INTRODUCTION

WHAT is the relationship between domestic and international politics in a world of economic interdependence? This question was first systematically explored by scholars after the 1970s oil crisis and then continued to gain in importance with the rapid expansion of globalization in markets for money, goods, and information in the last two decades.¹ Despite repeated efforts to bridge the divide between the domestic and the international, scholars tend to isolate political dynamics at one or the other level of analysis. Institutionalists in comparative politics typically view interdependence as an undifferentiated shock that reverberates through domestic institutional configurations.²

² This literature traces back to Gourevitch 1978, who discussed a far broader set of relationships than the narrow definitions of interdependence and globalization that dominate the current literature.

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National responses to globalization such as tax policy or welfare reform vary, depending, for example, on veto points or historical legacies of labor/capital relations. Open economy politics (OEP) scholars work in the other direction, using domestic politics to explain state preferences vis-à-vis openness. Interest groups are differently affected by global exchange and seek to use domestic institutions either to defend or to retard interdependence. Both treat the distribution of interests and institutions as largely exogenous.

Comparativists’ commitment to “methodological nationalism” and OEP scholars’ core assumption of “unit independence” seem strikingly at odds with empirical reality. Recent work demonstrates that decisions made in one jurisdiction are tied to decisions taken in others and that actual jurisdictional boundaries are no longer confined to the nation-state. Policy interdependence—the interpenetration of national polities and markets, so that decisions made in one polity or market have consequences in another—is ubiquitous in international and comparative politics. When domestic regulators change their rules, their decisions can shape market governance in other countries, challenging their institutional bargains and sometimes even undermining them. Those other countries may seek in turn to respond, very often through measures that also have external reverberations. In many instances, then, global and domestic politics are inseparable.

This article organizes and discusses an emerging body of scholarship addressing how transnational interactions shape domestic institutions and global politics in a world of economic interdependence. This literature does not yet cohere into a unified research program, but there are at least three clear commonalities shared by its various authors. First, they examine how domestic institutions affect the ability of political actors to construct the rules and norms governing interdependent relations and thus offer a source of asymmetric power. Second, they explore how interdependence alters domestic political institutions through processes of diffusion, transgovernmental coordination, and extraterritorial application and, in turn, how it changes the national institutions mediating internal debates on globalization. Third, they study the shifting boundaries of political contestation through which...
substate actors affect decision making in foreign jurisdictions. Hence, they challenge prevailing notions that interdependence, domestic institutions, or interest group distributions are static or exogenous.

Like historical institutionalists in comparative political economy, these scholars emphasize the importance of sequencing and temporality for institutional change. At the same time, they explicitly incorporate international and cross-national pressures into their argument, transforming compartmentalized examinations of causal mechanisms such as regulatory capacity or sequencing in individual jurisdictions into relational concepts interacting across them. To borrow a phrase from Orfeo Fioretos, they move from “conceptualizing national economies as closed systems of governance to treating them as open systems of governance.” They ask how interdependence transforms the distribution of domestic interests and the institutions of the system’s units. In important ways, they hark back to the early work on interdependence of the 1970s, work that treated interdependence not only as a source of friction between states but also as an opportunity structure for those actors well situated to make use of it. Their attention to the particular mechanisms of institutional change allows them to reconstruct the sometimes murky generalizations of this earlier literature into specific and detailed analytic arguments.

This understanding of institutional change, which we call the new interdependence approach, is still in its early stages of development. Even so, it not only provides a corrective to the existing literature but also offers its own research questions: Which jurisdictions determine the terms of interdependence? What are the coalitional possibilities in an interdependent world and whom do they advantage? What role do international organizations play in mediating cross-national relationships?

The article examines three books and an associated literature that try to answer these and related questions, setting out an important alternative agenda for both comparative and international political economy. As globalization continues, it will be ever more difficult to examine national trajectories of institutional change in isolation from each other. Equally, it will be difficult to understand international institutions (which ever more frequently are not formal treaties but instead are executive agreements, memorandums of understanding between regulators, and the like) without paying attention to the ways in which

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10 Büthe 2002; Pierson 2004.
12 Fioretos 2011, 10.
they both transform and are transformed by domestic institutional politics. Given the importance of institutional change to the new interdependence agenda, we suggest several instances where historical institutionalist tools might be exploited to address these transnational dynamics, in particular, mechanisms of cross-national sequencing and change strategies of substate actors.\footnote{While we believe that this is one fruitful research agenda (Fioretos 2011; Farrell and Newman 2010), it is surely not the only one.}

This emerging literature has significant lacunae. It is piecemeal and haphazard in its attentions, in part because it is emerging across two subfields (as well as disciplines such as economic sociology and international law). It focuses overwhelmingly on Western Europe, or the EU-US relationship, giving relatively short shrift to the global South. We return to these limitations in the conclusion. Nevertheless, we contend that it opens the way for a long overdue discussion of the interaction between domestic and international institutions in a world of economic interdependence.

**INTERDEPENDENCE AND POWER RELATIONS BETWEEN NATIONAL INSTITUTIONAL SYSTEMS**

Interdependence leads to clashes between different systems of domestic rule, as laws and regulations that might initially have been intended to play a purely domestic role become embroiled in international politics. It is increasingly difficult for domestic lawmakers or regulators to take action that will not have consequences outside their home jurisdiction or to avoid considering the consequences of regulatory actions taken elsewhere.\footnote{Young 2003; Damro 2006; Singer 2007; Putnam 2009; Newman 2008a; Farrell 2003; Pollack and Shaffer 2009.}

These developments have been compounded, not alleviated, by neoliberalism, which has changed a world in which states directly managed many sectors of economic activity into one in which states seek to influence markets at a remove, through laws and arm’s-length regulatory structures.\footnote{Gilardi 2005; Jordana and Levi-Faur 2004.} The turn to regulation rather than ownership as the key means of market control leads to more conflict, as the regulators’ grasp becomes more disconnected from their formal jurisdiction.\footnote{The key disagreements among these scholars revolves around whether international networks of policy actors seek to resolve common problems (Slaughter 2004) or instead reflect the interests of powerful actors (for example, Verdier 2009). This disagreement resembles earlier disputes between liberal institutionalists and power-based theorists, as described by Krasner 1991.} Substate actors (both public and private) often drive international negotiations...
over the rules that govern international markets, especially as the old arguments over tariff barriers give way to new arguments about different regulatory approaches.

