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Co-Editors:

William Bernhard, University of Illinois, Urbana-Champaign & J. Lawrence Broz, University of California, San Diego

What's Inside This Issue

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Feature *Essays*

The Political Economy of International Cooperation: A View From Fairness Economics

Ethan B. Kapstein, INSEAD and Center for Global Development

Since the end of World War II, the study of international cooperation has become a major preoccupation of political scientists. The specialized journal *International Organization* was founded early in the postwar era, and in the ensuing years a host of monographs, textbooks and courses firmly established the place of such studies in university curricula. Indeed, one of the major puzzles that political scientists have tried to address over the past six decades is why the anarchic international system has witnessed the emergence of so many multilateral institutions devoted to promoting cooperative behavior across a wide-range of issue-areas, from culture (e.g. UNESCO) to economics (e.g the International Monetary Fund, World Bank, and World Trade Organization) to security (e.g. NATO and the United Nations).

Despite the rich literature this effort has produced, political scientists have, to a surprising degree, "neglected the role of domestic politics" in explaining cooperation among nations (Martin and Simmons 1998, 747). The meat of modern political economy—including the interaction of special interest groups and

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Domestic Politics and Enforcement of International Agreements

B. Peter Rosendorff, Department of Politics, New York University[1]

Punishment and Patience

The international trade system is often analyzed through the lens of the now standard prisoners' dilemma (PD) in which the Pareto superior condition of mutually low tariffs is sustained by the threat of punishment should one player unilaterally defect, and raise trade barriers. Many of our functionalist models of international cooperation more broadly also rely, at some level, on punishment by the other states in order to enforce cooperation. The empirical record provides many instances of states' failures to comply with their obligations to maintain low trade barriers; international punishment however is almost nonexistent. Approaches that require punishments and retaliation at the international level to enforce cooperation offer therefore an incomplete explanation.

Focusing on international agreements and the WTO system in particular, I argue in this note that when the PD structure is adjusted to incorporate aspects of domestic politics and institutions, we can identify the punishment mechanism that operates as essentially *domestic* in nature. Domestic rather than international punishments of policymakers more successfully explain observed evidence of international cooperation.

In the canonical form of the PD, where two countries simultaneously set trade barriers, a number of models have tinkered with the nature of punishment actions. In most approaches the punishment applied along the equilibrium path is severe – the equilibrium may rely on the grim trigger, the most severe punishment followed by infinite reversion to

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A Letter From the *Editors*

The feature articles in this issue take on issues of international cooperation. Both Peter Rosendorff (New York University) and Ethan Kapstein (INSEAD) express frustration with the iterated prisoner's dilemma models that permeate that literature. Instead, they ask us to consider how other assumptions about behavior might more accurately account for patterns of international cooperation, especially in trade politics. Rosendorff calls for a more complete understanding of the role of domestic politics in shaping international policy. Drawing on experimental work in economics and political science, Kapstein suggests that concerns with "fairness" might drive state behavior more than the literature traditionally assumes. Both articles point us in new directions for research not just on international relations, but in the area of cooperation more generally.

Also in this issue, Miriam Golden (University of California at Los Angeles), David Austen-Smith (Northwestern University), Karl Ove Moene (University of Oslo), and Adam Przeworski (New York University) revisit the intellectual legacy of Michael Wallerstein. The memoriam, originally submitted to and published by PS (July 2006), surveys Michael's important contributions to the study of inequality in advanced industrial societies. His personal and collaborative work on trade unions, collective bargaining, and wage setting institutions are standards in the political economy literature.

The Political Economy section of APSA has established the Michael Wallerstein Award to recognize the best article published in political economy in the previous year (the award comes with a $1000 prize). We are pleased to announce that the selection committee has identified this year's winner: Abhijit Banerjee and Lakshmi Iyer, for their article "History, Institutions, and Economic Performance: The Legacy of Colonial Land Tenure Systems in India," *American Economic Review* 95, No. 4 (September 2005). For more information, please see the announcement in this issue.

This issue also contains the schedule of political economy panels at the upcoming APSA meetings in Philadelphia. Please plan to attend as many of these exciting panels as possible as future allocations of space are tied to attendance. Thanks to Liz Gerber and Rick Wilson for putting together such a strong line-up. There is also a call for nominations to serve as officers in the political economy section. Please join in the fun and nominate a friend!

Please note that the Political Economy Business Meeting will take place on Friday, September 1 at noon.

Bill Bernhard
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A Letter From the *Chair*

Dear Members of the Political Economy Section:

This is my last "Letter from the Chair." We will elect a new Chair and three members of our Executive Committee at our Section Meeting at the American Political Science Association meetings on Friday, September 1, 2006 at noon. You have been a great group of colleagues with whom to work, and I have enjoyed being Chair of this Section.

This is also a fantastic era to be a Political Economist. As illustrated by the lead articles in *The Political Economist* during the past couple of years, the discipline of political science and the discipline of economics are both opening up and moving ahead. More political scientists now adopt a political economy approach. More economists are willing to recognize that people's preferences are not fully determined in all situations by expected short-run material benefits. And, the relationship of evolutionary theory to a theory of human behavior is

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Kapstein Feature Essay...continued from page 1

electorally-motivated politicians—has therefore been absent from much of the theoretical discussion. To be sure, there are important exceptions to that rule. Twenty years ago, for example, Robert Putnam (1988) wrote a ground-breaking article on diplomacy as a "two-level game" that I will consider below in some detail.

The purpose of this article is to review recent efforts in political economy to explain international cooperation from the perspective of special interest groups and electorally-motivated politicians. While I will argue that there has been tremendous progress in this respect in recent years, particularly in explaining the political economy of international trade policy, I will also suggest some of the theoretical and empirical gaps and challenges that are facing this research program. Specifically, I will suggest the possible contributions that "fairness economics" makes in addressing the outcomes of multilateral bargaining in the international trade regime that we observe in practice, which stand in contrast to the predictions of contemporary political economy models, and I will sketch one pathway by which political economy and fairness economics might profitably be joined.

The article is in three sections. First, I examine several major contributions of political economy to the literature on international cooperation, focusing on the trade regime, as institutionalized by the General Agreement on Tariffs and Trade (GATT) and, since 1989, by the World Trade Organization (WTO). Second, I outline some of the puzzles in international cooperation that modern political economy approaches have difficulty explaining, but that appear consistent with research in "fairness economics." I conclude with a few thoughts regarding the prospects for linking positive theories of political economy with this ongoing work on fairness.

The Political Economy of International Cooperation

In 1988, Robert Putnam published an article that was to have a profound influence on both political scientists and economists, entitled "Diplomacy and Domestic Politics: The Logic of Two-Level Games." Putnam argued, "The politics of many international negotiations can usefully be conceived as a two-level game. At the national level, domestic groups pursue their interests by pressuring the government to adopt favorable policies, and politicians seek power by constructing coalitions among those groups. At the international level, national governments seek to maximize their own ability to satisfy domestic pressures, while minimizing the adverse consequences of foreign developments" (Putnam 1988, 434).

Putnam further posited that the ability of national leaders to negotiate favorable international agreements depended upon their capacity to win ratification of those agreements within the domestic political context; he defined the set of agreements that were capable of winning such support the "win-set." The size of the win-set depended upon several variables, including the domestic political standing of the leader and her negotiation strategies; the institutional structure of domestic politics and the relative ease of winning ratification; and the preferences and strategies of domestic politi-

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also being explored productively.

The concept of utility was originally posed as a broad concept — too broad to be a firm foundation for rigorous empirical research. One had no way of falsifying an assertion that individuals maximized utility in diverse situations. On the other hand, assuming that utility equals monetary payoffs, which provided a way of testing hypotheses in the field and in the lab, is substantiated in some situations but not in others. Thus, we are now struggling with how to understand the structure of diverse situations and how a specific situation, and the broader context within which it is located, affect preferences, relevant information about other participants, and choices.

In highly competitive situations, the assumption that preferences are primarily related to material payoffs is empirically validated. If you do not pay particular attention to material payoffs in a market or in a highly competitive political setting, you will not be around to gain any utility.

In repeated social dilemmas, however, paying primary attention to short-term, material outcomes is a predicted but suboptimal strategy. Building trust and following norms of reciprocity can lead to higher long-term results. As studied in the field and in the lab, many participants do take a long-run view, adopt norms related to reciprocity, and do better in the long run because of efforts to build reputations and to relate to those who have established trustworthy reputations.[1] We still have a lot of work to do. We need to develop a careful theoretical linkage between specific situations (or games) and the broader context in which they are placed. And, we still need work on the model of individual behavior that can be used across diverse settings. Many candidates are on the books. Some help to explain outcomes in specific types of situation but fail in others. We are making real progress but there is a lot of challenging theoretical and empirical work for all of us – and our graduate students – to stay productively engaged for some time to come.

Do plan to attend our Political Economy panels at the APSA meetings and looking forward to seeing you at our Section Meeting on September 1.

Sincerely,
Lin Ostrom
Chair of the Political Economy Section

[1] Elinor Ostrom. 2005. *Understanding Institutional Diversity.* Princeton: Princeton University Press

MICHAEL WALLERSTEIN MEMORIAM*

Michael Wallerstein, the Charlotte Marion Saden Professor of Political Science at Yale University, died on January 7, 2006 at his home in New Haven. He was just short of his 55th birthday. The cause was glioblastoma multiforme, a brain cancer.

In all of his scholarly endeavors, Michael Wallerstein sought to identify the conditions under which a society can achieve equality, material security, and justice. Deeply committed politically, Wallerstein was never derailed by ideological prejudice. He was the consummate scholar, never satisfied with his own answers. The intellectual puzzles he studied were motivated by some simple facts, and the answers he articulated used rigorous analytic tools. His intellectual influence was both substantive and methodological, thanks to his commitment to using formal and statistical tools of analysis to study important questions within comparative politics and political economy.

Wallerstein was born in Topeka, Kansas in 1951, and raised there and later in Marin County. His undergraduate education took place at Stanford University. He received his Ph.D. from the University of Chicago in 1985. During his graduate career, he crossed the intellectual gulf from Political Science to Chicago's Economics Department of Friedman, Stigler, Becker, and Lucas. His graduate work in both disciplines informed all of his later research.

While still a student at the University of Chicago, Wallerstein collaborated with his dissertation advisor, Adam Przeworski, in the study of the strategies of labor movements under democratic conditions. Their work was motivated by the Marxian puzzle that if workers were to gain political rights in the form of suffrage, they would use these rights to confiscate the rich. Capitalists, in response, would protect themselves by subverting democracy with arms. As a result, capitalism and democracy could not coexist.

Yet of course, they did, and Przeworski and Wallerstein authored a series of path-breaking papers that used formal tools of analysis to investigate why. They found that in a capitalist economy, where decisions to invest are a prerogative of the owners of capital, workers face a trade-off between redistribution and economic growth. Because future income depends on economic growth, it is rational for workers to moderate their redistributive demands. In turn, facing moderate demands, the bourgeoisie not only invests but can also live with democracy. As a result, a "democratic class compromise" naturally emerges, at least as long as everyone is sufficiently patient and the economy sufficiently productive.

Wallerstein's doctoral dissertation, which subsequently generated a series of articles, sought to explain the origin and structure of welfare states in small economies. In the spirit of the day, he observed that small economies could not hide behind trade barriers. In turn, in an economy open to trade, any monopolistic mark-up of wages above the world level would result in unemployment. Moreover, openness makes economies vulnerable to fluctuations in world demand. Hence, Wallerstein showed, small open economies must maintain wage discipline and develop an encompassing system of insurance against external shocks.

Most of Wallerstein's later intellectual life was devoted to the two themes he worked on while still a graduate student ¯ namely, wage-setting institutions and the welfare state. Wage-setting institutions, Wallerstein gradually discovered, depended on the structure of trade unions, while an extensive welfare system required specific political institutions and was encouraged by left-wing partisan control of government. His ultimate aim was to understand "egalitarian institutions": labor market and political institutions that in combination generate egalitarian outcomes and insure from random adversities.

