed. This is purely for tractability and does not preclude interactions between the home state and *other* foreign states in a later period.

#### 4.2.4 Nonstate transnational actors

The definition of nonstate transnational actors that we adopt here is fairly broad. While it includes, primarily, foreign states and governments, it also comprises, secondarily, of transnational or international nongovernmental organizations (NGOs), special interest groups from abroad, foreign economic and political entities such as multinational corporations and international (financial and political) institutions, and even groups that are a part of the informal economy, such as paramilitary groups (Liberation Tigers of Tamil Eelam) and organized crime groups (Colombian cocaine cartels). In effect, we are transcending the (usual, but perhaps artificial) distinctions between transnational, international, and global, and allowing these actors to enter into the model in a relatively unrestricted manner.

Transnational NGOs can include environmentalist groups such as Greenpeace and Friends of the Earth, civil and human rights activists such as Transparency International and Code Pink, and religious and para-religious bodies such as the Roman Catholic church and the Muslim Brotherhood. These groups are sometimes broadly referred to a global civil society groups, although in some cases the networks that are formed are not entirely non-compulsive, in the sense that circumstance and necessity may have led to participation in these NGOs, rather than purely voluntary self-identification.<sup>6</sup>

There have been various conceptualizations of transnational activism that have been explored in the literature. While the seminal article in the area remains that of Lipschutz (1992), we will focus on two more recent models of transnational advocacy networks: The “boomerang” model of Keck & Sikkink (1998), and the “spiral” model of Risse & Sikkink (1999).

The central argument of the boomerang model (Keck & Sikkink 1998, pp. 12–13) is that the mechanism underlying transnational advocacy is an indirect one. National NGOs, denied access to the political process by the state, seek an audience via sympathetic NGOs from another state; these foreign NGOs then induce their government to pressurize the offending state. Policy changes, therefore, occur when one state influences another through a boomerang effect: From home NGO to foreign NGO, and from foreign state back to home state.

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<sup>6</sup>This is probably most evident in the case of civil society groups that provide economic and social assistance in developing countries. For example, given the complex cross-linkages of *Harakat al-Muqawamah al-Islamiyyah* (Hamis) in Palestinian society, the recruitment of poor Palestinian suicide bombers may be one of reciprocity for received charity. Nor is this phenomenon limited to recent history: Christian missionaries in the 16<sup>th</sup> century were known for providing support for the heathen conditional on their conversion.



The main difficulty with this model, however, is that it employs what is still primarily a state-centric paradigm. This paradigm, in turn, is premised on several potentially questionable assumptions. First, it presumes the presence of a strong foreign state that is able to influence the sovereign domestic state. Second, it does not allow for domestic pressure from below. Third, transnational advocacy is not allowed to originate from abroad, before spreading to local groups. These assumptions are easily refuted by counterexamples. For instance, even hegemonic states are generally unable to successfully—or at least consistently—violate Westphalian sovereignty. Moreover, social movements can and do occur, and these movements lead to an impetus to change that emanates primarily from below. Finally, contagion effects suggest that major social changes may well find their intellectual roots in foreign thought and ideology. The nuclear arms impasse between the U.S. and North Korea, “People Power” in the Philippines that overthrew the Marcos regime, and the initial spread of communism at the dawn of the Cold War are practical examples that fit into each category, respectively.

To some extent, some of the shortcomings of the basic “boomerang” model have been addressed in the “spiral” model of Risse & Sikkink (1999, pp. 17–35). Using a dynamic, norm-based framework, the model collapses both top-down as well as bottom-up pressure by international actors (INGOs, international regimes, and Western states), domestic society, the national government, and transnational networks. In this expanded model, states undergo five discrete—and potentially lumpy—stages in response to transnational activism: Repression, denial, tactical concession, prescriptive status, and rule-consistent behavior.

This model incorporates many attractive features. However, by allowing domestic NGOs as well as social movements to apply upward pressure on a state, the model continues to exhibit some limitations. First, it unnecessarily restricts the type of nonstate actors available to mainly the third sector, whether transnational or not. In particular, major economic entities, such as multinational corporations and international financial institutions such as the IMF and World Bank (O’Brien *et al.* 2002), as well as political-governance entities, such as the United Nations and International Court of Justice, are not given fair treatment. Although these are arguably subsumed under the rubric of the broader “international regime”, there is a strong case for treating international institutions not only as purely passive aggregative bodies representing their constituent nations’ interests, but as actors that have preferences of their own (Vaubel & Willett 1991). Thus, a case can be made for a more explicit consideration of international governance organizations. Second, the model does not allow Southern, counterpart states to have an impact on the national state. This ignores the influence that the states’ contemporaries may play on state behavior; these can occur via regional fora, state-to-state diplomatic relations, or even through Southern NGOs. The pressures of ASEAN member nations on Myanmar’s human rights violations, and the role of transnational Southern feminist NGOs in Latin America (Clark *et al.* 1998) are examples of how non-Western nations and INGOs may exert their influence, especially in a more

regional context. Finally, the model does not fully render the different forms in which transnational collective action may manifest: Khagram *et al.* (2002) distinguish between transnational networks, coalitions, and movements, each with a dominant modality (information exchange, coordinated tactics, and joint mobilization, respectively).