Some of these actors are better able to impose or protect their regulatory or legal preferences. The new interdependence approach emphasizes the relationship between interdependence and power, focusing on how different domestic institutional configurations affect the content and quality of global rules. Specifically, it builds on the insights of earlier work by Keohane and Nye, while allowing for variation in power dynamics across sectors and time.

Kal Raustiala’s study of territoriality and law provides a US-centric view of how power intersects with both domestic legal interpretation and regulation. It is a detailed account of institutional change over time, showing how American laws and the ways in which they are interpreted have changed since 1789, in response both to the changing position of the US in the world and to changing domestic priorities. The postwar period of unchallenged US hegemony was associated with a decline in formalized interventions into the territory of other states and a consequent increase in the willingness of US courts to apply US laws and regulations to overseas activities. Actors whose assets were exposed to the US and whose activities potentially violated US law, even if they took place elsewhere, could be hauled into US courts. The ability of the US to do this rested on the interaction between economic might and domestic institutions. As Raustiala (p. 95) concludes, “[b]ecause its economic power was so great . . . foreign firms found the American market irresistible. But entry into the American market created legal vulnerability, because it was the presence of assets within the reach of federal courts that generally gave the new extraterritoriality its practical bite.” This sweeping claim of extraterritorial power was originally a defensive rather than an offensive strategy, reflecting the fear that US rules could be undermined by activities outside its territory. This concern was especially sharp in competition policy, where the US was an outlier, leading US courts to move towards an “effects”-based doctrine of jurisdiction, in which they considered how extraterritorial actions affected US markets in deciding whether to act. This was swiftly extended to other areas, such as intellectual property and labor.

18 For an early example, see Burley 1993.
19 Here, it shares much common ground with power-based approaches to international regulation (Krasner 1991; Drezner 2007) but tends to emphasize relations between substate actors rather than between states.
20 Putnam 2009 argues that this is still the case.
The frictions associated with globalization reflected not only market interpenetration but also the rise of the regulatory state. As states developed their own regulations, discord became more likely, especially because so much trade occurred within industries (which then spurred competition among firms with equivalent products in different countries) rather than between industries. This meant that it was hard for one country to protect its own domestic regulations (and its own firms) without disadvantaging foreign competitors.

In such a world, it is unsurprising that power relations dominated. While foreign governments, courts, and economic actors were dismayed by US actions, they had little effective recourse. US regulators endowed with the regulatory capacity to mobilize market access could leverage the threat of legal sanctions to ensure compliance.

Raustiala’s arguments fit well with a recent literature on extraterritorial influence. He elucidates the institutional underpinnings of Brake and Katzenstein’s arguments about US law and “soft power” and Simmons’s argument for the “hegemonic” status of US financial rules—the effects doctrine extends the reach of US regulators. For example, extraterritorial jurisdiction has helped the US Securities and Exchange Commission (SEC) induce other states to legislate against insider trading. Similarly, Kaczmarek and Newman find that when a foreign firm is prosecuted under US antibribery provisions, the likelihood that its home jurisdiction will enforce antibribery rules increases twentyfold.

As power relations have changed, so too has the logic of extraterritorial regulation. Raustiala notes that Europe began to use extraterritorial regulation against the US “as [it] grew more powerful economically.” However, the growth of European economic power has involved more than standard market-size effects. As Putnam concludes, the sources of extraterritorial power are “grounded solidly in domestic-level rules and processes.” Here, the new interdependence literature moves beyond simple definitions of power rooted in market size and underscores the critical role of different domestic institutional arrangements to produce regulatory capacity—the ability to define, monitor, and defend a set of market rules.

21 Brake and Katzenstein 2010.
26 Putnam 2009, 463.
By studying institutions, new interdependence scholars can better explain sectoral and temporal variation in bargaining power as these domestic institutions develop unevenly across jurisdictions and time. Elliot Posner argues that EU-US disputes have moved from a hegemonic model in which the US imposed extraterritorial demands and the EU protested toward a regime of mutual accommodation. This was not because the EU market grew (it shrank) but because institutional changes centralized financial market decision making. Similarly, Tim Büthe and Walter Mattli’s *The New Global Rulers* argues that institutional difference explains variation in the influence of US and European firms in shaping global private standards. The US has a single private sector body setting standards in accountancy, while Europe has a highly fragmented authority structure. This has allowed the US to dominate international discussions over accounting standards. By contrast, the US has fragmented domestic standard-setting processes for physical products, with strong competition between a variety of private sector entities. Europe has an organized hierarchical system, which represents the interests of European firms far better than its US counterpart serves US firms. New interdependence arguments focusing on such institutional variation resolve key puzzles in political economy as to the shifting influence of major powers despite stability in relative economic size. Critically, they explicitly incorporate relational arguments about institutional differences across jurisdictions and how these differences interact at the global level to produce asymmetric power.

While this approach nicely captures cross-sectoral variation, it is less well suited to explaining variation over time. Büthe and Mattli specifically identify themselves as historical institutionalists but emphasize the rigidity of national institutions, even when they are poorly suited for their purpose (p. 57). Their account implies that national-level actors are trapped in a strong version of path dependence, where it is difficult to extricate oneself from unsuitable national institutions. This fails to explain the kind of change that Raustiala and Posner observe, from a system in which the US predominated in extraterritorially setting the rules for how others should regulate to one in which it had to share effective authority with the EU. New interdependence scholars make a major contribution by identifying domestic institutions as a source of power but face additional challenges in identifying the sources of and pathways to institutional change.