Although Przeworski and Wallerstein's analysis of class compromise was purely theoretical, conducted at the level of "capitalist democracy," it was obvious that the Scandinavian Social Democrats were more successful in advancing the welfare of wage-earners than socialist or non-socialist governments in other parts of the developed world. Thus was born Wallerstein's life-long fascination with Scandinavia, crystallized by the year he spent in Norway in 1989-90, when he began a productive, long-term collaborative relationship with the Norwegian economist Karl Ove Moene.

After completing his graduate education, Wallerstein accepted a position at the University of California at Los Angeles, where he remained for ten years. At the time, the UCLA Political Science Department was in the process of building a strong group in political economy, of which Wallerstein was a central member. He was active in recruitment, and retained close and affectionate ties for the rest of his life with the political economy colleagues he had from his decade at UCLA.

At UCLA, much of Wallerstein's intellectual attention was devoted to empirical research on trade unions and collective bargaining that arose from his earlier theoretical work on wage setting institutions. In articles written in this period, Wallerstein documented empirically that smaller countries have higher rates of unionization and also that more centralized bargaining institutions promote wage restraint and greater wage equality. With funding from the National Science Foundation, he collaborated with Miriam Golden and Peter Lange of Duke University in collecting and assembling a dataset on unions and industrial relations in sixteeen OECD countries from 1950 to (ultimately) the year 2000. The project included coding a now widely-used index of wage bargaining centralization based on detailed information about institutions and labor-market organi-

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Wallerstein Memoriam...continued from page 4

zations in OECD countries.

In 1994, Wallerstein accepted a position as Professor of Political Science at Northwestern University. When he arrived at Northwestern, the department had a strong comparative politics group but only one formal modeler. Wallerstein helped correct the imbalance, and his presence in the department was instrumental in departmental hires over the next several years that attracted a group of young quantitative scholars. Wallerstein also served as Chair of the Department of Political Science at Northwestern between 1998 and 2001, a difficult time for the department that he navigated with a great deal of patience and goodwill.

While at Northwestern, Wallerstein's research broadened to the study of redistribution and inequality. The two rationales most commonly found to justify redistributing income are to alleviate poverty and to provide social insurance. Typically, the literature assumes one or the other motivation and explores its political feasibility and its implications for market efficiency within particular environments. In a series of papers coauthored with Karl Ove Moene, Wallerstein studied the interactions between the two motivations in a common framework. Assuming that individuals make both economic and political (voting) decisions in a self-interested, materially motivated, way, Moene and Wallerstein identified how these two motives interact to determine the mix and levels of policies designed to alleviate poverty and to insure against random shocks. In particular, they explored how changes in economic risk and in the distribution of individual talent, or (equivalently) the initial pre-intervention distribution of expected incomes affect the chosen mix and levels of poverty-reduction and insurance policies.

Their work explained one of the puzzles of redistribution in affluent countries: the welfare state is most generous in countries where wage differentials, before taxes and transfers, are small. To resolve this apparent paradox, they showed, theoretically and empirically, that welfare-state policies are better captured by an insurance logic than by a redistributive logic. Their work showed that in OECD countries, expenditures on social insurance against the loss of income due to unemployment, disability, sickness and occupational injury rise as wage inequality declines.

Moene and Wallerstein worked together on a wide set of issues related to equity and stability of bargaining arrangements. They explained why local worker influence in Scandinavia and elsewhere is due to bargaining rights, and not to ownership rights, in spite of the great interest in worker-owned cooperatives on the part of early leaders of the labor movement. They explained why centralized wage bargaining produced a more egalitarian outcome than local wage bargaining or local worker ownership. They showed why unions affect the distribution of wages among workers far more than they alter the functional distribution of income between wages and profits.

Moene and Wallerstein concentrated much of their research efforts on the challenges that the egalitarian wage compression characteristic of Sweden and Norway (and to a lesser extent the other European countries) posed to economics. In Scandinavia such a solidaristic wage policy was initially adopted in the early 1950s and was pursued steadily for at least three decades. This policy called for the equalization of workers' pretax income by eliminating or reducing the wage differentials that existed between plants within the same industry, between industries, between regions and ultimately between occupations. This is clearly the most dramatic instance of union-sponsored wage equalization in world.

Contrary to what many economists believed, Moene and Wallerstein demonstrated that one consequence of wage compression was higher output per worker without a reduction in employment. Wage compression generated an industrial structure with more investments in modern plants and more rapid abandonment of older plants ¯ a faster rate of creative destruction ¯ than would otherwise exist. Hence, wage equality generated overinvestment rather than underinvestment. Later on they extended the analysis to explain how wage compression led to more generous welfare spending.

In their several studies of the Scandinavian model of social democracy, Moene and Wallerstein insisted that Scandinavian distinctiveness arose from its high level of wage compression in the labor market. Many other features of the Scandinavian countries follow from the policy of wage equalization, including their generous and universal welfare spending and active labor market programs. In their view, Scandinavia is characterized by a set of complementary institutions and policies that fit together. They end by discussing Social Democracy as a development strategy.

In the final months of his life, Wallerstein worked on another set of interactions in the political economy of redistribution and welfare. Rather than consider various policies concerned with redistributing earned income, as he had in the papers written with Moene, Wallerstein turned to the interactions between policies that redistribute opportunities for earning income and policies that redistribute earned income from rich to poor. With David Austen-Smith, Wallerstein wrote a paper that built an equilibrium political economy model in which individuals are distinguished by an educational level and an ascriptive characteristic, such as race. No individual or firm in the model is motivated by any sort of (racial) prejudice. Nevertheless, due to presumed past prejudice, the racial minority is assumed to be relatively disadvantaged educationally as a group; thus the economic prospects of members of this group are less than those of a typical member of the racial majority. The reason for

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ANNUAL MEETING OF THE AMERICAL POLITICAL SCIENCE ASSOCIATION 2006

Detailed Listing of Political Economy Panels

6-1 The Missing Link(s) Between Inequality and Redistribution. Cleavage Structure and Policy Preferences for Public Spending

Date: Thursday, Aug 31, 4:15 PM/Co-sponsored by 14-1

Chair: Michael J. Hiscox, hiscox@fas.harvard.edu, Harvard University

Author(s): The Joint Endogeneity of Inequality and Unemployment, Redistribution and Insurance, and Participation: A Theoretical and Empirical Model, Robert J. Franzese, franzese@umich.edu, Univer sity of Michigan, Ann Arbor

Institutions and Inequality, 1900-2002, Kenneth F. Scheve, kenneth.scheve@yale.edu, Yale University, David Stasavage, ds166@nyu.edu, New York University

Income and Risk: The Political Economy of Redistribution in OECD Countries, Philipp Rehm, pr9@duke.edu, Duke University

How the Insider-Outsider Cleavage Affects Preferences for Public Spending, Achim Kemmerling, Kemmerling@wz-berlin.de, Wissenschaftszentrum Berlin

Discussant(s): Lane Kenworthy, lane.kenworthy@arizona.edu, University of Arizona

Co-Discussant(s): John D. Huber, jdh39@columbia.edu, Columbia University

6-2 Political Competition in Democracies: Measurement and Implications

Date: Friday, Sep 1, 8:00 AM/Co-sponsored by 14-2

Chair: William Roberts Clark, wrclark@umich.edu, University of Michigan

Author(s): Measuring and Explaining Party System Diversity, Matt Golder, mgolder@fsu.edu, Florida State University, Jacek Stramski, js05m@fsu.edu, Florida State University

Political Competition and the Institutionalization of Fiscal Governance, Mark Hallerberg, mhalle2@emory.edu, Emory University

Coddling Consumers: Electoral Competition and Real Price Levels, Mark Andreas Kayser, mark.kayser@rochester.edu, University of Rochester, Drew Linzer, dlinzer@ucla.edu, University of California, Los Angeles

Electoral Competition and Policy Innovation in Advanced Democracies, Jeannette Money, jnmoney@ucdavis.edu, University of California, Davis

Discussant(s): William Roberts Clark, wrclark@umich.edu, University of Michigan

6-3 Accountability and Corruption

Date: Saturday, Sep 2, 2:00 PM

Chair: James L Gibson, jgibson@wustl.edu, Washington University, St. Louis

Author(s): The Causes and Consequences of Fiscal Transparency, James E. Alt, jalt@latte.harvard.edu, Harvard University, David Dreyer Lassen, david.dreyer.lassen@econ.ku.dk, University of Copenhagen

Self-enforcing democracy, or Why Use Elections to Allocate Power?, James D. Fearon, jfearon@stanford.edu, Stanford University

Accountability in Office and Electoral Rules, Jana Kunicova, jana@hss.caltech.edu, California Institute of Technology, Olga V. Shvetsova, shvetso@binghamton.edu, Binghamton University SUNY

The Temporal and Social Foundations of Corruption, Laura I. Langbein, langbei@american.edu, American University, Jongsoon Jin, jongsoonj@hotmail.com, University of Incheon

Does the Lack of Clear Responsibility Hinder Electoral Accountability?, Gyung-Ho Jeong, gjeong@artsci.wustl.edu, Washington University

Discussant(s): James L Gibson, jgibson@wustl.edu, Washington Univer sity, St. Louis

Co-Discussant(s): Jim Granato, jgranato@gov.utexas.edu, University of Texas, Austin

6-4 Power Dynamics

Date: Friday, Sep 1, 4:15 PM

Chair: Rick K. Wilson, rkw@rice.edu, Rice University

Author(s): Valuing Exit Options, Jenna Bednar, jbednar@umich.edu, University of Michigan

Military Competition, Types of Wealth and State Formation: An Agent-Based Model, Carles Boix, cboix@uchicago.edu, University of Chicago, Bruno Codenotti, bruno.codenotti@iit.cnr.it, Istituto di Informatica e Telematica, Consiglio Nazionale delle Ricerche, Giovanni Resta, giovanni.rest@iit.cnr.it, Instituto di Informatica e Telematica

Economic Inequality and Political Power: A Comparative Analysis of Argentina and Brazil, James K. Galbraith, Galbraith@mail.utexas.edu, University of Texas at Austin, Laura T. Spagnolo, lauraspagnolo@mail.utexas.edu, University of Texas at Austin, Sergio Moraes Pinto, slmpinto@gvmail.br, Fundacao Getulio Vargas

A Model of Policy Integration in the Face of Union Enlargement, Nikitas Konstantinidis, nkonstan@Princeton.EDU, Princeton University

Riot Politics: Explaining Violent Conflict in India, 1970-2000, Sunita A. Parikh, saparikh@artsci.wustl.edu, Washington University, Martin Battle, mfbattle@artsci.wustl.edu, Washington University

Discussant(s): Kenneth W. Kollman, kkollman@umich.edu, University of Michigan

Co-Discussant(s): Burt L. Monroe, monroebu@msu.edu, Michigan State University

6-5 Competition and Rent Seeking

Date: Saturday, Sep 2, 8:00 AM

Chair: Randolph T. Stevenson, Rice University

Author(s): Coalitions and Competition: Corporate Lobbying as a Two-Stage Rent Seeking Game, Scott H. Ainsworth, sainswor@uga.edu, University of Georgia, Ken Godwin, godwink@uncc.edu, University of North Carolina, Charlotte

When Mafias Become Governments, Catherine Hafer, catherine.hafer@nyu.edu, New York University

Divided Government and State Elections, Charles R. Shipan, charles-shipan@uiowa.edu, University of Iowa, Rebecca B. Morton, rebecca.morton@nyu.edu, New York University

Politicizing the State or Politicizing the Production Place?: Micro-level Approach to the Study of Rent Seeking Behavior, Olesya Tkacheva, otkachev@umich.edu, University of Michigan, Ann Arbor