In the model here, we try to address some of these concerns. In particular, we address the shortcomings of the boomerang model by modeling transnational advocacy in a manner that does not assume that foreign states are necessarily able to affect domestic outcomes; allows both top-down and bottom-up influence; and does not restrict the issue source to domestic agents. Furthermore, by not explicitly specifying the form of transnational actor, we allow multinational corporations, international financial institutions, and Southern states to all play a role in determining the final policy vector  $\hat{\mathbf{x}}$ . However, we limit the influence of these actors to a single mechanism—either that of electoral politics (for democracies) or bribes (for nondemocracies)—leaving other forms mentioned earlier, such as joint mobilization, to future research.

Incorporating transnational actors into the model is straightforward. We allow both a direct as well as an indirect influence. Transnational actors influence the policy outcome directly in much the same manner that domestic special interests do: Through lobbying via campaign contributions. However, there may be distinct limitations of access that foreign actors may have on the domestic stage; as such, we model the indirect impact of transnational actors as changing the amount of effort that domestic NGOs exert in influencing policy outcomes.<sup>7</sup> In sum, MNCs are limited to monetary lobbying, while transnational NGOs can employ either campaign contributions or use the medium of domestic NGOs for their action strategy.

### 4.3 State policy formation

#### 4.3.1 Sequence of events

Domestic actors interact in the domestic (political) sphere, to resolve the policy vector  $\mathbf{x}$  that determines the role of the state for the current period. The timing of events is as follows: (a) Both parties simultaneously announce their policy platforms; (b) Having observed these announcements, groups from home and abroad engage in both monetary and nonmonetary lobbying activity to influence election outcomes; (c) Elections are held, and a policy  $\mathbf{x}$  is realized.

After domestic policy is determined, the prevailing international regime, shaped by international institutions, conditions the manner in which states conduct their bilateral and multilateral diplomatic relations. (d) With an understanding of the constraints imposed by the regime, a foreign state, possessing a unique policy vector  $\mathbf{x}^*$  that it would prefer the home state adopt, interacts

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<sup>7</sup>There is some empirical evidence that supports this conjecture. For example, much of the global feminist movement has hinged on the active involvement of transnational NGOs in driving domestic NGO efforts (Alvarez 2000).

with the home state in the international sphere, to resolve the final policy vector  $\hat{x}$ .

The timing of events trace the path of state policy formation, and hence the role of the state, as a three-level game: Individuals/groups, both domestically and abroad, interact to produce a preferred policy vector; this is taken into account in state-to-state negotiations, and finally, the way in which states relate to one another is constrained by the prevailing international regime.

### 4.3.2 Solution of the model

The model is game theoretic, and solved using the subgame perfect Nash solution concept. By applying backward induction, the methodology guarantees that at each level, agents take into account both their impact on the next level (the image), and the impact of that level on them (the image reversed).

The model is formally set up and solved in the technical appendix. Here, we will limit the discussion to an intuitive understanding of the processes underlying the formal argument, for the case of democracies. Figure 1 helps illustrate the underlying mechanisms.

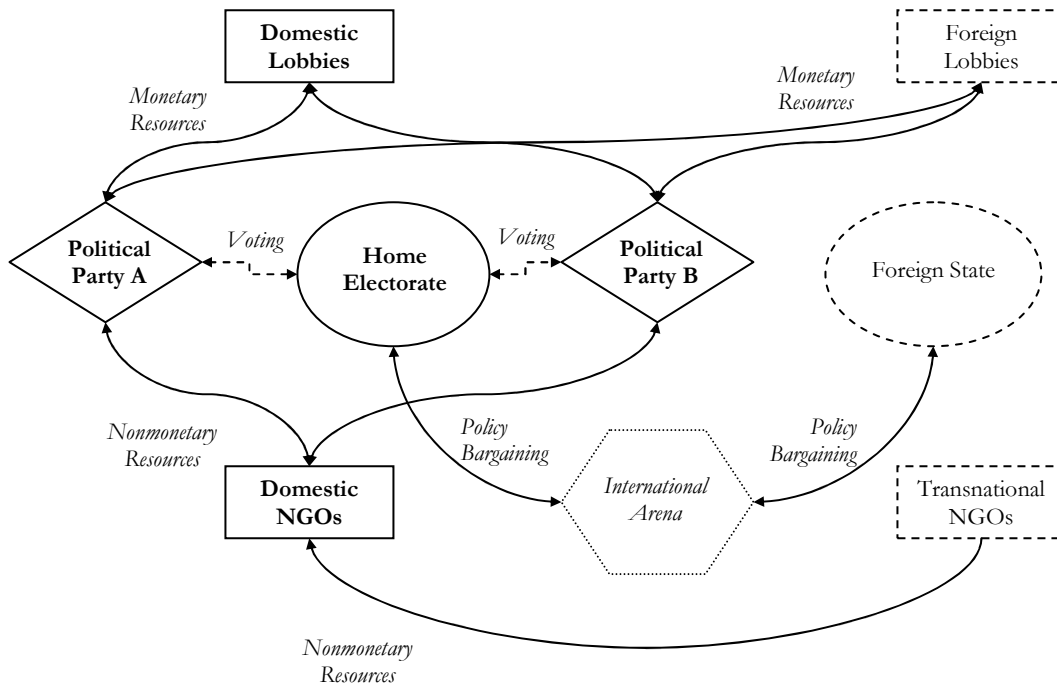


Figure 1: Underlying mechanisms for state formation for democracies.

In the first stage, when parties make their announcements over policy plat-

forms, they take into account that these announced platforms will subsequently be reviewed by special interests, considered by voters, and bargained with by foreign states. The platform that is announced will seek to ensure that the final policy is consistent with the optimal demands of all these different actors, because otherwise the party will not be acting rationally. In the probabilistic voting model employed, this means that these platforms maximize the probability of winning the election.