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29 For a complementary argument in finance, see Singer 2007; and Bach and Newman 2007.
30 Bach and Newman 2010a.
New interdependence research has much in common with the transnationalism literature of the 1970s. Scholars such as Joseph Nye and Robert Keohane argued that world politics involved “situations characterized by reciprocal effects among countries or among actors in different countries.” More than just describing new global challenges and actors, this was a structural argument about how the character of the international system altered the participating units and in turn the nature of international politics.

These arguments were hard to turn into empirically testable hypotheses and had to confront the challenge of structural realism, which distinguished sharply between the anarchical international system, composed of states, and the nonanarchical politics found within national political systems. A revived liberal institutionalism rebuilt itself on foundations that were explicitly borrowed from structural realism. In a world of anarchy, international institutions could still play an important role, through providing unitary states with information and monitoring capacities.

Over time, liberals began to emphasize how interdependence could affect preferences rather than alter the structure of the system or the units themselves. Thinking about interdependence primarily as shaping the “primitive” preferences of actors (for example, according to some basic logic such as Stolper-Samuelson or Ricardo-Viner), rather than involving cross-national causal relationships, had obvious analytic benefits. It allowed liberals to construct a “bottom up” or “open economy politics” account of international politics, in which discrete national policy processes led (through interest aggregation and institutional filtering) to the formation of national-level preferences, which then confronted each other in a more or less anarchic environment. However, this ignored how reciprocal relationships between states could reshape domestic authority structures. It also placed a very risky theoretical bet—that a complex international system could be broken up into discrete national subsystems without any significant loss of explanatory power. Put differently, the open economy politics approach treats interdependence as a black box that generates problems which

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32 Keohane 1984.
33 Frieden 1999; Moravcsik 1997.
34 Moravcsik 1997; Milner 1997; Lake 2009.
35 Krasner 2011.
36 Oatley 2011; Drezner and McNamara 2013.
unitary states then solve through traditional forms of negotiation. This blinds the approach to a plethora of important causal relationships.

The new interdependence literature starts to remedy this by focusing on the relationship between interdependence and *processes of institutional change*. This, of course, reflects the more general move within political science and other social sciences to the study of institutions—whether they be treaties, regulatory agreements, or even, in principle, informal norms—that are treated as social rules recognized by the relevant actors. Even so, this approach adds to the debates, especially in international relations, that have emphasized institutional design and institutional consequences rather than processes of institutional change.

Initially, this strain of the literature had much in common with existing work on two-level games, which similarly focuses on how the nexus between domestic and international politics empowers certain actors. It distinguishes itself from this work in two successive stages, however. First, scholars of the new interdependence have moved away from the concern of the two-level games literature with *policy outcomes* to focus instead on *institutional change*. As work on two-level games became formalized, it drew a sharp distinction between institutions (which were fixed and exogenous and shaped actors’ veto power) and the policy equilibria that different institutions generated. The first generation of work in the new interdependence has instead concerned itself directly with institutional change, examining how domestic arrangements shape the power of substate actors to alter international arrangements or, alternatively, how international arrangements shaped their power to change domestic institutions. Recent work has made a more complete break, seeing institutional change as an iterated sequence of domestic institutional moves across national borders, rather than as the triumph of the domestic over the international or vice versa. Interdependence has redefined basic structures of the state—judicial norms, regulatory oversight, the organization of the executive—and these changes matter not only for domestic political outcomes but also for global politics going forward.

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37 See Djelic and Quack 2010; Shaffer 2012.
42 Hence, it has more in common with rational choice theories focusing on equilibrium institutions than those interested in institutional equilibria. See in particular Knight 1992.
Büthe and Mattli examine how transnational private standards organizations change the role and effectiveness of domestic standard setters. Globalization has changed a world in which national standards organizations dominated to one in which international organizations set the agenda; their standards “often determine market access, due to demands from purchasers or due to government regulations” (p. 30). WTO rules require countries to incorporate international standards or risk being found to have created “unnecessary obstacle[s]” to trade.\(^44\) Hence, domestic standard setters, whether public, private, or hybrid, have good reason to influence international standards, which might otherwise disadvantage domestic firms.

As already noted, Büthe and Mattli argue that the domestic institutions governing national standard setters—the “systems” through which they aggregate information and formulate negotiating positions—will shape their ability to influence international rules. Hence, the ability of standard setters to prosper in a globalized world largely depends on how they had organized themselves before the globalization of the 1990s took off. Market-based forms of standard setting, in which different standard setters compete vigorously with each other, may have had advantages prior to globalization. After globalization, however, market-based forms at the national level fit poorly with institutionalized standard setting at the international level.\(^45\) The content of international norms and principles in a sector are thus significantly shaped by the configuration of the domestic institutional setting.

Elliot Posner’s book on the origins of Europe’s new stock markets focuses on the reverse causal relationship—how international interactions help explain when actors will be able to change sticky domestic institutions.\(^46\) The book asks why Europe’s stock markets underwent an extraordinary transformation, despite vigorous resistance from well-entrenched local incumbents. National financial systems are notoriously difficult to reform, as they are likely to be protected by a wide variety of powerful domestic interests. Even so, the late 1990s and early 2000s saw the creation of major new stock markets in Germany, France, and the UK. Posner argues that standard explanations—market pressures from mobile capital, the diffusion of ideas, and state-to-state negotiations—

\(^44\) Mattli and Büthe 2003.

\(^45\) See the debate between Fioretos 2010 and Woll forthcoming over the twofold relationship between interest group preferences and interstate strategies.