Discussant(s): Sebastian M. Saiegh, sms47@pitt.edu, University of Pittsburgh

6-6 Redistribution

Date: Thursday, Aug 31, 10:15 AM

Chair: Robert C. Lowry, Iowa State University

Author(s): Tourism, Development and the Question of Who Gets What, John Andrew Donaldson, jdonaldson@smu.edu.sg, Singapore Management University

Globalization and Redistribution: The Missing Link, Lloyd Gruber, gruber@uchicago.edu, University of Chicago

Taxing, Spending, Red States, and Blue States: The Electoral Politics of Redistribution in the US Federal System, Dean P. Lacy, dlacy+@osu.edu, Ohio State University, Donald P Lacy, lacy.22@osu.edu, Ohio State University

Public School Finance Prior to Serrano, Sarah A. Hill, sarah@caltech.edu, California Institute of Technology, D. Roderick Kiewiet, drk@hss.caltech.edu, California Institute of Technology

Power Resources, Partisan Politics and Income Distribution in the United States, Nathan Kelly, nathan.j.kelly@gmail.com, University of Tennessee

Discussant(s): Brandice Canes-Wrone, bcwrone@princeton.edu, Princeton University

Co-Discussant(s): Scott Adler, esadler@colorado.edu, University of Colorado, Boulder

Detailed Listing of Political Economy Panels

6-7 Institutions and Preferences

Date: Friday, Sep 1, 10:15 AM
Chair: Kathleen Bawn, kbawn@polisci.ucla.edu, University of California, Los Angeles
Author(s): Voting in Context: How Political and Economic Institutions Condition the Economic Vote, Raymond M. Duch, raymond.duch@nuffield.ox.ac.uk, University of Houston
Money Can Buy You Love: Economic Evaluations of Membership of the European Union, Theresa Reidy, t.reidy@ucc.ie, University College Cork
Institutions and International Economic Networks: Firm-level Analysis of Stabilization Mechanisms in Emerging Economies, Marcus Alexander, Harvard University
Consumer Uncertainty and the American Political Economy, Suzanna Linn DeBoef, sdeboef@psu.edu, Pennsylvania State University, Paul M. Kellstedt, kellstedt@polisci.tamu.edu, Texas A&M University
Institutions and the Credibility of Government Promises: Evidence from Survey Data, Stephen J. Weymouth, sweymouth@ucsd.edu, University of California, San Diego, J. Lawrence Broz, jlbroz@ucsd.edu, University of California, San Diego
Discussant(s): Kathleen Bawn, kbawn@polisci.ucla.edu, University of California, Los Angeles
Co-Discussant(s): Guillermo Rosas, grosas@wustl.edu, Washington University

6-8 Economic Performance

Date: Sunday, Sep 3, 10:15 AM
Chair: Elisabeth R. Gerber, ergerber@umich.edu, University of Michigan
Author(s): Military Spending, Investment and Economic Growth: Relaxing the Linearity Assumption, Muhammet Ali Bas, mbas@mail.rochester.edu, University of Rochester
Home Sweet Home: The Electoral Effects of Asset Construction and Acquisition, Jeffrey W. Ladewig, jeffrey.ladewig@uconn.edu, University of Connecticut
Size Matters for Growth: Government Size, Country Size, and GDP Growth, Rob Salmond, rsalmond@umich.edu, University of Michigan
Viva Macao: A Political Economy Model of the Increase in Chinese Peripheral Gambling, Joseph J. St. Marie, jjstmarie@cableone.net, University of Southern Mississippi, Denise K. von Herrmann, denise.vonherrmann@usm.edu, University of Southern Mississippi
The Life-Cycle Approach to Comparative Political Economy, Laron K. Williams, lwilliams@polisci.tamu.edu, Texas A & M University, Guy D. Whitten, whitten@polisci.tamu.edu, Texas A&M University
Discussant(s): Elisabeth R. Gerber, ergerber@umich.edu, University of Michigan
Co-Discussant(s): Karl C. Kaltenthaler, kaltenthaler@rhodes.edu, Rhodes College

6-9 Fiscal and Economic Policy

Date: Saturday, Sep 2, 4:15 PM
Chair: Layna Mosley, mosley@unc.edu, University of North Carolina, Chapel Hill
Author(s): Does Deliberation Matter in FOMC Monetary Policymaking?, Cheryl M. Schonhardt-Bailey, c.m.schonhardt-bailey@lse.ac.uk, London School of Economics, Andrew Bailey, andrew.bailey@bankofengland.co.uk, Bank of England
Explaining Firing Costs: Strong Labor, Economic Shocks and the Dilemmas of Capital, Jose Fernandez-Albertos, albertos@fas.harvard.edu, Harvard University, Dulce Manzano, dmanzano@ceacs.march.es, Juan March Institute
Electoral Rules and Public Finance: Proportionality, Personalism, and Economic Policy, Daniel Max Kselman, dmk10@duke.edu, Duke University
The Individual Sources of Economic Nationalism, Pablo Martin Pinto, pp2162@columbia.edu, Columbia University
Rethinking Economic Reform in Latin America: Multiple Equilibria, Reform Interdependence, and Time, Sarah M. Brooks, brooks.317@osu.edu, Ohio State University, Marcus J. Kurtz, kurtz.61@osu.edu, Ohio State University
Discussant(s): Layna Mosley, mosley@unc.edu, University of North Carolina, Chapel Hill
Co-Discussant(s): David C. Kang, david.c.kang@dartmouth.edu, Dartmouth College

Rosendorff Feature Essay...continued from page 1

the worst possible outcome. In other approaches these punishments are limited in various ways – the number of punishment periods, for instance, is restricted to be small ("tit-for-tat" or "tit-for-*n*-tats" where *n* is some finite number as in Downs and Rocke 1995), or the magnitude of the punishment is fixed (Ethier 2001a), and so on.

Secondly, in all of these cases, for the cooperation under the threat of punishment strategy to be a Nash equilibrium to the repeated trade barrier setting game, the players need to be sufficiently patient. That is, in order for the fear of the punishment to be sufficiently dissuasive, the value that the players put on their returns in the future punishment periods must be larger, rather than smaller, in present value terms.

These two theoretical elements yield two empirical predictions. Firstly, when there are violations of the international trade agreements - "nullification or impairment of rights" in the language of the World Trade Organization (WTO), we would expect to see punishment or retaliation, without failure. And secondly, if there is some mapping from patience to polity, we should see only the more patient polities join trade agreements. Democracies are often described as less patient – executives rarely look beyond the next election or at most the one after that, giving democracies shorter time-horizons relative to other polities. Hence the patience requirement would suggest that democracies are less likely to join international trade agreements that other polities.

Both predictions are grossly violated by the empirical record. Violations where they occur, are rarely, if ever followed by punishment and retaliation. And secondly, democracies are systematically more likely to join trade agreements than are non-democracies. This suggests that the underlying operational understanding of international cooperation – variations on the prisoners' dilemma – is significantly flawed. Or more precisely, theoretical foundations that require punishment and patience as the basis of international cooperation are insufficiently substantiated by the empirical facts.

The Canonical Form

Within the international relations literature, the special is-

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sue of *World Politics* (reprinted as Oye 1986), exemplified the use of the 2x2 normal form structure, where variation across issue areas was captured by varying the payoffs associated with each pair of actions. Games that addressed "collaboration" issues – such as international trade, were described as having a PD structure. From the international trade literature, Johnson (1954) is an early work that characterizes the issues among social welfare maximizing governments when countries have monopoly power in trade, where he showed that the Nash equilibrium in tariff setting yields Pareto inefficient protectionism. With the popularization of the Folk theorem (Rubenstein 1979), it became clear that outcomes on the Pareto frontier were supportable in equilibrium, and one mechanism was by repetition of the one-shot game under the threat of the grim trigger and sufficiently large discount factors. Fearon (1998) provides a recent example where, after a bargaining phase, enforcement of a PD game relies on the severe grim trigger strategy, in which if either player is observed to defect, then both defect forever afterwards.

Retaliation is Rare Following Non-Compliance

It is generally viewed that countries comply with their WTO obligations. Hudec (2002) describes compliance with dispute panel rulings as "good, although it has not always been rapid". Compliance of course, is a tricky thing to measure – the absence of the counterfactual makes for difficult measurement issues. The difficulty associated with attempting to measure how effective the international organizations are in facilitating cooperation lies in dealing with the endogeneity problem. Have the signatories significantly changed their behavior in the presence of the obligation, relative to how they would have behaved absent the IO? Similarly, the relative frequency of compliance doesn't actually necessarily imply deep cooperation (Downs, Rocke and Barsoom 1996, cf. Gilligan 2004). A number of scholars have made serious attempts to address this question, using Heckman selection models (von Stein 2005), examining duration effects rather than selection effects (Przeworski and Vreeland 2000), or using propensity score matching to control for the selection bias (Simmons and Hopkins 2005).

However, non-compliance does occur and is more easily measured. Since the implementation of the revised Dispute Settlement Procedure (DSP) in 1995, the WTO reports 343 DSP complaints, another 198 requests for panels to be formed. The appellate body has issued 65 reports over this period (Leitner and Lester 2006). However, only a few countries (US, EU, Canada, Brazil and Ecuador) have requested authorization to "suspend concessions" (WTO-speak for retaliation) in a handful of cases. As for actual implemented retaliation, the US (together with Ecuador in the Bananas case, and with Canada in the Hormones case) has retaliated against the EU; the EU has retaliated against the US in the Foreign Services Corporation case; and Canada imposed retaliatory measures on the US in the Byrd Amendment case. That seems to be it for actual, implemented retaliation.

Data from the IMF give a similar picture. The Simmons (2000) dataset on compliance with Article VIII requirements of the IMF agreement, a country once it has accepted an obligation not to apply current account restrictions, 350 country-year observations (of a total 1354) are cases of signatories that violate their obligations. Punishment for failure to comply with conditionality under its Article VIII facility is at most an inability to borrow again, but even this is rarely applied.

Retaliation after Non-Compliance is not Punitive

Moreover, punishments when authorized are specifically limited in scope and duration. The WTO applies "the proportionality principle" which limits retaliation to that which restores "balance" to the previously negotiated concessions. This is described as "compensation" – it is specifically not intended to be punitive, and merely attempts to restore any harm done by the violation. Mavroidis (2000) states "there is no room for punitive damages in the WTO context". This limit associated with the level of compensation due is consistent with the WTO's "reciprocity" norm – which in Bagwell and Staiger (1999) serves a crucial function in limiting the use of tariffs to influence the terms-of-trade in the protecting country's favor.

Similarly, and contrary to Maggi (1999), where a system of unlimited punishments from multiple countries is shown to be superior to a bilateral punishment regime, the WTO specifically limits standing and restricts any authority to retaliate only to those member states whose concession have been nullified and impaired by the offending state's actions. An unharmed country has no compensation due and cannot lawfully engage in retaliation (Trebilcock and Howse 1999).

Unlike a grim trigger, or even a tit-for-tat strategy, or a multilaterally imposed punishment, any compensation is restricted from being as large as would be the case when, as these models suggest, withdrawing all cooperation either temporarily or permanently.

Patient Polities

The more accountable to the electorate are the policymakers, the shorter are their time horizons – electoral accountability shortens tenure in office, ceteris paribus. Therefore, we would expect democratic polities to be less patient and therefore less likely to join trade agreements. Much scholarship has shown this expectation to be false – Russett and Oneal (2001), Mansfield et al. (2000, 2002) among others have demonstrated the propensity of democracies to be more frequent joiners of regional and multilateral trading arrangements. Mansfield et al. find that democratic countries are about twice as likely to form a preferential trading agreement as autocratic countries, and that pairs of democ-

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cal actors. To state this as a simple hypothesis: the larger the win-set, the easier it is for a leader to negotiate an international agreement. Conversely, if the players in a negotiation game believe that, say, one of their members is incapable of ratifying any agreement they may reach, her influence among them will be reduced. As Putnam wrote, "Deals can only be struck if each negotiator is convinced that the proposed deal lies within his opposite number's win-set and thus will be ratified" (Putnam 1988, 453).