Having observed these announcements, special interests then act to either offer monetary contributions or expend nonmonetary effort to influence the final outcome, taking into account that their offers will be taken as given in the later stages of the policymaking process. More specifically, lobbying groups in the home country and foreign country will make campaign contributions to the parties that espouse the policy platform that they prefer. Similarly, domestic NGOs will expend effort to influence the population's preferences, by increasing the information available to the populace. Transnational NGOs will also use their available resources to influence the effort of domestic NGOs, through support in terms of organizational capacity, nonfinancial support, and/or expertise.

Elections involve voters making choices over their preferred policies. Recall, voters are divided into two categories, informed and uninformed. Informed voters will decide purely based on their policy preferences, while uninformed voters are influenced by both the contributions that have been made by special interests, as well as increased information. Voters, however, take into account that the announced policy positions will eventually be tampered by the bargaining power of the respective party.

Finally, states meet at the negotiation table, where bargaining occurs. A failure in negotiations would lead to a potentially conflictual, inferior outcome. For example, breakdowns in negotiations may lead to trade wars, a decline or cessation in foreign aid, or, in the extreme, territorial annexation or outright war (or more precisely, the extent of destruction that would ensue should a war erupt). For the home state, the negotiator will contrast its own preferred policies—which have been determined by the domestic political process—with this breakdown outcome, while the foreign state compares the policies that it would like the home state to adopt with the breakdown outcome.

The result is that, along the equilibrium path, there exists a unique policy vector that satisfies the optimization problem of all actors, who in turn make choices that are consistent with all the other players in the game. The solution is such that each party will announce platforms; the final result will be dependent on the underlying parameters of the model. Crucially, it is also dependent on the bargaining power of each party vis-à-vis foreign states.

#### 4.4 Time, uncertainty, and other generalizations

The model is flexible enough to allow for generalizations; these are discussed in brief in the technical appendix. Essentially, concepts such as path dependence and alternative international norms may be modeled as either time-series processes or as Bayesian beliefs over actor types due to the presence of asymmet-

ric information. For example, consider how the current hegemony of American dominance has led to its characterization as a hierarchy *par excellence*. With this position of empire, there may be a certain rigidity in the manner in which the United States conducts its foreign policy. The policy choices of post-Communist transition states in Eastern Europe may also display such path dependencies. As an example of uncertainty, consider how actions taken by belligerent states such as the Iraq of Saddam and North Korea may lead to changes in the beliefs held over their underlying types; this in turn shapes how players interact in the international bargaining arena.

## 5 Conclusion

This paper has sought to provide a theoretical treatment for justifying the operation of the modern state that is premised on individual actors interacting within the institutional framework of the state. By clearly specifying the mechanisms that underlie state policy formation, we are able to extricate ourselves from the unitary actor assumption and allow for state action to be contingent on the preferences and constraints faced by the actors that constitute the state. The key epistemological assertion is that the rationale for state formation and state policymaking are not only inextricably linked, but are two sides of the same coin. The paper has also attempted to show that this framework is both internally consistent as well as externally valid. More specifically, it has used a game-theoretic modeling framework to ensure that the first objective is achieved, while it has addressed the second concern by conducting an extensive critical review of the existing literature, as well as situating the present work in that context.

The paper's shortcomings stem primarily from the complexity of formally modeling the cross-linkages in a game-theoretic context. In particular, we have limited some of the cross-linkages between actors (as illustrated in Figure 1). For example, the influence of transnational NGOs are modeled as direct linkages to domestic NGOs alone, and not to other actors such as political parties and/or the electorate. These linkages may be significant in some cases; for example, in the Land Mine Treaty, transnational NGO activities played a significant role in influencing state choices. The game-theoretic approach has also precluded a more socio-cultural analysis that would allow for path dependence in a more contextualized form. For example, Ghodsee (2004) has suggested that the style of Westernized transnational feminism is inappropriate for understanding the nature of feminism in the post-socialist nations of Eastern Europe. Finally, and perhaps most critically, we have chosen a particular stylized interpretation of the institutional strictures that apply to the process of state policy formation. For example, we model international bargaining in one particular fashion, using the Nash bargaining solution. However, it is entirely possible to capture bargaining in other forms; either by allowing bargaining to occur over a different vector other than  $\mathbf{x}$ , or by employing other bargaining mechanisms, such as the Rubinstein (1982) bargaining model.

Future research could seek to further integrate the existing literature on policy formation, both domestic and foreign (Persson & Tabellini 2000; Rose 1998), with the primary insight of this model, so as to develop a singular theory of the modern state that melds the state policy and state formation literatures. Moreover, research along a more formal vein could seek to plug some of the gaps that have been highlighted above, as well as discussed through the course of the appendix.

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## Technical Appendix

This appendix formalizes the arguments made in section 4 of the paper.