\(^46\) Thatcher 2009, 4, argues that EU and US security regulation regimes reshaped national processes of institutional change by “becoming part of national policy-making processes, altering the strategies and coalitions of domestic actors, offering legitimation for reform and providing reformers with reasons and resources to overcome domestic opposition.”
fail to explain the timing and the nature of these changes. Posner highlights the concerted efforts of the European Commission, the executive body of the European Union, to foster these new markets through a combination of rule making, coalition building, and argumentative pressure.

Posner documents the process of building European stock markets as one of slow accretion. Early efforts by Commission officials to promote venture capital often “faced fierce opposition from national financial communities” and their governments (p. 45). Officials surmounted this problem by organizing venture capitalists who wanted to open the existing system, encouraging them to make common cause and funding the creation of a new association, the European Venture Capital Association, to lobby for change. Although Commission officials “could not appear to be initiators” (p. 50), they worked assiduously behind the scenes to build interest groups that were receptive to their own interests.

The Commission and its allies built support over a period of years for a pan-European stock market, Easdaq. With increased interdependence between European national markets and the growing ability of the European Commission to forge international markets, Easdaq became a credible threat that led to the opening of previously resistant national markets. When it became clear that Easdaq was an established reality, national authorities and incumbents stopped opposing reform and quickly turned their attention to trying to embrace and redirect it instead. The result was the creation of a set of national-level “exit” markets for venture capitalists, a change that marked a radical shift away from previous forms of market organization. Only one of these new markets survived the bear markets of the early 2000s—but the fact that they came into existence and that new ones continue to be created signal an important shift in the organization of Europe’s national political economies. Cao’s study generalizes this line of argument, offering quantitative evidence of the link between international organization participation and domestic institutional change. 47

Neither argument breaks completely with traditional approaches to international political economy. While they explain institutional change in one realm, they hold it constant in the other. However, the newest work on cross-national sequencing presents a more radical challenge to existing approaches. Sequencing arguments, which are common in the historical institutionalist literature in comparative politics,

47 Cao 2012. See also Shaffer 2012.
stress the temporality of institutional dynamics, in which the kind of domestic institutional development that is possible at time \( t+1 \) depends on the kinds of domestic institutions that predominated at time \( t \). For new interdependence scholars, this iterated process of sequencing can take place *between different national jurisdictions* rather than solely within a single country. Sequencing here is a causal dynamic in which particular institutional change in one country can produce endogenous effects in another, spurring reactions that lead to further institutional change in that country, and so on.

Posner’s newer work on transatlantic finance demonstrates the importance of cross-national sequencing in a world of economic interdependence. For much of the 1980s and 1990s, the SEC acted as global policy hegemon. European policymakers were generally rule takers, as they lacked the regulatory authority to challenge SEC decisions. During the 1990s, however, the institutional landscape changed dramatically, owing to both transgovernmental initiatives about regulatory oversight and regional decisions taken in Europe. The US regulatory model diffused through Europe as national economies adopted independent, arm’s-length regulatory institutions. At the same time, European legislation including the Financial Services Action Plan offered these newly created SEC-like institutions the regulatory capacity to control market access. This created peer institutions in Europe that could engage their US counterparts as rough equals. Posner demonstrates that in those sectors where the EU forged a coherent regulatory apparatus, they were able to alter global regulatory dynamics and force concessions from US authorities. However, this did not mean that EU regulators systematically won, while US regulators lost, thereby reversing the previous power relationship. Instead, it led to an ongoing process of accommodation and iterated institutional change between the two regimes.

According to this account, power and first-mover advantage are still important. But they are bound up with ongoing processes of institutional change, rather than being the product of a single “frozen moment.” That the SEC was able to regulate long before the EU centralized its own authority meant it could shape global principles and European regulations. Yet as the EU developed its own financial authority, these principles developed in directions that did not represent the static preferences of either the EU or the US. Rather than a

49 Farrell and Newman 2010; Woll forthcoming.
50 Posner 2010.
51 Lall 2012.
snapshot outcome, as domestic institutions in each country changed in sequence, the two systems’ paths of regulation became imbricated with each other.

By analyzing cross-national sequencing, new interdependence scholars can contribute in ways that are quite distinct from other approaches. These sequencing dynamics can be observed in sectors ranging from information technology to pharmaceuticals. Institutional configurations in one jurisdiction offer that jurisdiction advantages in global rule making but also motivate institutional reforms in other jurisdictions, so that sequences of response and counterresponse cause ripples of change across the domestic institutions of different states. Work on cross-national sequencing, then, helps understand the causal logic underlying institutional diffusion, highlighting specific pathways through which transnational interactions transform domestic institutions and in turn global politics.

**Interdependence and Shifting Boundaries of Political Contestation**

The previous two sections argue that the new interdependence literature has useful things to say both about power and about the causal mechanisms underlying institutional change in a globalized world. We bring these two strands together, arguing that they point toward a different understanding of institutional politics than either standard comparativist or standard international relations accounts. Unlike comparativist historical institutionalism, it emphasizes the consequences of cross-national interactions and the actions of specific forms of international organization for institutional change. Unlike power-oriented international relations institutionalists, such as Stephen Krasner and Daniel Drezner, it focuses on collective actors below the level of the state. Its key questions involve the implications of cross-national and international relationships for the relative power and influence of substate actors. Extending the original interdependence literature’s concern with “intersocietal interactions,” this new work suggests that interdependence changes opportunity structures, allowing some substate actors (but not others) to work across jurisdictions to reach their goals, hence

52 Newman 2008a; Bach and Newman 2010b; Casini 2012.

53 See also Murillo and Schrank 2005; Hughes 2013.

54 Mahoney and Thelen 2009; Thelen 2004; Pierson 2004; Carpenter 2001; Skowronek 1982; Orren 1995; Sheingate 2003.

55 Thatcher 2009.
increasing their power to shape or retard processes of institutional change. Interdependence, then, changes the access of actors to global politics, which can in turn affect broader institutional dynamics.\textsuperscript{56}

In a recent agenda-setting article, Krasner rightly complains that both international relations scholars and comparativists are blind to how external actors try to shape the domestic institutions of other states.\textsuperscript{57} However, his proposed alternative focuses entirely on how strong states shape the institutions of weak ones, precluding by fiat the possibility of change within powerful states too.