Putnam's general framework was soon taken up in political economy models of international negotiations, and more specifically in models of international trade policy. Perhaps the best-known of these is the Grossman-Helpman model of trade policy, in which electorally-motivated politicians seek to maximize the following function:

$$V=C+aW,$$

in which V=votes; C=campaign contributions; W=aggregate welfare; and a=a parameter term reflecting the tradeoff between C and W.

Replacing V by the tariff schedule τ, as is the case in trade policy, we can see that

$$\tau=C+aW,$$

meaning politicians seek to impose tariffs that satisfy the demands of industrial constituents while still generating enough welfare to garner the votes needed for reelection.

Given the demand for campaign contributions, all politicians are influenced by special interest groups, and since politicians in every country must respond to these interests, they could easily enter into a vote-reducing trade war (recall that there is a trade-off between campaign contributions and aggregate welfare). This is because industrial sectors make lumpy investments that are profitable only under given tariff schedules and will therefore organize and lobby to retain them; again, politicians face a trade-off between welfare and contributions that could lead to tariffs that are too high from a vote-maximizing standpoint. As Grossman and Helpman state, "By choosing their national policies non-cooperatively, the incumbent politicians impose avoidable political costs on one another," in prisoner's dilemma fashion (Grossman and Helpman 2002, 158). From the Grossman-Helpman perspective, therefore, the very purpose of an international trade agreement, a cooperative arrangement among nations, is to help politicians avoid that prisoner's dilemma trap. Trade agreements thus exist to help satisfy the conflicting demands made upon electorally-motivated politicians.

Grossman and Helpman never specify, however, why an international institution—e.g. the General Agreement of Tariffs and Trade (GATT) or World Trade Organization (WTO)—would be necessary when trade bargaining among nations is efficient; indeed, they take the existence of the GATT and its associated norms (e.g. most favored nation treatment) as a given. But as Bagwell and Staiger point out in an important contribution to the literature, the existence of an elaborate, rules-based multilateral institution—the GATT and its successor the WTO—demands an explanation. What "problem" does the GATT solve that a simple trade agreement does not? And how do the GATT's rules contribute to the organization's maintenance, especially in the face of political pressures to "cheat" on the trade agreements that have already been brokered?

Bagwell and Staiger do not locate the main rationale for creating the GATT qua institution in domestic politics, but instead focus on the international table of the two-level game. They argue that the GATT's establishment by the United States and United Kingdom "may have been motivated in part by a desire to encourage the participation of 'weaker' countries" in the international trading system, meaning those small countries that were "price-takers" vs. the great powers or "price-makers" that could impose optimal tariffs on the rest of the world. They assert, "Recognizing that the governments of smaller countries might fear that they would eventually be 'held up' at the bargaining table, the governments of powerful countries (i.e. the U.S. and Great Britain) effectively committed with a rules-based system not to exploit their weaker trading partners. From this perspective, the selection of a rules-based approach solved a commitment problem (across countries)..." (Bagwell and Staiger, 2000, 6-7).

But Bagwell and Staiger recognize that this institutional structure needed domestic political support, and they introduce the domestic game of trade policy via the GATT's specific norms, namely reciprocity and non-discrimination, or most favored nation (MFN) treatment. As with the international game, politicians also face a domestic commitment problem, but this time to their private sectors. While Grossman and Helpman assert that tariff schedules reflect successful lobbying by industrial sectors, Bagwell and Staiger question the credibility of the politician's commitment to maintaining those tariffs. After all, elections may "throw the bums out," or stochastic economic shocks may lead politicians to reassess their vote-maximization strategies. Conversely, in some countries political institutions may buffer leaders from immediate domestic pressures and provide them with a certain degree of agency, with uncertain consequences for protected industries. For all these reasons, industries may not trust politicians to deliver the tariffs they need to make their lumpy investments profitable.

In examining the GATT's central norms of reciprocity and non-discrimination (via the MFN principle) through the lens of the domestic commitment problem, Bagwell and Staiger demonstrate that the two are, in fact, complimentary and self-reinforcing, rather than contradictory as is sometimes asserted. What reciprocity and MFN combine to give national governments is the politically most effi-

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racies are roughly four times as likely to do so as autocratic pairs.

Explanations within the PD Paradigm

What does the PD paradigm suggest about these uncomfortable empirical regularities? The failure of observed punishment and retaliation suggests four possibilities: either the notion of equilibrium used is inadequate to fully capture key aspects of real behavior; or the information structure needs adjustment, or perhaps even the structure or the payoffs of the game as modeled, are incomplete.

On the equilibrium concept, it has been observed that actually implementing punishment along the equilibrium path is not "renegotiation-proof". Should one country defect, the models prescribe an infinite reversion to the one shot Nash. But the offending partner might make a speech along the lines of "I know I defected, and we can punish each other for ever, which is clearly suboptimal for both of us; alternatively, let's return to the cooperative phase of the game, and continue from there". One possibility therefore, is that after a violation is observed, countries renegotiate a return to the cooperative arrangement. Hence the original threat of infinite punishment is not robust to the possibility of renegotiation.

Formal renegotiations of countries' trade obligations take place irregularly, and are structured not by the pattern of violations, but instead by the launch of specific negotiation rounds. No doubt the topics for negotiation in any round are determined by observed patterns of violations, but it would be a stretch to suggest that renegotiation takes place after every violation. The WTO's DSP does encourage negotiations between signatories in the form of formal requests for consultations – this rarely results in the renegotiation of the terms of the agreement, but rather takes place over the terms and duration of any potential violation, and any potential compensation that might be due. Outside of the trade arena, many agreements (such as the International Coffee Agreement) mandate specific periods of renegotiation – while these too are not scheduled after any violation is observed, it is conceivable that these renegotiation periods are intended to deal with observed violations during the agreements' implementation phase (Koremenos 2002).

Alternatively, the violation might be inadvertent and therefore potentially tolerated or overlooked by the complainant country, pending its remedy. Or the violation may be difficult to observe or identify – for instance the restriction on hormone-fed beef by the EU could conceivably be a legitimate health and safety issue - not a violation, rather than an attempt to protect a local industry - which would be a violation. These informational asymmetries partly address the observed failure to punish.

Changing the structure of the game has also been investigated. Ludema (2001) for instance suggests that introducing a dispute settlement stage in the game with limited and delayed punishments more accurately reflects observed behavior, but leads to less liberalization. Ethier (2001b) suggests one can restrict the game in such a way to limit punishments; he finds the actual practice of limiting punishment "inexplicable" from the point of view of international trade theory.

Perhaps the payoff structure is flawed. Concerns by the larger states that reciprocal punishments and the resulting trade war, while best responses to any defection, may not be in the best interests of the international institution in the longer term. If these states benefit from the longer stability of the system, they may be willing to forgo punishments that would otherwise be applied for fear of damaging the regime more severely. Similarly, the punishments may severely harm the punishing country – after all the punishment is a restriction on trade. Alternatively the punishment may have little effect on a large country – so why bother. It is relatively simple then to alter the payoff structure to reach any particular outcome – but this is far from a satisfying solution.

Adjustments within the PD game focused at the international level have not been very successful at explaining the lack of punishment in the enforcement stage. This leads us to think about domestic politics as the mechanism driving enforcement of a state's international obligations.

Domestic Politics: Driver of Enforcement?

What domestic factors might substitute for punishment at the international level after observed non-compliance? Firstly, a number of norm driven explanations have appeared – countries comply with international law, because the law is to be obeyed, a norm internalized within democracies, and extended across borders (Chayes and Chayes 1995). Democratic polities use law and institutions to settle conflicts rather than power – again a norm that pervades across borders (Doyle 1986).

Alternatively, a number of functionalist arguments that rely on domestic politics as enforcement devices have emerged and these approaches yield predictions more in line with the observed empirical regularities.

A country's willingness to comply with their international obligations may draw from the domestic political consequences of international treaty violations. Moreover, these domestic political concerns are heightened within democracies, providing an explanation as to the observed increased willingness of democracies to be more cooperative at the international level.

It is now well understood since Putnam (1988) that decisions made at the international level – whether to join an international institution, or to comply with the attendant obligations of these IOs — are substantially affected by domestic politics. Domestic politics matters, for instance, for the types and level of trade barriers, the willingness to engage in competitive devaluation, the incentives to respect the intellectual property rights of

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cient tariff offers that they can feasibly obtain, where the "best" tariff offers are those that neutralize the terms-of-trade effects of given tariff schedules (Bagwell and Staiger 2000). Under the MFN norm, every state faces the same tariffs, eliminating the temptation to seek better deals with other countries, while under reciprocity, liberalization only occurs in those sectors where it is politically feasible, as stressed by Grossman and Helpman.

Combined, MFN and reciprocity make multilateral liberalization possible while eliminating any possible deterioration in the terms-of-trade that could come about through unilateral tariff reductions (thus America's preference, as in the Kennedy Round of trade talks for example, for universally agreed upon, across the board tariff cuts, that had neutral terms of trade effects; on U.S. trade policy, see Bailey, Goldstein and Weingast 1997 and Irwin and Kroszner 1999). It is for this reason that Bagwell and Staiger view reciprocity, coupled with MFN, as providing the essential domestic political foundations that support the GATT regime. And the importance of reciprocity is hardly lost on politicians. In a recent speech to the United Nations, for example, President George W. Bush declared that "the United States is ready to eliminate all tariffs, subsidies and other barriers to the free flow of goods and services as other nations do the same" (George Bush, Address to the United Nations, 14 September 2005; italics added).

Because of domestic industrial pressures, reciprocity must be at the core of the international trade regime, for without it liberalization agreements are, quite literally, impossible to achieve. But nondiscrimination is equally crucial, for without it states might seek to achieve better than MFN status from other trading partners, leading to "insidious regionalism"; more on this below. Simply stated, the GATT and WTO embody norms that solve the domestic and international commitment problems that politicians face.

International relations theorists might reasonably question an explanation of the GATT based on its alleged binding of the great trading powers to a set of rules that induced the developing countries to participate in the regime. An alternative explanation, consistent with both a power-based theory of world politics and a political economy view of institution-building, would take a somewhat different tack. One might argue that central to the GATT was its universal and multilateral character, as expressed by the MFN norm. The GATT's purpose of institutionalizing an international trade regime was crucial because postwar economic planners—particularly American planners—were committed to avoiding what McLaren has called "insidious regionalism" with respect to international trade, a specter that still haunts the GATT's successor, the World Trade Organization (McLaren 2002).

Specifically, American exporters (as well as those in, say, Latin America) feared the prospect of a world in which Britain (and, with lesser economic importance, France) continued to maintain far-flung trading networks based on pre-existing imperial preferences. Since importers and exporters within these imperial zones had, over time, made lumpy investments based on preferential tariff schedules between the metropole and its periphery, they could be expected to lobby hard to maintain their protectionist rents against foreign competition, lest the value of their investments be diminished. As a consequence, foreigners would either have to forego trading within the preferential zone or drastically lower their prices in order to compete, twisting the terms of trade against their home nations, which their governments could not abide. In this way, the imperial zones would be "self-sustaining," suppressing the emergence of a truly global trading system. Not wishing to be forever locked out of these economic zones—particularly Great Britain's—Washington pressed hard for the creation and later for the maintenance of a multilateral and universal trade regime of sovereign equals, and the gradual dismantling of imperial preferences, and indeed these zones were not given legal status in the GATT's articles of agreement. This approach to the GATT, it seems, satisfies the demand for a two-level game while reflecting the exigencies of world politics (Kapstein 2006).