### A.1 Environment

#### A.1.1 General citizenry

Let the closed, bounded set  $I \subset \mathbb{R}^1$  be the general citizenry of a country  $y$ . This set is comprised of individuals  $i$  such that it has mass  $N = \{1, \dots, n\}$ . For simplicity, let this be constant over time. We do not impose any particular political regime on this set  $I$ . However, if the country ascribes to a democratic regime, then  $I$  is also the set of voters that make choices over a discrete  $P$ -dimensional policy space  $\mathbf{x} \subset \mathbb{R}^P$ . Citizen  $i$ 's preferences at time  $t$  is given by a well-behaved real-valued utility function,  $U_{it}: \mathbf{x}_{it} \rightarrow \mathbb{R}_+^P$ . Define a coalition as  $C \subseteq N$ ,  $C \neq \{\emptyset\}$ , and let the set of admissible coalitions be given by  $C \subset C^1$ . We restrict the class of admissible voting rules to the set of (majoritarian)

$q$ -rules, such that for an integer  $q > n/2$ ,  $C^1 = \{C \subseteq N: |C| \geq q\}$ , so  $c = c^* \Rightarrow \mathbf{x} = \mathbf{x}^{c^*}$ . An authoritarian regime would then be a special case where  $\forall i, t: \{\exists i^d \in I \text{ s.t. } \mathbf{x} = \mathbf{x}^d\}$ . There is also an aggregation rule for welfare such that for a group  $j \in J$  of mass  $M_j$ ,  $W_{jt}: \mathbf{x}_{it} \rightarrow \bigcup_j \mathbf{x}_{it} \forall i \in j$ . We will finesse intra-group aggregation issues by assuming that within the group, preferences are single-peaked. These restrictions then allow the collective choice rule to satisfy the weak axiom of revealed preference, path independence, and reduction consistency (or condition  $\alpha$ ) (Austen-Smith & Banks 1999, p. 50).

In democratic regimes, voters are also divided into either informed or uninformed voters, such that within each group, they are divided according to the proportion  $\alpha_j$  and  $(1 - \alpha_j)$ . Informed voters make voting decisions that are dependent on their policy preferences, while uninformed voters make voting decisions based on both special interest lobbying expenditures and larger information sets due to nonmonetary lobbying. Elections are conducted under an environment of competition between political entities,  $Q \subseteq I$ .<sup>8</sup> For simplicity, we limit the number of these entities to two,  $Q = \{a, b\}$ , with the respective policy platforms  $\mathbf{x}^a$  and  $\mathbf{x}^b$ . There is a probability,  $\pi^a$  ( $\pi^b = 1 - \pi^a$ ) of entity  $a$  (entity  $b$ ) winning the election.

Given the above, individual  $i$  in group  $j$  has preferences given by

$$W_{ijt}(\mathbf{x}_t) = \beta_j W_{jt}(\mathbf{x}_t) + (\sigma_{ijt} + \delta_t) D_t^b, \quad (1)$$

where  $W_j$  is group welfare,  $\beta_j$  and  $\sigma_{ij}$  are group- and individual-specific parameters,  $\delta$  is a random variable capturing population preferences for one entity versus the other, and  $D^b$  is a binary variable that takes on the value of unity if  $b$  wins the election, and zero otherwise. Individual party bias,  $\gamma_{ij}$ , is assumed to be distributed uniform on  $\left[-\frac{1}{2\phi_j}, \frac{1}{2\phi_j}\right]$ ; population entity preferences,  $\delta$ , depend on whether the voter is informed or uninformed, and are given by

$$\delta_t = \begin{cases} \tilde{\delta}_t & \text{if informed,} \\ \tilde{\delta}_t [R_t^b(\mathbf{e}_t) - R_t^a(\mathbf{e}_t)] + \theta_{jt} [L_t^b(\mathbf{x}_t) - L_t^a(\mathbf{x}_t)] & \text{if uninformed,} \end{cases} \quad (2)$$

with  $L^q(\mathbf{x})$  representing the total monetary contributions received from special interest groups  $K \subseteq J \subseteq I$ ;  $R^q(\mathbf{e})$  represents nonmonetary influence, which is dependent on effort  $e$  expended by special interests;  $\theta_j$  is the sensitivity of the difference in campaign spending for group  $j$ , and the random variable  $\tilde{\delta} \sim U\left[-\frac{1}{2\psi}, \frac{1}{2\psi}\right]$ .

Since autocratic regimes are simply a special case of the democratic ones, with an absence of (consequent) voters in the general populace, (1) simply collapses to  $W_t(\mathbf{x}_t) = W_{d,t}(\mathbf{x}_t^d)$ .

### A.1.2 Special interests

Special interests are a subset  $K \subseteq J \subseteq I$ , each with mass  $M_k \leq N$ , that are able to influence policymakers' eventual implementation of the policy vector  $\mathbf{x}$

<sup>8</sup> Although we have modeled political parties as a part of the citizenry, we do not explicitly capture the notion of the citizen-candidate, à la *citetBesleyCoate:1997*.

in a manner consistent with their group's preferences. We model special interest politics as lobbying groups. In order to formally capture the idea of lobbying influences, we adopt the common agency approach first developed by Bernheim & Whinston (1986) and subsequently adapted, popularized, and expanded by Grossman & Helpman (2001)). The model is a modified version of Grossman & Helpman (1996)) to include nonmonetary lobbying.<sup>9</sup>

In a democracy, a lobbying group  $k$  will either offer monetary contributions to entity  $q$  according to a schedule  $L_k^q(\mathbf{x})$  (expressed in per capita terms), or provide nonmonetary information that can influence the voting public. The contribution schedule is assumed to be locally truthful in the neighborhood of the equilibrium policy vector. The contributions toward each entity is the sum of all contributions by all lobby groups, such that  $L^q(\mathbf{x}) = \sum_{k \in K} \frac{M_k}{N} \cdot L_k^q(\mathbf{x})$ .