The critical move of the new work on interdependence is to refocus attention on the interactions of substate actors.\textsuperscript{58} As Cerny and Slaughter have argued, globalization creates political opportunity structures for collective actors such as domestic regulatory agencies, trade associations, or NGOs.\textsuperscript{59} Information technology and falling transportation costs offer new channels of interaction for actors below the level of the state.

A key challenge for the new interdependence literature is to identify the causal mechanisms through which collective actors are differentially able to access and shape institutions across borders. Posner’s account of the development of Europe’s stock markets has hints of such an approach, but only around the edges. As Posner acknowledges, the European Commission was not the sole key actor. Venture capital entrepreneurs carried out the “necessary and crucial on-the-ground activities” of actually making the markets (p. 154) and would likely vigorously dispute Posner’s Commission-centric story. A more complete account would look not only at the Commission but also at the alliances that venture capitalists forged with each other across national borders.\textsuperscript{60}

If Posner’s book elaborates on how an international actor reshaped national rules by working through domestic actors, Büthe and Mattli’s book discusses how national-level actors can reshape international rules if they organize themselves in the right way. Both take interdependence seriously, yet neither fully delivers on its implications for interac-

\textsuperscript{56} Djelic and Quack 2010.
\textsuperscript{57} Krasner 2011. Also Gourevitch 1978. For a Marxist argument, in which the US state intervenes in alliance with business interests in other industrialized countries, see Panitch and Gindin 2012.
\textsuperscript{58} Here, the new interdependence approach differs from Fareed Zakaria’s (1999) neoclassical realism, John Ikenberry’s (2001) international liberalism, and Orfeo Fioretos’ (2011b) new multilateralism, all of which draw valuable lessons from historical institutionalism but emphasize the role of states rather than substate actors.
\textsuperscript{59} Cerny 2010; Slaughter 2004. On opportunity structures, see also Börzel and Risse 2003; and Joachim 2003.
\textsuperscript{60} Ziegler 2000; Johnson 2013.
tion between different institutional systems. Raustiala’s book sketches the promise of an account that could successfully work across both of these levels, illustrating the broad international power dynamics that result from extraterritorial entrepreneurialism in a world of clashing regulatory states.

Bringing these theories together will require scholars to build new accounts of the institutional dynamics of international and cross-national regulation. The most promising avenue toward this end is to build cross-national causal relationships into historical institutionalism. We offer in the following one example of how historical institutionalist arguments about the differential willingness of actors to change or to upset their domestic institutional status quo can be transposed into a world where national systems are in conflict with each other, creating opportunity spaces that actors can use alternatively to reshape or defend domestic institutional bargains.

We begin with a commonplace of the literature—that the increase in regulatory clashes between jurisdictions creates a demand for cross-national initiatives to “solve” these clashes, whether through formal or informal means. This, more than any other factor, explains the heightened importance of international-standard setting bodies, of “problem-solving” networks of government officials, of semi- and quasi-formal negotiations between national regulators and the like since the 1990s. These settings provide the forums in which possible solutions to problems of regulatory clash are thrashed out.

Thus, one key factor determining whether status quo or change-oriented collective actors influence global standards is their respective degree of access to transnational forums, where regulatory disputes are addressed either through hard agreements (rarely) or soft law or memorandums of understanding and the like (frequently). Recommendations for legal reforms that are backed by the regulatory actors in the appropriate network are more likely to succeed. Regulators who are

62 Mahoney and Thelen 2009; Thelen 2004; Thelen and Steinmo 1992. We do not propose our arguments as a replacement for comparativist historical institutionalism, but rather as an extension to these arguments that is especially likely to be useful in sectors and cases where policy interdependence plays an important role. It is not only possible but it is even likely that actors will simultaneously pursue the kinds of domestically focused strategies that comparativists identify and the cross-national strategies that we discuss here across different arenas.
63 This builds on a more general point about interdependence and opportunity structures in the literature on transnationalism. Risse-Kappan 1995; Keck and Sikkink 1998; Börzel and Risse 2003; Joachim 2003; Carpenter 2011. See also the neofunctionalist literature from European Integration (Haas 1967; Hooghe and Marks 2003; Mattli and Stone Sweet 2012).
64 Slaughter 2004; Pauwelyn, Wessel, and Wouters 2012; Mattli and Woods 2009.
65 Lall 2012; Dobusch and Quack 2012.
in direct contact with each other will have far better information than other national-level actors about what other jurisdictions are or are not prepared to countenance, and such networks will enjoy the legitimacy of benefits accrued from their collective membership. Most important, other actors seeking regulatory certainty, including multinational business, often support such harmonizing efforts so as to end regulatory clashes.

This has implications for power and opportunity. The substate collective actors involved in building these initiatives (because they have access to the relevant cross-national forums) will have new opportunities to reshape existing national bargains, both in their home jurisdictions and elsewhere, that would be unavailable in a world without interdependence. Hence, the “solutions” favored by different actors will not be driven by functional imperatives of, for example, achieving efficient and mutually satisfactory outcomes, but will instead be driven by struggles between actors with varying objectives and varying ability to pursue those objectives cross-nationally.