To be sure, the "two-level game" approach to international cooperation is not limited to trade policy. In examining international financial regulation, for example, I have similarly emphasized the interplay of domestic and international forces (Kapstein 1994; Kapstein 2005). Private sectors actors have called for international regulation of capital markets because of the possibility that regulatory arbitrage could provide firms from nations with lax standards with a competitive advantage in global markets. Lower bank capital standards, for example, mean that firms can earn less return on assets while still providing a satisfactory return on equity, possibly taking market share from firms that must maintain higher capital levels for domestic regulatory reasons. International financial regulations can serve the purpose of "levelling" this sort of competitive advantage.

To illustrate this point, take the example of the industrial world's response to the debt crisis of 1982. That response was two-pronged, consisting of short-term crisis management and longer-term stabilization measures. The short-term solution was to inject sufficient liquidity into the payments system to ensure its uninterrupted operation. The longer-term plan was to strengthen and recapitalize the international banks, as well as to restructure the economies of the debtor nations, with the help of the International Monetary Fund. Indeed, it was the heightened demand for the IMF's services in the 1980s that would ultimately lead to international cooperation with respect to bank capital adequacy.

The story unfolded in the following way. In early 1983, the Reagan Administration went to Congress to seek an IMF funding increase. But Congress

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foreign firms, or the fixed assets of intentional investors.

Tolerated Escape

Recent work suggests that the international trade regime is designed not merely to facilitate cooperation on trade barriers internationally, but also to deal with domestic political problems faced by policymakers. That is when policymakers are faced with unanticipated, but acute political pressures to protect particular industries, rather than simply having their hands tied by an international obligation, the policymakers prefer to have the option to temporarily appease the domestic political constituency, without excessively violating the terms of the international agreement, or suffering international punishment. Policymakers, accountable to domestic political interests, need to know that the international system permits a degree of flexibility in order for the system to be functional.

A number of recent papers have picked up on this theme of international agreements that permit tolerated defection, without excessive (or even any) punishment. The idea is traced to the legal norm of "efficient breach" – where under unanticipated circumstances a violation of a contract's obligations may be more efficient in a Pareto sense than performing under the contract. In the international trade arena, consider a period in which the political pressure to protect is intense, a country may rescind its precious concessions or undertake some rebalancing of those concessions, leaving both countries no worse off than performing under the contract (Setear 1997). Rosendorff (2005) models this as a game in which a country experiencing extreme, but unforeseen domestic political pressure can choose to temporarily deviate from its low tariff obligations, pay some expected penalty as determined by the adjudication process at the DSP, and then return to the community of cooperating nations in the next period, when political pressure returns to more "normal levels". Fischer and Osorio (2006) expand this analytical approach to show that this result holds even absent any actual compensation (but with verifiable political pressure) – countries permit or tolerate the violation without punishment – specifically because they value the opportunity to renege temporarily in periods of intense political pressure they might experience in the future. In return for that option they tolerate their trading partner's occasional violation. Bagwell and Staiger (2005) also explore this idea but let the compensation vary with the announcement made of the intensity of the political pressure faced by the incumbent government.

This logic of tolerated defection extends to the use of escape clauses in international agreements. Here too, temporary defection, either with or without compensation, is permitted under the WTO's business exceptions (the safeguard provisions, its anti-dumping and countervailing duty codes (Rosendorff and Milner 2001, Bagwell and Staiger 2005). Other exceptions are available too –to protect the health of people, animals and the environment (Article XX exceptions, which must be applied in a nondiscriminatory manner). These exceptions are written into the agreements in order to add flexibility. So governments don't fear retaliation, because their trading partners tolerate their defection.

Notice too, that in order for this mechanism to operate, any compensation or punishment that is actually applied cannot be too severe. Excessive demands for compensation, and too large punitive actions, discourage the use of this temporary escape. While higher penalties may make for more per period cooperation, they risk making the entire system more unstable. This is because the unexpected, but intense political pressure to protect an affected industry, absent any tolerated escape, may induce the executive to abrogate the agreement entirely, challenging the long-term stability of the multilateral system. Tolerated escape solves a domestic political problem as well as making the international system more stable in the long run – at the cost of some per period failures to cooperate. This idea runs counter to the notion of "bindingness" – tighter constraints lead to more cooperation and less defection (Goldstein and Martin 2000), and the more traditional notion that states sign these international agreements to credibly insulate themselves from domestic political pressure especially when they are vulnerable to capture (Maggi and Rodriguez-Clare 1998).

Leader Specific Punishments

An alternative domestic mechanism concerns leader specific punishments. McGillivray and Smith (2000, 2004) argue that the international community does not tolerate defections per se, but it leaves the punishments up to the domestic polity. Punishment is domestic rather than international in source. While their version of the PD relies ultimately on the threat by the foreign country to penalize the violating country, the threat of punishment is targeted not against the violating country, but instead, is targeted on the leader. The threat to punish remains in place as long as the leader is in office. Should the domestic polity remove the leader after a violation of the international agreement is observed, no punishment is required in equilibrium. Hence punishment is imposed domestically by the polity rather than the international system.

Again, it is democratic polities that are more likely to remove offending leaders from office, and hence the promise to cooperate is more credible when it comes from electorally accountable leaders. While McGillivray and Smith (2004) focus on trade volumes rather than on accession to or compliance with international trade agreements, a similar logic suggests we would expect to see more democracies credibly join international trade agreements.

The voters in this approach remove a policymaker in the instance of a violation because if they do not do so, the foreign country will punish. Mansfield et

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excluding prejudice is not that this is necessarily realistic, but that it permits identifying how (*ex post*) fiscal redistribution and (*ex ante*) affirmative action policies interact through the purely economic incentives facing people in society: different mixes of policy induce different incentives to create employment opportunities and different wage-schedules in the market, which in turn affect individuals' preferences over the policy mix itself. Among the results of Austen-Smith and Wallerstein's model are that the expected level of fiscal redistribution is lower when affirmative action is an available policy instrument relative to when it is not and that the skilled majority and the racial minority gain at the expense of the less skilled from having affirmative action available as a policy instrument.

It is characteristic of Wallerstein's research that he first eschewed invoking features such as altruism (although he certainly explored such motivations) and racial prejudice to build explanations for redistributive politics and economics. To do so up front, he felt, was to pre-judge what it was that really mattered for what we observe in the world. He preferred first to explore what happens in a world of purely self-interested and economically rational individuals. Doing this exposes the limits of such arguments when juxtaposed with the empirical world and reveals more clearly exactly what has to be included to provide adequate explanations for what we observe. This is a demanding program, and it is a testimony to Wallerstein's scholarship and intellect that he persisted in pursuing dispassionately when exploring issues on which he held strong normative convictions.

The last paper Wallerstein wrote prior to his death, coauthored with Miriam Golden, was an empirical study of the determinants of wage inequality in OECD nations over two decades. The authors show that whereas in the 1980s strong unions and centralized bargaining structures protected workers from widening inequality, in the 1990s these institutions lost their effectiveness. Instead, trade with less developed countries erodes wage equality in the final decade of the century. Even while completing that paper, Wallerstein was actively making notes for further empirical research on inequality.

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al. (2002) also relies on domestic punishment as a mechanism for facilitating international cooperation, but the mechanism is an informational one. Here, voters are less than perfectly informed about the policies chosen by their leaders; and low tariffs, and compliance with a international agreements signal a well-behaved, less extractive and responsible government. Should a leader violate its obligations under the treaty, the international system does not punish; it merely signals to the domestic polity that the leader has violated its obligations and behaved in an extractive manner. Voters will condition their reelection rule on this information, and punish agreement violators by removing them from elected office. The international institution plays an important information-enhancing role. Dai (2005) dispenses with international punishment entirely – two interest groups try to influence the degree of compliance in opposite directions, with the better informed and politically stronger group exacting policy (which might mean more or less compliance). This model is less about compliance and more about policy choice under conflicting electoral demands. Leeds (1999) also relies on domestic punishment for international violations – here there are domestic audience costs (Fearon 1994) when a leader defects; this of course assumes the existence of audience costs, presumed more intense within democracies. More compelling, Leeds, consistent with Bhagwati (2002), Ludema and Coates (2001), Mitra and Krishna (2005), argues that over time, the existence of the agreement creates and strengthens the political influence of groups with an interest in continued compliance. Both effects make international punishment less important relative to the costs imposed by domestic groups for facilitating compliance.

Conclusions

While the analytical approaches considered here focus on domestic enforcement of international agreements, there is also a considerable literature that focuses on the role of domestic politics at the negotiation stage. For instance, Martin (2000) argues that institutionalized participation by the domestic legislature at the negotiation stage makes for more cooperation later. Milner and Rosendorff (1996) show how domestic ratification in the presence of incomplete information and divided government can significantly affect the nature and likelihood of the agreement that is bargained to. Overall, the resurrection of the PD paradigm depends on appealing to domestic considerations for both flexibility and enforcement rather severe international retaliation. This result is perhaps surprising. Yet the predictions are more consistent with the observed regularities than are those drawn from models that rely on international punishment for enforcement. This approach also serves as a response to those who would toughen WTO penalties, make punishment more stringent, and increase the power of the DSP. Emerging results suggests that these may not be necessary and even perhaps counterproductive.

[1] Many thanks to Marc Busch, John Odell, Lawrence Broz and Bill Bernhard who provided enormously helpful advice and suggestions.

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insisted that minimum capital levels be placed on large commercial banks, in order to force those with equity positions to share the pain of the debt crisis bailout with American taxpayers. For their part, the bankers responded that any unilateral increase in their capital requirement would make them uncompetitive with foreign banks, particularly Japanese banks, which held relatively low levels of capital. The solution that Congress hit upon was to demand international convergence of bank capital standards, and in fact the legislation that contained the IMF funding increase also included a demand that American financial supervisors pursue such convergence at the international level. This provides a perfect example of the "two-level" nature of financial cooperation. After several years of negotiations, the Basel Committee of Bank Supervisors, housed at the Bank for International Settlements in Switzerland, announced that its members had reached agreement on a proposal for "international convergence of capital measures and capital standards." This agreement, now known as "Basel I" but then called the "Basel Accord," promoted the globalization of risk-based capital standards; it is this agreement that is currently being revised in the heavily politicized "Basel II" process (Kapstein 2005).

In both these examples of trade and financial policy, politicians are assumed to possess only limited agency and international agreements reflect the "art of the possible" or win-set given the power of domestic interest groups. Still, in these models there are nonetheless welfare or efficiency gains to be had from such international agreements, consistent with the view that electorally-minded politicians must attract votes as well as campaign contributions. Some analysts, in contrast, would counter this view and argue that international agreements are purely redistributive, in that special interests in the United States are able to exploit the power of the American state to advance their profit-maximizing objectives (see, for example, Krasner 1991; Nabors and Oatley 1998). As we will see, the empirical record suggests some reason to cast doubt upon political economy models that solely emphasize the redistributive character of international arrangements.

Fairness and International Cooperation

A major question in contemporary social science theory concerns the definition of an agent's "interest." Political economists, for example, tend to adopt as one of their cornerstones the microeconomic assumption that agents "are exclusively motivated by their material self-interest," where materiality is usually defined in terms of power, wealth, or security (Fehr and Schmidt 2001, 4). While the "self-interest" hypothesis has undoubtedly promoted the establishment of positive research programs in many fields of social science, including international relations and political economy, its limitations in explaining both individual agent behavior and collective action have attracted increasing attention from scholars in disciplines ranging from biology to economics (Ostrom 1998).

Experimental research shows that in many strategic interactions, agents do not pursue a strategy of maximizing their own short-term payoffs, as both microeconomics and much of international relations theory would predict, but instead demonstrate an "other-regarding" concern for the payoffs that each player receives (Frohlich, Oppenheimer and Kurki 2003; Orbell 2005). In short, agents reveal a preference for outcomes that they believe to be equitable or fair.