Information dissemination affects the proportion of uninformed voters, which in turn affect an entity's chances of election, through the variable  $\delta$  (which, recall, captures population party preferences). This form of persuasion is a function of the effort expended by groups that are concerned about the particular policy  $s$  in question; these groups form coalitions given by

$$C^p = \{\forall k \in C^p, C^p \subseteq N : W_k(x^p) \geq \hat{\eta}_k\} \quad (3)$$

with  $\hat{\eta}_k$  being the reservation utility of lobbying groups within the coalition, with respect to effort. On aggregate, the impact of nonmonetary effort is given by the function  $R^q : \mathbf{e}^q \rightarrow R^q(\mathbf{e}^q)$ , where  $\mathbf{e}^q \equiv \sum_{k \in C^p} \frac{M_k}{N} \cdot \mathbf{e}_k^q$  is the effort schedule, that is an aggregation of each groups' per capita effort levels. Also, let  $\frac{\partial R^q(\mathbf{e}^q)}{\partial \mathbf{e}^q} > 0$ , which implies that the greater the effort expended for nonmonetary lobbying, the more influence the lobby has on population party preferences.<sup>10</sup> We also abstract from potential free-rider problems faced in the dissemination of effort.

Lobby  $k$  then has expected welfare net of its contributions and effort given by

$$E_t W_{kt}(\mathbf{x}_t, \mathbf{e}_t) = \pi_t^a W_{kt}(\mathbf{x}_t^a) + (1 - \pi_t^a) W_{kt}(\mathbf{x}_t^b) - \frac{L_k(\mathbf{x}_t)^2}{2} - \frac{\mathbf{e}_t^2}{2}, \quad (4)$$

where  $L_k(\mathbf{x}) = L_k^a(\mathbf{x}) + L_k^b(\mathbf{x}) \geq 0$  and  $\mathbf{e}_k = \mathbf{e}_k^a + \mathbf{e}_k^b \geq 0$  are the per-member campaign and effort contributions by lobby  $k$  to each party, respectively.

In nondemocracies, the favor of certain groups within society is conditioned purely by the preferences of the dictator. In this case, special interests affect the preferences of a dictator by offering what are equivalent to bribes.

<sup>9</sup>Here, we exploit the complementarity of the electoral competition and lobbying approaches to obtain a nondegenerate outcome for the policy vector. If, instead, a model with electoral competition and legislative bargaining (Chari *et al.* 1997), or lobbying and legislative bargaining (Helpman & Persson 2001), the clean results of the above model do not carry through. Moreover, the literature has yet to derive a unified model of special interest politics that captures all three influences.

<sup>10</sup>Wittman (2006), however, has criticized this outcome as tolerating irrational behavior on the part of voters.

### A.1.3 Foreign states

Let the closed, bounded set  $I^* \subset \mathfrak{R}^1$  be the general citizenry of the rest of the world, such that the union  $(I \cup I^*)$  represents all the citizens in the world. Foreign citizens belong to foreign countries,  $z \neq y$ , such that for any individual  $i^* \in z \subset (I \cup I^*)$ . As for the case of the home country, for a foreign citizen  $i^*$ , his or her preferences at time  $t$  is given by a well-behaved real-valued utility function,  $U'_{it} : \mathbf{x}'_{it} \rightarrow \mathfrak{R}_+^P$ . Let there be an aggregation rule for state welfare such that for a state  $z$ ,  $W'_{zt} : \mathbf{x}'_{it} \rightarrow \bigcup_z \mathbf{x}'_{it} \forall i \in z$ . We do not specify the aggregation mechanism underlying this process; we can imagine that foreign states possess an analogous process of policy formation to the domestic state. In each period, each state translates the vector of preferred home policies to a vector of policies,  $\mathbf{x}_{zt}^*$ , that it would prefer the home state adopt. That is,  $V_{zt} : \mathbf{x}'_{zt} \rightarrow \mathbf{x}_{zt}^*$ . States take the vector  $\mathbf{x}_{zt}^*$  as given in its international interactions with the home state.

### A.1.4 Nonstate transnational actors

Transnational actors either engage in direct or indirect influence. However, as non-citizens, their preferences enter only to the extent by which they are able to influence citizen-agents.

In a democracy, a transnational special interest group  $k^*$  will either offer monetary contributions to entity  $q$  according to a schedule  $L_k^{*q}(\mathbf{x})$  (the direct mechanism) or they will provide organizational capacity, nonfinancial support, and/or expertise such that the effort expended by domestic groups is rendered more efficient (the indirect mechanism). To simplify the analysis, let these exogenous, and given by

$$L_k^{*q}(\mathbf{x}, \rho_{kt}^*) \quad \mathbf{e}_{kt}^q = \mathbf{e}(\rho_{kt}^*), \quad (5)$$

where  $\rho_k^*$  are the total resources available to the  $k$ th foreign lobbying group.

## A.2 Timing of the model

The timing of the model is given below in Figure A.1.

## A.3 Solution of the model

The solution concept is subgame perfect Nash equilibrium, and the model is solved by backward induction. In this baseline model, we will only address the full information equilibrium. Consider first the democratic regime.