While the interdependence literature suggests how clashing regulatory systems will both undermine existing domestic institutional arrangements and offer an opportunity structure for actors, historical institutionalism points to the strategies that national-level collective actors, such as regulators, business organizations, and unions, will employ, given their orientation toward existing institutional bargains. Some regulatory actors will favor the domestic institutional status quo and will perhaps wish to strengthen and insulate it; others will want to overturn it. Some regulatory actors will have ready access to cross-national forums where they can work together with similarly minded actors in other jurisdictions. Others will have only very limited access or no access at all.

We start from the basic assumptions that domestic institutional bargains are liable to external disruption and that institutional politics is dominated by struggles between collective actors who favor the institutional status quo and those who wish to overturn it. These actors will have different degrees of relative access to the cross-national forums where negotiations and semiformal discussions over regulatory clashes take place. Where they have high relative access to and influence in the relevant forums—that is, where they are better able to shape these

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68 Berger 2000.
69 Hacker 2004; Mahoney and Thelen 2009.
cross-national solutions than their opponents—they will use that access to pursue their goals. Where, in contrast, they have little access in relative terms, they will pursue their interests at the national level.

This allows us to make some simple predictions about the strategies that actors will pursue in the context of policy interdependence. We depict these strategies—cross-national layering, defend/extend, challenge, and insulate—in Figure 1, whereby their strategies depend on their relative access to transnational opportunity structures and their preference for or against their domestic status quo. Collective actors who wish to undermine the domestic institutional status quo and have relatively high levels of access to the relevant cross-national forums can use these forums to create arrangements that may fundamentally alter domestic institutional structures. Such transnational agreements create a new layer of cross-national institutions, whether formal or informal, that overlays domestic institutions and seeks, over time, to subsume or replace them. This logic is clearly identifiable as a cross-national variant of the national-level mechanism of “layering” discussed by Thelen and others. Hence, we dub it “cross-national layering.”

This plausibly explains why Posner’s venture capitalists were so willing to work across national boundaries, in a forum created by the European Commission for precisely this purpose, to try and create a cross-European venture capital market. They wished to overturn their domestic institutional status quos (which made more flexible capital markets impossible) and were willing to work together with actors with similar interests in other jurisdictions to help build a cross-European market that would modify and likely gradually supplant or subvert these national regimes.

This also helps explain actors’ strategies in other policy arenas. Shaffer and his collaborators demonstrate how transnational legal projects have reshaped fundamental legal norms about due process, bankruptcy, and judicial independence across a range of jurisdictions. Quack and Botzem show how coalitions of actors were able to use cross-national accounting standards as a tool to reshape domestic standards. Farrell and Newman argue that actors within the EU who were unhappy with existing bargains over privacy and national security allied with external actors who had an interest in reshaping these rules to overturn them.

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70 Thelen 2004; Schickler 2001.
71 For a similar logic in another issue-area, see Alter 2001.
72 Shaffer 2012.
73 Botzem and Quack 2009; Botzem 2012.
74 Farrell and Newman 2013.
Goldstein has demonstrated how pro–free trade groups pushed for international dispute-settlement mechanisms, which have over time altered domestic bureaucratic practices.75

Collective actors who have relatively high access to cross-national forums but who prefer the domestic institutional status quo will use these forums to defend and (where possible) extend, their domestic institutional arrangements. Where they can, these actors will seek to remake other jurisdictions in the image of their own systems, along the lines suggested by Drezner.76 This will ensure that actors in their home jurisdiction do not have to bear adjustment costs (as they will be borne by actors in other jurisdictions instead). It will also prevent these external jurisdictions from threatening their own domestic arrangements in the future. Where this is not possible (for reasons that go beyond this simple framework, such as, for example, insufficient bargaining power), they will look instead to build hybrid arrangements with other jurisdictions, trying all the while to engineer these arrangements so that they might subtly remake the other jurisdictions to bring them closer to their own.

This helps explain and extend the regulatory dynamics observed by Raustiala. Most certainly, the influence and zealousness of US courts help spread the influence of US regulators overseas. Equally, however, many of these regulators have come to be actively engaged in a variety of international networks, forums, and bilateral and multilateral arrangements of varying degrees of formality in order to press and extend US regulations through other means than court authority.

75 Goldstein 1996.
76 Drezner 2007.
Such efforts help underpin, for example, the international influence of US regulators in areas such as antitrust, bank capital requirements, accountancy standards, and corrupt practices, where regulators use their privileged position in international networks both to spread their domestic regulatory model and then to defend it. For example, Eberle and Lauter show how accounting firms successfully blocked EU-US proposals to harmonize auditing rules across the Atlantic. Through joint action in the relevant cross-national forums, they were able to thwart the Commission, preserving national rules that advantaged them. Equally, such networks support the efforts of EU regulators to do the same in areas such as privacy, airline carbon emissions, and product standards.

Actors who wish to preserve existing national institutional bargains but who have relatively little access to the relevant cross-national forums will be actively hostile to cross-national efforts to resolve jurisdictional clashes. Instead of using international forums to prosecute their aims, they will seek to insulate domestic institutions from outside pressures. They may do this through adapting domestic rules to promote resistance, through seeking to weaken the linkages between cross-national proposals and domestic processes of institutional change, through proposing their own initiatives (aimed at surreptitiously strengthening existing institutions), and the like. Labor unions in the European Union offer an important example. Faced with mounting neoliberal pressure emanating from supranational agreements, labor has struggled at the national level to blunt transnational rule changes, albeit without much success.

Finally, collective actors who have low relative access to the relevant cross-national forums but who wish to overturn existing domestic institutions will challenge these institutions more or less as comparativist historical institutionalists expect them to. They will choose between domestically focused strategies of change, such as layering, drift, and conversion, depending on their relative degree of access to domestic institutions. While it is possible for actors in the other categories to combine these domestic strategies with strategies that leverage (or seek to break) the relationship between domestic and cross-national politics, actors facing these constraints will have no recourse to cross-national politics. Hence, their strategies can be described using only the concepts developed in the comparativist literature.