To appreciate the analytical limitations associated with the rational or prudential actor model as commonly conceived, let us reconsider the mainstream accounts of international cooperation. As noted at the outset, international relations theorists often argue that states build institutions in order to help them overcome collective action problems. In the absence of such cooperation, states will act like players in a standard Prisoner's Dilemma game, egoistically pursuing strategies that, ironically, undermine their own social welfare. Arms races, trade wars, and environmental devastation are among the tragic outcomes associated with the maximization strategies that states pursue. Luckily for international cooperation theory, however, scholars assume world politics to be an "iterated" Prisoner's Dilemma game, at least in many issue-areas, in which infinite interactions may lead agents towards the adoption of "nice," tit-for-tat strategies (Axelord 1984).

In making its claims about international cooperation, mainstream theory has tended to draw support from a (very) few game theoretic models. An alternative approach would begin by broadening the game-theoretic foundations of the international institutions research program. For example, international relations theorists have not made much use of bargaining models like the Ultimatum Game (UG), which has been extensively tested by experimental economists and other social scientists. As we will see, the UG has opened up new ways of thinking about strategic behavior, with potentially profound implications for international relations theory. Most importantly, it has led to the finding that moral reasoning seems to make a difference to the achievement of mutually beneficial outcomes.

Under the one-shot, two persons UG, a Proposer (P) and a Respondent (R) have the opportunity to divide a sum of money. P makes an offer to R, who can either accept it or reject it. If R accepts the offer, P and R divide the money according to P's proposal. If R rejects the offer, however, both P and R must walk away from the table empty-handed, so that neither of them wins any money at all.

The classic, rational actor model of homus economicus would lead us to predict that P would make R a lopsided distributive offer of, say, 99/1; that is, the Proposer would offer the Respondent 1 monetary unit, while keeping 99 units to

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herself. For the profit-maximizing agents in this one-shot game, 1>0 so both P and R are made better off even by this "egoistic" division. Maximization strategies, therefore, lead to very unequal divisions of the pie.

But experimental economists, repeating the UG in a variety of countries and under a variety of conditions, have observed a puzzling result. As Nowak, Page, and Sigmund report, "Obviously, rational responders should accept even the smallest positive offer, since the alternative is getting nothing. Proposers, therefore, should be able to claim almost the entire sum. In a large number of human studies, however, conducted with different incentives in different countries, the majority of proposers offer 40 to 50 percent of the total sum; and about half of all respondents reject offers below 30 percent" (Nowak, Page and Sigmund 2000, 1773). Experimental economists Ernst Fehr and Simon Gachter describe R's rejection of P's offer as an example of "negative reciprocity"; that is, an offer that is perceived by R to be unfair is answered with rejection (Fehr and Gachter 2000). In contrast, fair offers by P and their subsequent acceptance by R provide an example of what they call "positive reciprocity."

We can draw at least three significant findings from the Ultimatum Game, each of which is potentially relevant to the study of international cooperation. First, P adopts moral reasoning or other-regarding behavior in its own short-run self-interest. Proposers who don't care about what others think must nonetheless fear rejection of an "unfair" offer by R and the absence of any payoff whatsoever. The adoption of other-regarding preferences is therefore efficiency enhancing, to the extent that it leads to an agreement and thus an increase in welfare for both of the agents. And as we can see, there is no need to assume altruistic behavior, "enlightened self-interest," or normative change in order to understand the presence of moral reasoning in a bargaining situation.

Second, the Proposer's concern with achieving an equitable or fair result arises in part from uncertainty about how R will respond to its offer. If P knows that R will willing accept a greedy offer, P will be much more inclined to propose a lopsided division. Not knowing R's response ex ante, P offers the amount it intuitively considers to be fair; more on this below.

Third, and contrary to mainstream cooperation theory, the UG suggests the possibility of cooperation or positive reciprocity even in the context of a one-shot game; it relies neither on iteration nor hegemony. To be sure, iteration may be helpful to cooperation, but it is not a necessary condition. Among other things, this suggests the need for international relations theorists to examine a broader class of games beyond those framed by the Prisoner's Dilemma and its offshoots.

The UG, of course, represents an imperfect model of world politics. Political agents are rarely in one-shot settings and actors often have outside options which alter the nature of the bargaining game. Still, as a metaphor for international bargaining, the UG should not be dismissed too quickly. The sharp distinction it draws between maximization and other-regarding strategies offers a potentially useful framework for exploring how and why cooperative arrangements, arrangements of mutual advantage, may be reached.

Uncertainty about the other's behavior might play a role in drawing agents towards a focal point at which cooperative interactions are more likely to occur. That is hardly an original observation (Schelling 1960). As Koremenos, Lipson and Snidal have recently pointed out, states face "uncertainty about the state of the world," and they correctly intuit that this uncertainty "may...make cooperation easier" (Koremenos, Lipson and Snidal 2001, 778). However, they do not take the next step and provide us with a theory of why that might be the case.

Let us explore that question from the perspective of a simple political economy model. Consider the plight of a wealthy agent, who fears for the safety of her income and assets in the face of stochastic economic shocks that create, say, widespread unemployment, dislocation, and political turmoil. The ensuing chaos could lead to asset expropriation in one form or another (e.g. through street violence, or a change of government that seizes assets) and the consequent loss of the agent's wealth. Faced with this threat, a rational agent—who would probably vote against most tax increases if she could insure against all downside risks—may well vote for redistributive fiscal policies, such as social safety nets, as an insurance policy against the threat of expropriation in the event of such shocks (Acemoglu and Robinson 2006). These social policies are meant to satisfy the masses during hard times and prevent them from stirring things up. The important point is that in this case our agent, out of her narrow self-interest, reveals (in the presence of uncertainty) a preference for redistributive measures that benefit others.

Beyond political economy, we may also draw upon a prominent example from political philosophy—namely Rawls's theory of justice—in which stochastic uncertainty plays a significant role in shaping the terms of social cooperation. It will be recalled that, in A Theory of Justice (1971), Rawls posited an "original position" in which a group of "representative individuals" meet from behind a "veil of ignorance," knowing nothing about their assets and liabilities, but with a charge to create enduring principles and basic structures for their social interactions and institutions. Rawls thus sought to explore the model of social cooperation that emerges when actors face uncertainty about their own future payoffs.

Behind their veil of ignorance, Rawls asserted that each agent would become highly risk-averse with respect to her future circumstances. The agents would imagine the changing life circumstances that could confront them or their children,

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and they would seek insurance against the downside risks they might face. Each of these agents—including those who are now healthy or rich—recognizes the possibility that, as the time horizon lengthens, she or her descendants may someday need to rely upon communally provided public goods, say social or medical services.

One principle that emerges from this mental exercise is a "difference principle," that maximizes the level of "primary goods" provided to those who are least-advantaged. For Rawls, as with the political economy model of taxation, the difference principle "is of mutual benefit…The social order can be justified to everyone, and in particular to those who are least favored..." (Rawls 1971, 102-103). In so doing, it contributes to social stability. Interestingly, Rawls's findings also draw some support from game-theoretic analysis, which has shown that when "risk dominates...the fair strategy will supersede the reasonable one in the long run (Nowak, Page and Sigmund 2003, 1773)."

What is the relevance of this line of analysis for international cooperation theory? Again, it suggests that uncertainty about the behavior of others may play a significant role in shaping the negotiating strategies of state actors. Returning to the Bagwell-Staiger explanation of the GATT, if great powers knew with certainty that small states had no outside or exit option to quit an agreement, or would never muster enough force to overturn the status quo, they would probably be less likely to adopt other-regarding preferences in their negotiations and seek agreements that all sides view as "fair"; more on this below. Keohane does not cite Rawls but makes a similar point when he writes of international cooperation, "In such international regimes, actors recognize that a 'veil of ignorance' separates them from the future but nevertheless offer benefits to others on the assumption that they will redound to their own advantage in the end" (Keohane 1986, 23).

The argument that emerges out of game theory, political economy, and social contract theory, therefore, is that, in the presence of uncertainty about the future (or "stochastic uncertainty") moral reasoning or other-regarding considerations may be crucial to the establishment of cooperative arrangements—arrangements that are deemed by all parties to be of mutual advantage. These fairness considerations help to broker successful negotiations and promote the stability of the agreements that have been reached. In the next section, I examine the role of fairness in the case of the trade regime, before turning to some of the consequences of this literature for modern political economy.

Fairness and International Trade

Recent years have seen widespread accusations over the alleged "unfairness" of the global economy. But in an international trade regime composed of great powers and small states, the presence of unfairness should hardly come as a surprise. International economists have long noted that great powers have the capacity to impose optimal tariffs on the rest of the world so as to shift the terms of trade to their advantage. Economic models demonstrate that, under these asymmetric conditions, small states would actually transfer income to great powers via their trade arrangements.

If great powers can extract rents from the international system, do they act as rational maximizers and actually do so in their commercial relations? I examine this question in the context of the "Uruguay Round" (UR) of trade negotiations during the 1980s that ultimately led to the transformation of the GATT into the World Trade Organization (WTO).

On the basis of her interviews with trade negotiators, Albin found that "fairness and justice issues" were deeply embedded in the UR trade talks. She asserts these issues "concerned the structure of the talks…the process and procedures…and the outcome…"(Albin, 108-109). Similarly, in their interviews with trade officials, a trio of World Bank economists found that "a sense of fairness, of appropriate contribution, was an important concept" during the trade round, which helped bring it to a successful conclusion (Finger, Reincke and Castro 1999). Examining the earlier "Tokyo Round" trade talks of the 1970s, Chan had already detected similar sentiments among trade ministers, stating that "egalitarian considerations" were "important" to the international negotiations. Indeed, Chan states that these considerations were so significant that they led the ministers to adopt a tariff-cutting formula—the so-called "Swiss formula"—that reflected the interests of all the parties to the talks, and not just the great powers, the United States and European Union, who in fact had advanced different liberalization schemes (Chan 1985). Again, Chan argues that the U.S. and E.U. restrained themselves in the interest of winning an international agreement.

Fairness considerations emerge in sharp relief when compared to the counterfactual or alternative outcomes the Uruguay Round might have reached. Elaborating on the work of J. Michael Finger and his colleagues at the World Bank, we can analyze the Round from a mercantilist or power-oriented perspective—the traditional political economy approach to trade policy—and from a moral reasoning perspective, or what I have called "fairness economics" in the previous section (Finger et.al. 1999). To put this in terms of hypotheses about the negotiations:

H1: The mercantilist interests of the great trading powers, the United States and the European Union, shaped the Uruguay Round. Therefore, the United States and European Union adopted tariff policies that enabled them to extract more concessions from the world than they gave.

H2: The Uruguay Round was influenced by moral reasoning. Therefore, in the interest of promoting a trade agree-

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ment of mutual advantage, the United States and European Union restrained their mercantilist impulses and negotiated a balanced agreement from which all parties benefited.

The first hypothesis H1 reflects the classic political economy or mercantilist theory of trade liberalization. As Paul Krugman has neatly put it: "To make sense of the trade negotiations, one needs to remember three simple rules about the objectives of negotiating countries:

1. Exports are good.
2. Imports are bad.
3. Other things equal, an equal increase in imports and exports is good" (cited in Bagwell and Staiger 2000, 9).

This motivation means that governments will seek to extract the most concessions possible from other states in terms of market opening; it is in this sense that trade policy is mercantilistic, or driven by the logic of relative gains. When governments of more or less equal economic power negotiate over trade liberalization, however, they will find equilibrium in something like strict reciprocity or equivalent access. Only by offering up equal "concessions"—by adopting a trade liberalization strategy based on strict reciprocity—is market opening politically feasible in this case.

As the mercantilist or wealth-maximizing hypothesis suggests, trade negotiators from the United States and European Union would seek to extract the most concessions possible from smaller states. That is a feasible bargaining strategy because of the economic importance that market access to the U.S. and E.U. means for exporters from developing countries. For mono-cultural exporters of commodities like coffee, tea and cocoa, exports to the big industrial markets are literally a matter of life and death. The U.S. and E.U. are thus in a strong position to demand extensive market liberalization from small states in return for limited market opening, perhaps only for products that simply are not grown in these regions, like tropical agriculture. We would thus expect developing countries to offer significantly greater concessions to the U.S. and E.U. then they receive in return from them.