**Definition 1** (Equilibrium outcome). The subgame perfect Nash equilibrium for the state policy formation game under a democracy at time  $t$  is a sextet  $\{\{\tilde{L}_{jt}^a\}_{j \in K}, \{\tilde{L}_{jt}^b\}_{j \in K}, \{\tilde{\mathbf{e}}_{jt}^a\}_{j \in K}, \{\tilde{\mathbf{e}}_{jt}^b\}_{j \in K}, \tilde{\mathbf{x}}_t^a, \tilde{\mathbf{x}}_t^b\}$  such that: (a)  $\tilde{L}_{jt}^a$  and  $\tilde{L}_{jt}^b$  are feasible  $\forall j \in K$ ; (b)  $\forall j \in K : \nexists (e_{jt}^a, e_{jt}^b) \in \mathfrak{E}$  and  $e_{jt}^a \neq \tilde{e}_{jt}^a$  and  $e_{jt}^b \neq \tilde{e}_{jt}^b$  such that  $W_{jt}(e_{jt}^a) \geq W_{jt}(\tilde{e}_{jt}^a)$  and  $W_{jt}(e_{jt}^b) \geq W_{jt}(\tilde{e}_{jt}^b)$ ; (c)  $\forall j \in K : \nexists (x_{jt}^a, x_{jt}^b) \in \mathfrak{X}$  and  $x_{jt}^a \neq \tilde{x}_{jt}^a$  and  $x_{jt}^b \neq \tilde{x}_{jt}^b$  such that  $W_{jt}(x_{jt}^a) \geq W_{jt}(\tilde{x}_{jt}^a)$  and

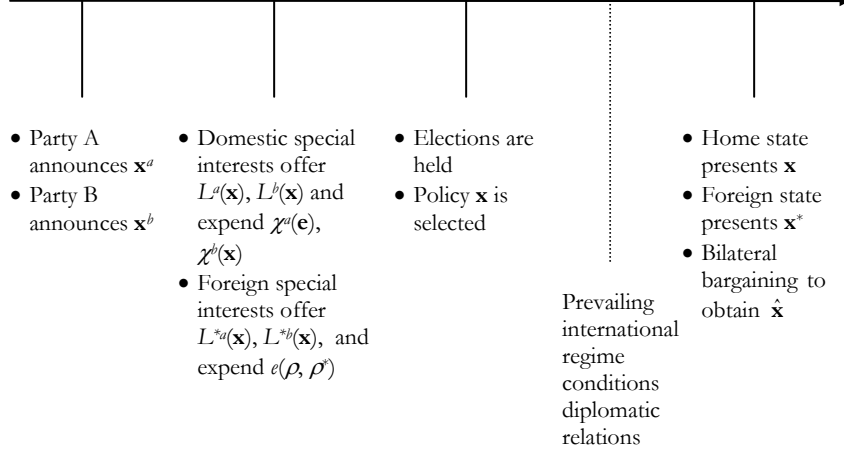


Figure A.1: Timing of the model.

$W_{jt}(x_{jt}^b) \geq W_{jt}(\tilde{x}_{jt}^b)\}$ ; (d)  $\nexists \hat{\mathbf{x}}_t^q \in \mathfrak{X}$  and  $\hat{\mathbf{x}}_t^q \neq \tilde{\mathbf{x}}_t^q$  such that  $W(\hat{\mathbf{x}}_t^q) \geq W(\tilde{\mathbf{x}}_t^q)$  and  $\hat{\mathbf{x}}_t^q \neq \arg \max\{[W(\mathbf{x}_t^q) - W(\bar{\mathbf{x}}_t)]^{\gamma^q} [W(\mathbf{x}_t^{*q}) - W(\bar{\mathbf{x}}_t)]^{1-\gamma^q}\} \forall q = \{a, b\}$ .

In the final stage, the home state will have a realized policy vector,  $\mathbf{x}$ , that is either the proposed policy platform of entity  $a$  or entity  $b$ . This is subject to international bargaining. We model the prevailing international regime as a forum whereby the foreign state is able to engage with the domestic state in bargaining over the final policy vector.<sup>11</sup> In particular, we use the Nash bargaining solution. If negotiations break down, countries revert to a (Pareto inferior)  $\bar{\mathbf{x}}$ , which may be construed as a breakdown outcome. The solution must then satisfy

$$\hat{\mathbf{x}}_t^q = \arg \max_{\mathbf{x} \in \mathfrak{N}} \left\{ [W(\mathbf{x}_t^q) - W(\bar{\mathbf{x}}_t)]^{\gamma^q} [W(\mathbf{x}_t^{*q}) - W(\bar{\mathbf{x}}_t)]^{1-\gamma^q} \right\}, q = a, b, \quad (6)$$

where  $\mathfrak{N} = \{\mathbf{x} : W(\mathbf{x}^l) \geq W(\bar{\mathbf{x}}^l) \ \& \ W(W^{*l}) \geq W(\bar{\mathbf{x}}^{*l}) \ \forall l\}$  is the feasible set of all  $l$  Pareto-superior alternatives to the breakdown outcome, and  $0 \leq \gamma^q \leq 1$  is the relative bargaining power of the home country with entity  $q$  in power. The first order condition for (6) is

$$\frac{W'(\hat{\mathbf{x}}_t^{*q})}{W'(\hat{\mathbf{x}}_t^q)} \cdot \frac{W(\hat{\mathbf{x}}_t^q) - W(\bar{\mathbf{x}}_t)}{W(\hat{\mathbf{x}}_t^{*q}) - W(\bar{\mathbf{x}}_t)} = \frac{\gamma^q}{(\gamma^q - 1)} \quad (7)$$

<sup>11</sup> There are other ways in which to incorporate the prevailing international regime. For example, the impact of international norms can be modeled as Bayesian beliefs held over private information about the breakdown outcome  $\bar{\mathbf{x}}$ . This is discussed in more detail in the subsection on extensions that follows.

Hence, the realized final policy vector  $\hat{\mathbf{x}}$  is dependent the policy vector preferred by the foreign country, the breakdown policy, and, critically, on the relative bargaining strength of the home country with  $q$  in power.