77 Eberle and Lauter 2011.
78 Shaffer 2000; Newman 2008a; Mattli and Büthe 2003; Woll 2008.
79 Fetzer 2010.
This very simple account has some predictive value (although it brutally simplifies the relevant empirical relationships). More valuably, it points to ways in which the new interdependence approach might be logically expanded, exactly because it takes so many parameters for granted. By thinking systematically about which parameters to relax, while holding others constant, we can map out many of the important causal relations in the new interdependence, bringing greater coherence to an apparently disparate literature.

For example, the basic 2x2 arrangement set out in Figure 1 accepts as a given the existence of international forums, in which problems of rule clash can be resolved. What varies in this simplified account is actors’ relative degree of access to these forums. A more complex account would not take the existence of such forums as a given and would instead pose a set of prior questions about the circumstances under which these forums do or do not come into being. For example, Posner’s account of European stock markets highlights how actors within the European Commission deliberately built such a forum to encourage cross-national alliances that would further their long-term strategic objectives. However, actors who prefer not to see problems of rule clash resolved through negotiated means may have strong reasons to retard the creation of forums. Wolfgang Streeck and Philippe Schmitter document how European business groups deliberately attenuated Europe-level discussions between business and labor that might provide a political substitute for purportedly apolitical processes of market liberalization. Eimer and Philips show how both European and US patent organizations have deliberately weakened transatlantic policy networks, preventing them from assuming any independent life, so as to mitigate pressures toward convergence. Understanding the circumstances under which key actors help or hinder forum construction is an important research agenda.

Second, the simple framework we set out assumes that actors with access to the relevant forums can build alliances with actors in other jurisdictions. As the politics of different national systems become more intertwined, we may expect that collective actors in one state will increasingly have strong incentives to work together with actors in others. This illustrates the commonalities between research in different regulatory areas. For example, Chad Damro finds that as overlap increased between EU and US markets, antitrust regulators found it necessary

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81 Streeck and Schmitter 1991.
82 Eimer and Philips 2011.
to coordinate on competition policy.\textsuperscript{83} It also raises new questions by showing how apparently discrete battles in different jurisdictions may be connected, how “challengers” in some jurisdictions may draw support from well-established actors in others.

This, too, relies on implicit assumptions that may be fruitfully turned into targets of inquiry. Actors with access to the relevant cross-national forums may not be able to find allies.\textsuperscript{84} Actors with similar–seeming agendas may in fact be at odds with each other, so that explaining variation in cross-national alliances requires careful attention to actors’ interests and how they interact.

For example, Helen Callaghan finds that the willingness of business organizations to form cross-border alliances in the European Union depends on whether they have incentives to constrain or to help their peers in other countries.\textsuperscript{85} She finds that there was little cross-border solidarity in disputes over laws on corporate takeovers. Businesses that wanted stronger domestic protections in their own countries so as to forestall hostile takeovers were happy with weaker protections in other countries where they might want to mount hostile takeovers themselves. By contrast, businesses came together in opposition to measures intended to strengthen worker participation. Even businesses that were located in a jurisdiction with high worker protections wanted to preserve the threat of exit, so as to enhance their bargaining power vis-à-vis workers.

Moreover, it will be important to develop testable expectations regarding variation in access. Clearly, the new interdependence literature offers useful starting points for understanding variation such as regulatory capacity and sequencing. Those actors that have considerable regulatory capacity are well positioned to define a transnational agenda and have the resources to participate in them.\textsuperscript{86} Timing will likely play an important role as well, as the founding members of such forums often join long before the forum itself becomes decisive. In many cases, collective actors do not yet view their problems transnationally and thus do not mobilize in response to early cooperative efforts. Timing can then have powerful feedback effects, privileging those collective actors who are early to the transnational game.\textsuperscript{87} Alternatively, Büthe

\textsuperscript{83} Damro 2006.

\textsuperscript{84} See, for example, the discussion of symmetric heterogeneity of pluralism in neofunctionalist debates (Mattli and Stone Sweet 2012).

\textsuperscript{85} Callaghan 2010; Callaghan 2011.

\textsuperscript{86} Newman 2008b.

\textsuperscript{87} Farrell and Newman 2010.
and Mattli make a strong case for the institutional fit between domestic and international institutions. Those structures that can best channel communication between levels will allow for optimal representation.

A third set of questions concerns power and institutional change. Identifying the strategies that collective actors are likely to use under different circumstances is helpful, but identifying which actors are likely to win and which to lose would seem more helpful still. However, the current literature in historical institutionalism focuses either on the mechanisms through which institutions are continually regenerated or, alternatively, on the mechanisms through which they may be undermined. As Posner shows, these theories are better able to capture the dynamics through which institutional changes in one regulatory system may lead to change in another, in an iterated sequence, than they are to predict equilibria (indeed, they suggest that equilibria, in the strong sense of the term, are vanishingly unlikely).88

The limits to this approach are clear. If institutions are “processes” or “trajectories”89 and if there is no “final” outcome, then it will be impossible to identify winners and losers in any permanent sense. Each stage of institutional development is no more than the culmination of what came before it and the springboard for what comes next. Accounts adopting this logic are likely to make messier and more provisional judgments about the relative power of actors than are equilibrium arguments, since their power at any moment is in part a product of prior institutional developments and may shift substantially over time.

Even so, they help us understand how power relations shape paths of institutional development. Drawing on case studies from transnational rule setting over accounting standards and from the historical efforts of the US to introduce its approach to competition policy to Germany after World War II, Djelic and Quack argue that transnational relationships are becoming increasingly important in “generating” national paths of institutional change.90 Their study of international accounting rules suggests that the mid-1980s—when national capital markets were beginning to become more intertwined with each other—was a critical juncture. Anglo-American regulatory actors and businesses dominated the relevant forums during this period and pushed successfully for rules that favored their interests. However, actors from other jurisdictions (such as Germany) have started to contest these rules, sometimes with success.

