

THE POLITICAL ECONOMIST

Newsletter of the Section on Political Economy, American Political Science Association

Co-Editors:

Michael Hiscox, Harvard University
 Brian Burgoon, University of Amsterdam

Feature Essay

International Political Economy: The state of the sub-discipline

Jeffrey Frieden and Lisa L. Martin

The sub-discipline of international political economy studies the politics of international economic relations. This relatively new field has moved through a stage of paradigmatic conflict to a largely consensual approach to analysis. This essay presents an analytical organization of major work within this consensual approach to IPE. It argues that the most challenging questions in IPE have to do with the interaction of domestic and international factors as they affect economic policies and outcomes. Modeling interactive effects is complex, but there have been exciting research efforts in IPE along these lines. These efforts would have been impossible without firm foundations in the analysis of domestic and of international factors in and of themselves. Indeed, the bulk of IPE scholarship has focused on these foundations, and progress made over the last couple of decades provides the essential building blocks for current and future work on the international-domestic research frontier. To develop this view, we begin by briefly summarizing work on the domestic and international building blocks before turning to the domestic-international interaction at the frontier of the IPE research program.

The domestic political economy of foreign economic policy

The first large area of IPE research examines national policies toward the international economy. This sometimes comes close to the investigation of purely domestic factors about a policy that just happens to involve foreigners. More commonly, the international connection itself plays an important part in the making of foreign economic policy. In any case our understanding of the domestic politics of international economic policy requires careful analysis of the economic interests at stake, and of how they work their way through domestic political institutions.

Economic interests. Most IPE scholarship on foreign economic policymaking begins with an explicit or implicit model in which politicians confront pressures from concentrated interests and the broad public. Analysis of interests can be structured along two dimensions: specifying groups whose interests are at stake and what those interests are; and specifying the organization of these interests. Ascertaining the policy preferences of groups can be done “inductively” by observation, interviews, and surveys (e.g. Dalton and Eichenberg 1993, Gabel 1998, Scheve and Slaughter 2000). Scholars have also “deduced” policy preferences from theories of how

characteristics of groups will lead them to desire particular policies, drawing from existing economic models of the distributional effects of trade liberalization and protection for instance (e.g. Alt and Gilligan 1999), and extending economic work on the effects of currency policy and financial regulation (Henning 1994). IPE scholars have also searched for theoretically-grounded ways to specify mass interests over such broad areas as macroeconomic policy and the provision of public goods, often focusing on the preferences of the median voter or other pivotal actors.

Although it is important to have a clear sense of the narrow and broad interests at stake, scholars also need a sense of the ways in which these interests are organized. One simple and powerful starting point is to distinguish between concentrated and diffuse interests, especially as most scholars have believed that concentrated interests are likely to dominate diffuse interests (Schattschneider 1935). But drawing this distinction is not enough, since there are frequently conflicts of interest among concentrated interests (Milner 1988; Destler and Odell 1987) and since under some conditions diffuse interests can have a powerful impact on policy. In this context, it is important to note the ways

continued on page 2

In This Issue:

Feature Essay.....	1	Calendar.....	5
From the Chair.....	3	Section Organization.....	7

The Political Economist is a publication of the APSA Organized Section on Political Economy. Copyright 2002, American Political Science Association. All rights reserved. Subscriptions are free to members of the APSA Section on Political Economy. All address updates should be sent directly to APSA.

Feature Essay cont.*continued from page 1*

in which groups, and even broad segments of the public, are formally organized, for this pattern of organization can have a powerful impact on policy. An obvious example is the difference between labor or management interests organized on sectoral as opposed to class lines; where class politics prevails, policies are less likely to focus on industry-specific benefits and more likely to involve concerns of broader interest to labor or capital as a whole. Scholars have long noted the differences between economies with densely organized and centralized labor movements and those with more decentralized industrial relations (Katzenstein 1985).

Political institutions. The interests of socioeconomic actors are mediated through domestic political institutions in ways that can fundamentally affect outcomes. *Electoral institutions* aggregate interests in ways that affect the ability of groups to organize and the weight they will have in the political process. Some have hypothesized, for example, that proportional representation tends to reduce the impact of special interests and increase the importance of the median voter when compared with first-past-the-post systems, thus yielding fewer sectoral benefits and subsidies (Rogowski 1987; McGillivray 1997). Within particular systems a number of scholars have argued that legislative chambers representing smaller districts are more likely to reflect special interests, while upper chambers and executives representing larger districts are more concerned with broader or even national public opinion, reducing their support for particularistic policies.