In the penultimate stage, elections are held, taking both announced platforms and lobbies' monetary contributions as well as nonmonetary persuasion as given, while taking into account how the final policy vector will be influenced by international negotiations in the next stage. With preferences given by (1), there exists a swing voter in each group  $j$  who is indifferent between each entity's platforms; this individual has the individual-specific preference parameter

$$\begin{aligned} \sigma_{sjt} \equiv & \beta_{jt} [W_{jt}(\hat{\mathbf{x}}_t^a) - W_{jt}(\hat{\mathbf{x}}_t^b)] - \alpha_{jt} \tilde{\delta}_t + \\ & (1 - \alpha_{jt}) \left[ \tilde{\delta}_t [R_t^a(\mathbf{e}_t) - R_t^b(\mathbf{e}_t)] + \theta_{jt} [L_t^a(\hat{\mathbf{x}}_t) - L_t^b(\hat{\mathbf{x}}_t)] \right], \end{aligned} \quad (8)$$

voters in group  $j$  with  $\sigma_{ijt} > \sigma_{sjt}$  will prefer entity  $b$ , and *vice versa* for  $\sigma_{ijt} < \sigma_{sjt}$ . The vote share of entity  $a$  is:

$$\Sigma^a = \sum_j \frac{M_j}{N} \phi_{jt} \left( \sigma_{sjt} + \frac{1}{2\phi_{jt}} \right) \quad (9)$$

The probability that entity  $a$  wins the election is the probability that this vote share exceeds  $1/2$ ; this is given by

$$\begin{aligned} \pi_t^a &= \Pr \left( \Sigma_t^a \geq \frac{1}{2} \right) \\ &= \frac{1}{2} + \psi_t \left\{ \begin{aligned} & \sum_j \left[ \frac{M_j}{N} \cdot \frac{\phi_j}{\phi_t} \cdot \frac{\beta_{jt}}{\Delta_{jt}} [W_{jt}(\hat{\mathbf{x}}_t^a) - W_{jt}(\hat{\mathbf{x}}_t^b)] \right] \\ & + \sum_j \left( \frac{\theta_{jt}}{\Delta_{jt}} \right) \cdot \left[ \begin{aligned} & [L_t^a(\hat{\mathbf{x}}_t) - L_t^b(\hat{\mathbf{x}}_t)] \\ & + [L_t^{*a}(\hat{\mathbf{x}}_t) - L_t^{*b}(\hat{\mathbf{x}}_t)] \end{aligned} \right] \end{aligned} \right\} \end{aligned} \quad (10)$$

where  $\Delta_j \equiv [\alpha_j - (1 - \alpha_j) [R^a(\mathbf{e}) - R^b(\mathbf{e})]]$ , and  $\phi \equiv \sum_j \frac{M_j}{N} \phi_j$  is the average density across groups.

For optimization problem faced by lobbies in the second stage, lobbies take as given the platforms announced in the first stage, and maximize (4) with respect to  $L_k^a$ ,  $L_j^b$ ,  $e_j^a$  and  $e_j^b$ , subject to (5) and (10). Using the fact that  $\frac{\partial \pi^a}{\partial L_j^a} = -\frac{\partial \pi^b}{\partial L_j^b}$  and  $\frac{\partial \pi^a}{\partial e_j^a} = -\frac{\partial \pi^b}{\partial e_j^b}$ , this yields:

$$\begin{aligned} L_{kt}^a(\mathbf{x}_t) &= \max \left\{ \psi_t \sum_j \left( \frac{\theta_{jt}}{\Delta_{jt}} \right) \cdot \frac{M_k}{N} [W_{kt}(\hat{\mathbf{x}}_t^a) - W_{kt}(\hat{\mathbf{x}}_t^b)] - \bar{\eta}_k, 0 \right\} \\ L_{kt}^b(\mathbf{x}_t) &= -\min \left\{ \psi_t \sum_j \left( \frac{\theta_{jt}}{\Delta_{jt}} \right) \cdot \frac{M_k}{N} [W_{kt}(\hat{\mathbf{x}}_t^a) - W_{kt}(\hat{\mathbf{x}}_t^b)] - \bar{\eta}_k, 0 \right\} \end{aligned} \quad (11)$$

where  $\bar{\eta}_k$  is a constant that may be regarded as the reservation utility of the  $k^{th}$  lobbying group with respect to monetary contributions, and

$$\begin{aligned} \mathbf{e}_{kt}^a &= \max \left\{ \psi_t \cdot \Xi(\hat{\mathbf{x}}_t, \mathbf{e}_t) \cdot \frac{M_k}{N} [W_{kt}(\hat{\mathbf{x}}_t^a) - W_{kt}(\hat{\mathbf{x}}_t^b)] - \hat{\eta}_k, 0 \right\} \\ \mathbf{e}_{kt}^b &= -\min \left\{ \psi_t \cdot \Xi(\hat{\mathbf{x}}_t, \mathbf{e}_t) \cdot \frac{M_k}{N} [W_{kt}(\hat{\mathbf{x}}_t^a) - W_{kt}(\hat{\mathbf{x}}_t^b)] - \hat{\eta}_k, 0 \right\}. \end{aligned} \quad (12)$$