88 Posner 2010.
Djelic and Quack’s finding suggests that the timing of influence is critical, as actors present at the outset have more influence on the trajectory of institutional development than those whose influence came later. This may be reinforced by feedback loops between the shape and perceived interests of organized actors and the institutional framework within which they are working. This does not imply strong determinism. Environments change, meaning that institutions must adapt in order to deal with changing needs or risk desuetude and abandonment. Actors who remain hostile to a given institution may try to block change, leading to “drift.” Over the longer term, institutions may evolve away from their initial purpose to a greater or lesser degree, even completely. Even so, over the short to medium term, we may expect that early decisions matter more than later ones, as they shape both the long-term trajectory of institutional change and the actors that work within this trajectory.

These three directions for possible expansion are hardly exhaustive. However, our aim is illustrative rather than comprehensive. We simply seek to demonstrate (1) that there are deep commonalities across a variety of apparently disparate findings, (2) that there is substantial intellectual benefit to be garnered from bringing these findings together in a more systematic way, and (3) that historical institutional tools offer a set of valuable resources for advancing the new interdependence approach. By opening a debate about how best to do this, we hope to spur the kind of serious discussion that the field sorely needs.

**Conclusions**

Exploring the consequences of interdependence for institutional change offers an exciting agenda for political economy. It directly demonstrates the causal importance of interdependence for core problems of both international relations and comparative politics, through examining mechanisms that are systematically understudied in both. This understanding recovers insights from the pioneering work of scholars such as Robert Keohane, Joseph Nye, Ernest Haas, and Peter Gourevitch

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91 Pierson 2004. Although see Mahoney and Thelen 2009 for an account of change that places much less emphasis on such junctures.
92 Pierson 1993.
93 Hacker 2004.
95 Thelen 2004.
96 Jackson and Deeg 2008.
97 Oatley 2011; Bartley 2011.
in the 1970s, and it develops them along a different intellectual trajectory than the one that has predominated in the field.

To achieve its promise, the new interdependence literature needs to develop a much clearer sense of how its different parts relate to one another. Its 1970s predecessor presented structural arguments, but they were impressionistic. The modern approach needs a more systematic account of the consequences of transnational action and relationships in a world of increased interdependence. It has not done so to date, in large part because the literature is not especially self-conscious of itself as a literature. While authors working on these questions cite and are influenced by each other’s work, they do not see themselves as working on a common problem or set of problems. Identifying these commonalities would both improve debate and integrate the approach better with the burgeoning body of work on policy diffusion. The latter’s remarkable methodological advances have noticeably outpaced its grasp of the specific mechanisms of transnational interaction. Greater dialogue between scholars of the new interdependence and scholars focused on diffusion would have substantial benefits for both.

This review essay is intended to clear the way for this and other conversations. It does not simply map out the existing literature, but it also begins to build a framework for bringing it together. It shows how this literature provides a new understanding of both power and institutional change, and it identifies how actors below the level of the state are variably empowered to pursue their interests in a world of interdependence. This in turn provides a starting point from which one can build a more general framework, one that would allow scholars to explicitly identify the relationships between their various arguments and demonstrate how they may accumulate (without the ambition of creating some improbable nomothetic monolith).

There are important problems for the approach, however, that go beyond intellectual coherence. Most obviously, scholars of the new interdependence have focused almost exclusively on the US and the EU. This focus is perhaps justifiable to the extent that the EU and US, both separately and together, are the major drivers of regulatory politics in the world economy. But it means that we know very little about the mechanisms (other than more traditional power dynamics) that shape relations between the EU and US, on the one hand, and other countries, especially countries in the global South, on the other.

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98 Gilardi 2012b.
100 Drezner 2007. See also Luetz 2011.
This approach has had even less to say about relations among countries in the South themselves, including interactions with emerging powers such as China, India, and Brazil.

This lack of interest belies important cross-national dynamics in these relationships that call out for better understanding. Here, new interdependence scholarship can build bridges with an emerging literature on developing countries. Sell has shown how advanced industrialized countries have tried to advance their agenda on intellectual property through quiet processes of domestic institutional engineering aimed at fostering intellectual property offices and officials in developing world countries. Following a cross-national sequencing dynamic, Helfer, Alter, and Guerzovich demonstrate how some intellectual property offices created in response to pressure by advanced industrial democracies have facilitated resistance to those very same countries. They have worked together within the forum of the Andean Community and with the Andean Tribunal of Justice to create an international legal alternative to the dominant Western regime.

Brooks and Kurtz employ a cross-national sequencing argument to explain capital account liberalization in Latin America. They argue that domestic institutional legacies shape capital account diffusion through building interest groups and facilitating cross-national learning, concluding that “we cannot understand the politics of capital account liberalization without a conjoint model of domestic and international political economy. The two are inextricably intertwined in ways that make efforts to independently assess their effects ill-specified at best, and misleading at worst.”

As the new interdependence literature emerges, it will have to do more than confront problems of theoretical coherence. It will also have to extend its geographic interests, so as to better understand economic interactions outside Europe and the US and to identify how these intersect with the relationships among the advanced capitalist economies. This will require that it take account of power relations that are different from those observed between industrialized democracies, but the approach also holds out the promise of an understanding of political economy that can do a far better job of grasping the relationship between power and interdependence. While the challenges are considerable, so, too, are the possible rewards.

101 Sell 2010.
102 Helfer, Alter, and Guerzovich 2009; Roemer-Mahler 2012; Dobusch and Quack 2012. See also Sikkink 2005.
103 Brooks and Kurtz 2012, 123; Bruszt and McDermott 2012.