The second hypothesis H2 yields a very different set of predictions. In this case, trade negotiators from the great powers are modeled as actors with multiple objectives, including, say, the promotion of international peace and stability, and maintenance of the status quo set of political and economic arrangements. These considerations require the moderation of their mercantilist appetites, and take into account the interests of others. In particular, they demand that negotiators seek a trade outcome that all parties, including small states and developing countries, view as equitable. Should these states view the international trade regime as being fundamentally unfair and as working against their interests, they will have no reason to support it, and may, someday, seek to withdraw from the system if not actively overturn it. In this case, we might expect the U.S. and E.U. to offer substantial market access to small states, in return for only a few concessions.

As a crude test of these arguments, Table 1 provides the monetary value of the concessions received and concessions given by the European Union and the United States during the Uruguay Round, and by a group of developing countries for which data are available. As can be seen, both the U.S. and E.U. gave up more concessions than they received from the rest of the world; among developing countries, only India and Thailand gave up more concessions than those received, in part because of the highly protectionist regimes that they were beginning to unwind in favor of market liberalization. The evidence would suggest that purely mercantilist considerations did not determine the outcome of the Uruguay Round of trade negotiations.

These findings pose a puzzle to political economists who emphasize the redistributive aspects of international agreements. That approach overlooks the possibility that great powers prefer to "buy-in" small states, to expand the coalition, rather than leave them outside the system and dissatisfied. As noted above, that approach is consistent with both fears of "insidious regionalism" and Bagwell and Staiger's emphasis on the GATT as a commitment device.

To be sure, this does not mean that the international trading regime can be considered fair or just or equitable. Industrial world protection of its agriculture, for example, is viewed by developing countries as a profound source of unfairness in the structure of global trade, impinging in significant ways their long-run growth prospects. The more modest point is simply that fairness considerations may have had some influence on trade negotiations by restraining the mercantilist or rent-seeking appetites of the United States and European Union, in the interest of securing a deal that all parties could accept.

Conclusions: Toward a Political Economy of Fairness

Theories of international cooperation based on (1) political economy models and (2) fairness economics appear to yield different predictions about outcomes. When it comes to international trade, for example, political economy models expect electorally-motivated politicians to set tariff schedules in a purely mercantilist fashion, while the implication of fairness economics is that those appetites will be restrained in the interest of striking a multilateral deal. Is there a way to reconcile these approaches in a way that generates a positive research agenda?

One rather modest suggestion would be for political economists to broaden our view of what constitutes politically-active "interests" beyond economic organizations like firms and peak associations. And here we might profit by following the lead taken by

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international relations theorists whose concerns are primarily normative. Kathryn Sikkink, for example, has provided a detailed process-tracing of the role of non-governmental organizations in influencing the World Health Organization (WHO) to adopt a code of conduct for the marketing of infant formula; this followed a scandal involving Nestle's hard sell of formula in developing countries where mothers lacked access to clean water (Sikkink 1986). More recently, Martha Finnemore has examined the role of norms and "norm entrepreneurs" in shaping the policy priorities of the World Bank and other development institutions (Finnemore 1996). Although this work addresses the problem of international cooperation from a normative stance, its value in promoting a positive research agenda in political economy should be apparent as well.

By expanding its definition of interests to incorporate, inter alia, non-governmental organizations that seek normative change in world politics, political economy might stay true to its modelling approach while enriching our understanding of the outcomes of international negotiations that we observe in practice. As already stated, these outcomes do not necessarily correspond to the predictions of political economy models, and indeed even Grossman and Helpman have observed that empirical support for their trade policy framework is hardly overwhelming; specifically, trade is freer than they would expect (Grossman and Helpman 2002).

Trade policy certainly provides a rich setting for a broader analysis of politically-active interest groups. In recent years we have witnessed non-governmental organizations like Oxfam or umbrella groups like Make Poverty History lobby industrial world governments—where their membership lives and, more importantly, votes—on behalf of developing countries, say with respect to the liberalization of agriculture trade. A congressman living in an urban or university district where such organizations are active and well-funded by the local Yuppie, Bobo or student population may have as much political interest in adopting the preferences of the groups that represent these voters as she does those of a sunset industry that seeks continued tariff protection. Yet these groups have, to date, been the object of little positive analysis by political economists. In future, joining the political economy and normative research agendas through the study of how non-economic special interest groups wield their political muscle could yield theoretical and empirical benefits for all, further illuminating our understanding of the origins and scope of international cooperation.

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TABLE 1

Concessions Given and Received During the Uruguay Round ($MM)*

Country/Region	Concessions Received	Concessions Given	Net Concession
European Union	578816	627939	49123
United States	214791	283580	68789
Argentina	6331	0	(6331)
Brazil	38037	98	(37939)
Chile	3291	0	(3291)
Colombia	6323	81	(6242)
India	14380	67172	52792
Indonesia	16222	3355	(12867)
Malaysia	36108	28966	(7142)
Mexico	960	3	(957)
Peru	1586	58	(1528)
Philippines	19748	12847	(6901)
Sri Lanka	1595	33	(1562)
Thailand	20564	95953	75389
Uruguay	772	6	(766)
Venezuela	2051	806	(1245)

*Concessions Received and Given are calculated as the anticipated value of the tariff cuts in millions of dollars.
Soure: Finger, Reincke, Castro 1999

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GENERAL ANNOUNCEMENTS

POLITICAL ECONOMY SECTION SEEKS NOMINATIONS

The American Political Science Association's Section on Political Economy seeks nominations for Chair of the Section, and three Council seats. The Chair is primarily responsible for appointing PE Section Committees, interacting with members on issues as they arise, and running the PE Section's business meeting at the APSA annual meetings.The Council's primary function is to provide advice to the Chair and assist in decision making regarding the activities and resources of the Section. It is desirable that the Chair is or has been a member of the Section. Nominees for the Council should be doing research broadly in the areas of Political Economy and be willing to join the Section if they are not already members.

Please have your nominations to the Chair of the Nominating committee, Beth Simmons (bsimmons@latte.harvard.edu), by July 15. Please note in your subject line "SOPE nomination".

SOUTHERN POLITICAL SCIENCE ASSOCIATION CONVENTION

Dear Colleagues:

If you will be attending the Southern Political Science Association convention in New Orleans this January, please consider submitting a proposal, volunteering to chair a panel, or serving as discussant on a panel related to political economy. I am still looking for presenters, chairs and discussants for the "Money and Politics" section, and I welcome your participation. Please don't hesitate to contact me directly if you are interested.

Irwin L. Morris, Associate Professor and Director of Graduate Studies, University of Maryland
tel. 301-405-8633/fax. 301-314-9690

THE POLITICAL ECONOMIST '06

WILLIAM RIKER AWARD ANNOUNCEMENT

BEST BOOK IN POLITICAL ECONOMY PUBLISHED DURING THE PAST YEAR

Report of the committee to choose the William Riker Prize for the best book in political economy published in 2005. Carles Boix (University of Chicago), Laura Langbein (American University) and Stanley Winer (Chair, Carleton University).

The committee received 43 books for consideration. It is a substantial task to review such a large collection of books, many of which are obviously the result of years of productive research. And it is difficult to make a thoughtful choice from among the top half-dozen, in large measure because the field of political economy today is so wide.

This year we have chosen to single out three books, two 'runners up' and a winner. The runners up, in alphabetical order by first author are:

James F. Adams, Samuel Merrill III and Bernard Grofman, *A Unified Theory of Party Competition: A Cross-national Analysis Integrating Spatial and Behavioral Factors*, Cambridge University Press, 2005,

and

David Austen-Smith and Jeffrey S. Banks, *Positive Political Theory II: Strategy & Structure*, The University of Michigan Press, 2005.

A Unified Theory of Party Competition by James Adams, Samuel Merrill and Bernard Grofman is a substantial contribution to our understanding of party competition in the national elections of advanced democracies. The emphasis in the book is on how particular aspects of voter behavior - especially non-policy motivations, discounting of political promises and abstention from alienation - affects the choice of equilibrium party platforms and the degree of platform convergence, with applications to elections in countries with quite different types of electoral systems (the U.S, Norway, France and the U. K.). It blends selected aspects of a behavioral approach to the study of elections with probabilistic spatial voting theory, where the focus is on how parties compete by choice of policy platforms when voters sincerely choose on the basis of which party platform is 'closer' to their ideal point. The innovative contribution of the book is its use of the results of standard regressions predicting voting behavior based on national election studies as inputs into an algorithm that generates synthetic equilibrium policy positions in a Nash electoral equilibrium. The simulations illustrate how incorporation of the selected behavioral aspects of voting allows improved understanding of party positioning in several different electoral systems. The writing is crisp and clear. We expect many researchers will want to apply the methodology developed here to other countries and electoral situations.

Positive Political Theory II by David Austen-Smith and Jeffrey Banks is an elegant and thoughtful synthesis of the body of positive political theory that is concerned with how preferences are indirectly aggregated into collective choices through strategic behavior of voters and political parties. Like the contribution of Adams, Merrill and Grofman, it is a second volume in a larger research enterprise. This book will become a well used reference for researchers, and may also be used as a high level text book for very advanced graduate students. (Each chapter comes with an exercise section and suggestions for further reading.) The scope of the book is wide, covering strategy proofness, agenda setting, legislative bargaining, multi-candidate elections and the logic of electoral competition and legislative bargaining under proportional representation, among other topics. (Readers will find it interesting to juxtapose the chapter on two-candidate elections and probabilistic voting with the treatment of these topics in *A Unified Theory*.) The short discussion sections in each of the chapters are helpful, and include rather pointed views about the future of various aspects of the literature, views which are expanded upon to some extent in a final chapter. The synthesis of theory culminates in an elegantly stylized model of electoral competition and legislative bargaining under proportional representation, in which the often repeated claim that PR generates 'more representative' policy outcomes is seriously challenged.

The book on political economy chosen for the prize this year is of a different sort. It is:

Understanding Institutional Diversity by Elinor Ostrom (Princeton, 2005).

Understanding Institutional Diversity is a rich, almost sprawling book devoted to understanding how institutions frame and shape individual actions and collective outcomes. Elinor Ostrom, with the co-authorship of Sue Crawford in two chapters,

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offers a powerful critique of the existing institutionalist literature immediately followed by a sophisticated theory of human behavior which combines the insights of rational choice with a fuller account of how individual think, decide and act in the context of different institutional settings . This theory is then examined in the light of the experimental and qualitative research done on collective actions problems. We are delighted to give the 2006 William Riker award for the best book in political economy to a work that culminates a life-time effort devoted to the study of human interaction and cooperation. We are convinced that this book will energize the dialogue that the community of political scientists and political economists are sustaining over how to understand and model human behavior and social life.

Neoinstitutionalism has become a central paradigm in the study of politics in the last thirty years or so. Political scientists, political economists and, increasingly so, economists have come to acknowledge that institutions (in all their variety) play a central role in structuring individual actions and in explaining outcomes as different as electoral and legislative results, levels of social mobilization, the likelihood of violence, the size of the state and the rate of economic growth. The process of establishing institutions as a key variable to explain political and economic outcomes has not been a particularly easy or peaceful one, however. It is true that institutionalists have not had to fight any hard battles with non-institutionalists. Yet, since its very moment of inception, institutionalism itself has been internally divided by wide faults. The causes of these divisions are, as we all know, many. Scholars working in the institutionalist tradition espouse different conceptions of institutions, stretching from institutions as mere constraining devices to norms shaping preferences. They continue to quarrel over the nature of human behavior, which for some is sufficiently covered by the assumption of individuals as 'rational egoists' while others urge us to consider agents endowed with substantive rationality. And they disagree over the way in which collective outcomes derive from human acts: through pure aggregation mechanisms, as a result of strategic interaction, or even from discursive activities in certain institutional settings leading to preference formation and change.