Legislative organization also affects foreign economic policymaking by shaping agenda control, veto points, and other interactions among policymaking institutions. Several scholars have claimed that the re-design of US trade policymaking institutions in 1934 so that the President could, within constraints, negotiate reciprocal trade agreements with other countries, promoted a liberalizing trend in American trade policy

(Haggard 1988; Bailey, Goldstein, and Weingast 1997).- More differentiated analyses have developed inferences about the effects of partisan control of Congress and the Presidency on the outcome of trade policy, such as the argument that divided American governments are more likely to yield protectionist policies than unified governments (Lohmann and O'Halloran 1994). On the principle that a disciplined national party, analogous to the American president, is concerned about a national constituency, others have claimed that electoral and legislative institutions leading to strong party discipline will typically deliver policies less in thrall to special interests, such as freer trade (McGillivray 1997). Still others have focused on the differences between

“the most challenging questions in IPE have to do with the interaction of domestic and international factors as they affect policies and outcomes”

single-party versus multiple-party governments, arguing that in the latter case it is harder for voters to assign blame or credit to a particular party, reducing incentives for “opportunistic” partisan manipulation of foreign economic policies (Bernhard and Leblang 1999).

Finally, attention to institutions also directs attention to delegation to *bureaucratic and other agencies*. Some scholars see independent agencies as particularly likely to be captured by special interests. Most, however, regard independent bureaucratic entities from an explicit agent-theoretic perspective in which the agency responds to the policy needs of politicians, albeit with some room for maneuver (slack). Often independent agencies are regarded as providing politicians a protective cushion from day-to-day or particularistic demands, while also ensuring their accountability to the public. The interplay of independence and accountability depends strongly on the issue area, and on other

characteristics of the political economy. The literature on central bank independence, for instance, typically begins with the assertion that independence can mitigate the time-inconsistency of monetary policy. Politicians can thus best respond to the policy preferences of the mass public (median voter) for low inflation by insulating the central bank from the temptation to alter monetary policy – within the boundaries of ultimate accountability to the political authorities. A related argument is that governments with independent central banks are less likely to engage in electorally-motivated manipulations of exchange rates, and can commit credibly to low inflation, obviating the need to fix their exchange rate to gain anti-inflationary credibility, making central bank independence and fixed currencies policy substitutes (Clark and Reichert 1998; Clark and Hallerberg 2000; Broz 2000).

International politics and economics

Along with the domestic politics of foreign economic policy, the second major building block of the larger IPE edifice is analysis of strategic interaction at the international level. Scholars have developed theoretical and empirical approaches to the ways in which states relate to one another as they devise their international economic policies, and to the institutional forms that these relations take.

Strategic interaction among states. Treating states as units – although not identical units – scholars ask how the constraints and opportunities offered by the international system, and processes of interaction with other states, influence decisions and outcomes. The analysis centrally involves three elements: identification of state interests; specification of the strategic setting; and attention to the role of uncertainty, beliefs, and ideas in explaining policy choice.

Among attempts to identify state interests, one approach builds on the

continued on page 4

From the Editors

Dear Readers:

We hope you enjoy this new edition of the Section newsletter. The feature essay this time around is a survey of the field of international political economy by Jeff Frieden and Lisa Martin. They provide a concise review of recent developments in this exciting field. As they point out, it is a discipline that is not for the faint hearted: it blends the study of economics with the study of politics, combines insights from the analysis of international relations and comparative politics, and draws from the latest research on institutions, information, and ideas. Frieden and Martin argue that recent work focusing explicitly on interactions between international and domestic politics is offers the most potential for new breakthroughs. We would welcome your

comments on the essay.

As Liz Gerber mentions in her remarks, we are now organizing the transition to a largely electronic publication. Our next edition of the newsletter will be mailed out to all of you as usual, but all subsequent editions will be emailed in electronic format and published (after a short delay) on the new Section web page (<http://www.apsanet.org/~polecon>). Any members who wish to continue receiving the newsletter in hard copy should contact Stacie Williams (stacierh@umich.edu) before March 30, 2002.

We hope to develop the new web page into a valuable resource for section members. Besides providing an archive for the newsletter, it will serve as a notice board for Section news and

announcements from the chair. The site will also provide listings of political economy panels and papers for the major conferences, a calendar of upcoming events and deadlines, and advertisements for political economy conferences and grants. It will also contain links to the Political Economy Working Paper Archive and to a variety of sites providing resources of interest for Section members.

As always, we encourage contributions to the newsletter (ranging anywhere from feature essays to curt letters). Suggestions for the web page would also be very welcome.

Sincerely,

Michael J. Hiscox

hiscox@fas.harvard.edu

Brian Burgoon

burgoon@pcsw.uva.nl

From the Chair

Dear Fellow Political Economists:

Greetings, and best wishes for a happy and productive New Year! I am delighted to welcome you to the Winter 2002 issue of the APSA's Section on Political Economy Newsletter. Once again, Michael Hiscox, Brian Burgoon, and Amanda Harris have put together a terrific issue. I hope you find it valuable, interesting, and informative.

I'd like to take this opportunity to update you on a number of recent developments within the Political Economy Section.