where  $\Xi(\hat{\mathbf{x}}, \mathbf{e}) \equiv \frac{\sum_j (1-\alpha_j) \cdot R'(\mathbf{e}_t) \cdot [\Phi(\hat{\mathbf{x}}) + \Theta(\hat{\mathbf{x}})]}{\Delta_{jt}^2}$ , with the expressions defined as  $R'(\mathbf{e}) \equiv [R^{a'}(\mathbf{e}) - R^{b'}(\mathbf{e})]$ ,  $\Theta(\mathbf{x}) \equiv \sum_j \theta_{jt} \cdot [L^a(\hat{\mathbf{x}}) - L^b(\hat{\mathbf{x}})]$ , and  $\Phi(\mathbf{x}) \equiv \sum_j \left[ \frac{M_j}{N} \cdot \frac{\phi_j}{\phi} \cdot \beta_{jt} [W_{jt}(\hat{\mathbf{x}}^a) - W_{jt}(\hat{\mathbf{x}}^b)] \right]$ . Thus,

$$\begin{aligned} L_t^a(\mathbf{x}_t) - L_t^b(\mathbf{x}_t) &= \psi_t \sum_K \left[ \sum_j \left( \frac{\theta_{jt}}{\Delta_{jt}} \right) \cdot \left( \frac{M_k}{N} \right)^2 [W_{kt}(\hat{\mathbf{x}}_t^a) - W_{kt}(\hat{\mathbf{x}}_t^b)] - \bar{\eta}_k \right], \\ R^a(\mathbf{e}_t) - R^b(\mathbf{e}_t) &= \psi_t R(\Lambda^a) - \psi_t R(\Lambda^b), \end{aligned} \quad (13)$$

where  $\Lambda^q(\hat{\mathbf{x}}, \mathbf{e}) \equiv \sum_K \left[ \Xi(\hat{\mathbf{x}}, \mathbf{e}) \cdot \left( \frac{M_k}{N} \right)^2 [W_{kt}(\hat{\mathbf{x}}_t^a) - W_{kt}(\hat{\mathbf{x}}_t^b)] - \hat{\eta}_k \right]$ .

Using (14), it is now possible to solve for the announced platform of each party. The program is

$$\max_{\hat{\mathbf{x}}_t} \psi_t \left\{ \begin{aligned} &\sum_j \left[ \frac{M_j}{N} \cdot \frac{\phi_j}{\phi} \cdot \frac{\beta_{jt}}{\Delta_{jt}} [W_{jt}(\hat{\mathbf{x}}_t^a) - W_{jt}(\hat{\mathbf{x}}_t^b)] \right] + \\ &\sum_j \left( \frac{\theta_{jt}}{\Delta_{jt}} \right) \cdot [[L_t^a(\hat{\mathbf{x}}_t) - L_t^b(\hat{\mathbf{x}}_t)] + [L_t^{*a}(\hat{\mathbf{x}}_t) - L_t^{*b}(\hat{\mathbf{x}}_t)]] \end{aligned} \right\} \quad (14)$$

subject to (13), and the respective definitions therein. The result is a highly nonlinear expression that is a function of the following underlying parameters:

$$\begin{aligned} \mathbf{x}_t^a = \hat{\mathbf{x}}_t^a = \hat{\mathbf{x}}^a &\left( \psi_t, \phi_j, \phi_t, \frac{M_k}{N}, \theta_{jt}, e^a, e^b, \rho_{kt}^*, \gamma^a, \gamma^b, \alpha_j, \hat{\eta}_k \right) \\ \mathbf{x}_t^b = \hat{\mathbf{x}}_t^b = \hat{\mathbf{x}}^b &\left( \psi_t, \phi_j, \phi_t, \frac{M_k}{N}, \theta_{jt}, e^a, e^b, \rho_{kt}^*, \gamma^a, \gamma^b, \alpha_j, \hat{\eta}_k \right) \end{aligned} \quad (15)$$

In a nondemocracy, the process is much simpler. The results for the final stage remain unchanged. However, instead of considering election probabilities, the policymaker solves an expression analogous to equation (14). Since the information available to voters no longer matters, the weights in this case can be simplified to (arbitrary) weights that the policymaker places on the populace versus bribes offered by domestic and foreign special interests. Thus,

$$\max_{\hat{\mathbf{x}}_t} \left\{ \nu \sum_j W_{jt}(\hat{\mathbf{x}}_t) + (1-\nu) \left[ \sum_K L_t(\hat{\mathbf{x}}_t) + \sum_{K^*} L_t^*(\hat{\mathbf{x}}_t) \right] \right\} \quad (16)$$

where  $\nu(1-\nu)$  is the weight placed on general welfare (bribes). The rest of the analysis is straightforward, and is not discussed in detail here.

## A.4 Extensions and generalizations

### A.4.1 Time

Currently, the model is dynamic only to the extent where the stage game is repeated over time. However, it is also possible to incorporate time in a more explicit fashion. One primitive way to incorporate the notion of limited path dependence is to treat the final policy vector as  $\hat{\mathbf{x}}$  an AR(1) process, such that

$$\hat{\mathbf{x}}_t = \lambda \hat{\mathbf{x}}_{t-1} + \varepsilon_t, \quad (17)$$

where  $\lambda$  is a persistence parameter and  $\varepsilon_t \sim \text{i.i.d. } N(0, \sigma_\varepsilon^2)$  is the error term.

#### A.4.2 Uncertainty

Another way in which it is possible to model international norms is to treat these as Bayesian beliefs held over private information on  $\bar{x}(\zeta|\Omega_t)$ , where  $\zeta$  is country type and  $\Omega_t$  is the information set available at time  $t$ . As an example, consider when countries are either belligerent or pacifist; hence  $\zeta = \{b, p\}$ . In this case, international norms shape the beliefs held by state actors over the likely type of other actors; this will then condition the off-equilibrium path responses. By assigning probabilities to being of either type, it is then possible to solve for the perfect Bayesian Nash equilibrium of the game.