It is in this context, marked by a lively yet somewhat fractious debate, that *Understanding Institutional Diversity* makes an important contribution. With the goal of furthering our understanding of the operation of the political and economic arenas, it offers a systematic, broad yet unified reflection on how institutions operate and how they shape human action. Ostrom's book is an unabashedly institutionalist book. It accepts the central tenets of that approach: the assumption of methodological individualism, the conception of individuals as rational agents intent on maximizing, the concept of strategic interaction, and the validity of mathematical reasoning to model individual action. Still, Ostrom promptly recognizes, in a delightful discussion of the most recent experimental research on trust games and common dilemmas, that the rationalist paradigm, as it stands, only explains part of human behavior and social outcomes. To put it in the book's term, the first-generation of rational choice, and its concept of individuals as 'rational egoists' "was a satisfactory scholarly strategy for many years when explaining behavior in highly competitive market settings where one could implicitly equate utility with profits." (110) Yet, it ceases to do so once we proceed to consider other arenas of social interaction.

Thus, the book moves on to expand the foundations and, therefore, the explanatory capacity of the existing institutional model. This is done in the central part of the book in two important ways. First, Ostrom engages in a sophisticated discussion on how to rethink the assumptions underlying human behavior and the patterns of human choice. She dwells at length on how human beings operate under conditions of informational uncertainty and how mental and cultural models are constructed (through experimentation and repetition) and passed along and how they affect decision-making. She calls for models in which, given that individuals do not value only material outcomes, we should incorporate other-regarding goals as well as emotions. And she pleads for the integration of the various types of strategies individuals may adopt to respond in the context of social interactions.

Second, *Understanding Institutional Diversity* develops a detailed and rigorous discussion of the concept and nature of rules. In spite of several decades of institutionalist research, our concept of institutions is mainly vague and at best under heavy contention. Scholars that often claim that institutions matter (to explain growth or governmental performance) are usually unable to provide us with a convincing, precise definition of their main explanatory variable. As a result, they cannot translate their general finding into concrete policy recommendations such as the types of constitutional or legislative reforms or any other types of specific advice that must be implemented to achieve a particular political or economic outcome. *Understanding Institutional Diversity* is different in this regard. The book makes an impressive effort to root the concept of institutions on logical grounds. This implies establishing a thorough and persuasive "grammar of institutions." Institutions, which shape incentives in action situations, are decomposed into five minimal components. In turn these minimal elements allow us to determine whether we are examining a shared strategy, a norm or a rule. (The language that Ostrom develops for classifying diverse institutions according to strategies, norms and rules is perhaps similar to what Dutch Swedish botanist Linnaeus created when developed his taxonomy of animals and plants based on observed similarities.) This grammar eluci-

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MANCUR OLSON AWARD ANNOUNCEMENT

BEST DISSERTATION IN POLITICAL ECONOMY PUBLISHED DURING THE PAST YEAR

Guillermo Trejo Osorio is this year's winner of the Mancur Olson Award for his dissertation, "Indigenous Insurgency: Protest, Rebellion and The Politicization of Ethnicity in 20th Century Mexico." Trejo Osorio's dissertation was nominated by Department of Political Science at the University of Chicago. Professor Susan Stokes was the chair of his dissertation committee. The selection committee was composed of Professors Christopher Adolph (University of Washington), Catherine Hafer (New York University), and John Freeman (University of Minnesota). Trejo Osorio will receive the award at Political Economy Section meeting at this year's American Political Science Association convention.

Why, despite the similar "triggering effects" of economic liberalization and democratization, was indigenous insurgency more prevalent in some countries than others, and especially in some, but not other, areas in Mexico? These are the important questions Trejo Osorio addresses. The answer in the Mexican case, he argues, is in the breakdowns in local political and religious monopolies—the ends of one party rule and of the dominance of the Catholic Church. Under certain conditions, medium levels of competition between parties and between Protestant and Catholic clergy spawned indigenous protest. For example, this religious competition had the unintended consequence of producing hundreds of cooperative and communal organizations, organizations that helped solve the collective action problem indigenous people faced. Trejo Osorio's argument is based on a blend of game theoretic analysis, analytic narrative, and case studies as well as statistical analyses. The statistical analyses employ a new resource he created, The Mexican Insurgency Data Base.

Because of its high quality, Trejo-Osorio's dissertation makes lasting contributions to study of political economy. To begin, the work is well-grounded in the literature on protest and rebellion not only in Latin America but also in other parts of the world. It also is marked by much conceptual precision. Illustrative is care with which Trejo Osorio defines insurgency and distinguishes insurgency from other forms of political behavior. The logic behind his argument is rigorous in how Trejo Osorio sorts out the different motivations and calculi of party and church leaders and then demonstrates why, in some contexts, these leaders (dis)encouraged indigenous protest and rebellion. As a result, deep (micro level) insights are obtained into the sources of collective action.

Methodologically, a powerful research design is constructed an implemented by Trejo Osorio. This design shows that the contingent effects of economic liberalization and democratization, in some respects, are most evident at the sub rather than national level. Beyond this, Trejo Osorio exercises great care in measuring his variables and evaluating his statistical models.

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Riker Award...continued from page 21

dates the theory of human agency which has been cast in previous parts of the book. Using it, Ostrom travels back and forth between a detailed decomposition of the problem and a general, unified theory. Shuttling between analytical microfoundations and sweeping statements is one of the most intriguing elements and probably one of the strengths of the book.

Another strength of *Understanding Institutional Diversity* is that Ostrom consistently ties abstract theory to observational evidence. Some of the observational statements are drawn from well-controlled laboratory experiments designed to test the theory. But the book does not stop here. Recognizing that the generalizability of experimental evidence is always suspect, the book offers a cornucopia of quasi-experimental evidence from the field, based on a review of empirical studies from around the world of cases where individuals or governments solve or fail to solve commons problems. In a chapter on 'Using Rules as Tool to Cope with the Commons' , Ostrom explores the evidence concerning use of the types of rules identified and classified in earlier chapters. This includes boundary rules, position rules creating monitors, choice rules (about the specifics of allocation within a resource area), payoff and information and scope rules. Many studies are combined in an overall assessment, the conclusions of which are that no particular rule can be said to be uniformly associated with performance across resources types, but that the absence of any choice rule is consistently associated with poor performance. Relying on a single rule also appears to be negatively related to performance. Curiously, as she notes at one point, little use is made of quotas, transferable or not (as a choice rule) in regulating fisheries despite its favor among fishery economists.

The book is not just an academic tour-de-force. It ends with morsels of policy advice about practical institutional design for governments and non-profit organizations eager to provide funds to develop sustainable common pool resources. For them, doing less may often do more.

For those skeptical that abstract theory - especially rational choice theory - can usefully apply to the real world, this book should be required reading. Similarly, for those who believe that deductive theory derived from first principles is sufficient for explaining collective choice, and for those who believe that inductive theory drawn from observations is sufficient for explaining collective choice - they should read this book too.

BEST PAPER IN POLITICAL ECONOMY AWARD ANNOUNCEMENT

PRESENTED AT THE 2005 APSA MEETING

The committee for the Best Paper Award (David Leblang, University of Colorado; Bernhard Mueller, Catholic University of America; and Amy Poteete, University of New Orleans) received a number of nominations from panel chairs and discussants. The winner of the best paper award for the 2005 Annual Meeting of the American Political Science Association is "The Politics of Time Horizons: Strategic Dynamics of Capital Account and Trade Liberalization in Contemporary Latin America" by Sarah Brooks and Marcus Kurtz of the Ohio State University. Brooks and Kurtz develop a model of international political adoption where voters and politicians engage in strategic decision making over both trade and capital market liberalization. Unlike most papers examining the political economy of economic reform, Brooks and Kurtz are not satisfied to leave one policy sector (trade or capital markets) exogenous while examining the other; rather, they argue that policymakers think about the feedback that occurs when both the trade and financial sectors are exposed to pressures originating in the international economy. The committee found the paper to be theoretically compelling and empirically sound and we congratulate Brooks and Kurtz on their fine work.

MICHAEL WALLERSTEIN AWARD FOR BEST ARTICLE IN POLITICAL ECONOMY: *THE FIRST WINNER!*

The Political Economy Section of the American Political Science Association has established an award in honor of Michael Wallerstein (1951-2006), whose scholarship, teaching, university service, and professional leadership made vital contributions to the development of political economy. The award will be granted annually to the best published article in the field of political economy, broadly defined. The award will carry a cash prize of $1,000, and will be presented at the annual meetings of the American Political Science Association, for work published in the previous calendar year.

The first recipients of the Michael Wallerstein Award for Best Article in Political Economy are Abhijit Banerjee and Lakshmi Iyer, for their article "History, Institutions, and Economic Performance: The Legacy of Colonial Land Tenure Systems in India," *American Economic Review* 95, No. 4 (September 2005). The selection committee, made up of David Austen-Smith, Jeffry Frieden, and Adam Przeworski, applauded the article's compelling argumentation and innovative use of empirical evidence. The award will be presented at the section's business meeting at APSA.

The article is summarized by its authors as follows:

> "We analyze the colonial land revenue institutions set up by the British in India, and show that differences in historical property rights institutions lead to sustained differences in economic outcomes. Areas in which proprietary rights in land were historically given to landlords have significantly lower agricultural investments and productivity in the post-independence period than areas in which these rights were given to the cultivators. These areas also have significantly lower investments in health and education. These differences…probably arise because differences in historical institutions lead to very different policy choices."

Rosendorff Feature Essay...continued from page 13

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Wallerstein Memoriam...continued from page 13

Wallerstein's work was influential for the importance of the problems he studied, the meticulousness of his work, and the rigor of his analysis. The importance of his contributions was recognized when, just shortly prior to his death, he was elected to the American Academy of Arts and Sciences. He was also influential through his personal and professional relationships with colleagues and students. He was generous with his time, considered in his opinions, and kind in the spirit of his interactions. His presence was deeply valued in the institutions in which he worked, as well as in the many meetings he attended and intellectual groups in which he participated. In addition to his 2005 election to the American Academy, he served as Scientific Advisor for the Foundation for Research in Economics and Business Administration of Oslo, Norway in 1994-95, as President of the APSA's Organized Section in Comparative Politics between 1999-2001, and as a Member of the Scientific Committee of the Center for the Advanced Study in the Social Sciences of Madrid from 2001 until his death. He will be deeply missed by colleagues and friends across the globe.

In his honor, the Michael Wallerstein Award in Political Economy has been established by the American Political Science Association's Political Economy Section for the best article published in the field of Political Economy in a calendar year. The first award will be given at the 2006 annual meetings of the APSA.

David Austen-Smith, *Northwestern University*
Miriam Golden, *University of California at Los Angeles*
Karl Ove Moene, *University of Oslo*
Adam Przeworski, *New York University*

*This memorial was originally submitted to and published by PS: Political Science & Politics (July 2006).

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For instance, he acknowledges possible sources of error in his measure of guerilla activity, and he is sensitive to the pitfalls of drawing inferences from small samples.

Trejo Osorio's dissertation contributes to a wide range of literatures on indigenous politics as well as to work on the political economy of religion. Empirically, a host of new stylized facts about indigenous insurgency within Mexico are illuminated by Trejo Osorio. He also uncovers important nonlinear relationships between electoral competition and indigenous protest. Theoretically, the lesson from Trejo Osorio's research is that the impacts of economic liberalization and democratization are more "contingent and contradictory" than scholars realize. The dismantling of one-party and religious monopolies does not necessarily produce the same outcomes in all settings. Electoral competition can serve as both an impetus and as a deterrent to the politicization of identity. Where it faces competition from Protestants, the Catholic Church also can play a major role in politicizing ethnic identities.

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