Web site: the APSA has recently expanded its support of section web pages on the association's web site. The Political Economy Section's new web page can be found at <http://www.apsanet.org/~polecon>. We intend to use this site to post section news and announcements, contact information, and the electronic version of this newsletter (see below). For information about the web page contact Michael Hiscox (hiscox@fas.harvard.edu).

Electronic newsletter: at the 2001 APSA Business Meeting, the section voted to phase out hard copy publication of our newsletter and move to an all-electronic

format. We will therefore continue publishing the hard copy version through the next issue. Then, we will email the electronic version to the entire section membership as a .pdf email attachment. After a short delay, we will post the electronic version on the section's web page (<http://www.apsanet.org/~polecon>). Given the significant cost savings of the electronic format, recent advances in web and email technology, and our membership's widespread usage of email and the web, we believe this change is well justified. However, we recognize that some members will have limited access to email and the web, or will simply prefer to receive the printed version. Therefore, any members who wish to continue receiving the newsletter in hard copy should contact Stacie Williams at 734-647-4091 or stacierh@umich.edu before March 30, 2002.

Awards: nominations for the section's 2002 book and dissertation awards are due March 1st, 2001. Please send these nominations directly to the committee chairs, below:

William H. Riker Award for the best book in Political Economy published in the last 3 years

Lawrence Rothenberg, Department of Political Science, University of Rochester, Chair

Lee Alston, Department of Economics, University of Illinois

Layne Mosely, Department of Political Science, Notre Dame University

Craig Volden, Department of Political Science, Claremont Graduate University

Section on Political Economy Best Dissertation Award, completed in 2001

Scott Adler, Department of Political Science, University of Colorado, Chair

Brandice Canes-Wrone, Department of Political Science, MIT

Dan Treisman, Department of Political Science, UCLA

Mark Brawley, Department of Political Science, McGill

Finally, I would like to thank all of the individuals who have found time in their busy schedules to participate in the Political Economy Section's activities.

I hope you enjoy this issue of the section newsletter. Please feel free to contact me if you have any questions about the Section or this newsletter, or if you have any ideas about what we might be doing to promote research and teaching on political economy.

Best regards,

Elisabeth Gerber

Feature Essay cont.

continued from page 2

domestic analyses described above, but focuses on commonalities among groups of countries. For example, patterns of interests can be characterized by specifying the degree of common interest among actors. Where common interest is high, our attention is then drawn to those factors that encourage or discourage realizing those common interests (Oye 1986, Fearon 1998). These might be characteristics of the states themselves or aspects of the international environment, such as the costs of monitoring others' behavior. When the degree of common interest is low, in contrast, our attention turns to factors that influence outcomes in the

“it is surprising how narrow is the range of analytical and empirical problems that existing scholarship has tackled in earnest”

presence of high levels of conflict. We might ask about first-mover advantages, the opportunity costs of using military force or holding out for a better deal, or the wherewithal of states to engage in coercive diplomacy. A second approach to identifying interest is to focus on the position of nation-states in the international system. That is, the focus is more outside-in than inside-out, asking how the international political or economic system shapes state goals. For instance, the long tradition of work in IPE that focuses on how patterns of interests depend on the distribution of power in the international system has developed from the initial presumption that a highly concentrated distribution of power leads to preferences that facilitate cooperation (Kindleberger 1975; Krasner 1976). A second generation of work considered how participation in small groups might facilitate group cooperation (Snidal 1985), and how the issues at stake influenced patterns of interests (Conybeare 1984; Gowa 1989). Recent work is even more careful about how power distributions influence interests, distinguishing among different types of players in the international system (Lake 1984) and considering the interaction of security and economic interests (Mansfield 1994).

Beyond attention to the origins of state interests, the analysis of international interaction investigates the international political and economic strategic setting. By “strategic setting,” we mean the structure of interaction, or the form of the game. How many states are involved in any particular negotiation or other mechanism of policy choice? Are states interacting in a highly institutionalized environment, or one with few rules constraining the nature of the interaction? These questions may lead us to examine implicit or explicit voting

rules, such as whether unanimity is required, or whether some version of majority rule

prevails. The international environment also influences the order in which issues will be considered, or which issues will be linked to one another, and how much weight actors put on future relative to immediate outcomes (i.e., the relevant discount factors). Studies of trade wars suggest that a long shadow of the future mitigates pressures for conflict (Conybeare 1986). We also care about the prospects for enforcing agreements. Roughly accurate answers to all these questions are necessary in the attempt to specify how international interaction matters for IPE.

One aspect of the strategic setting that is especially important is the nature of uncertainty. Strategies in an environment of complete information differ tremendously from those in which states are unsure of others' preferences, or of the relationship between policies adopted and outcomes achieved. To simplify somewhat, two types of uncertainty are important for IPE: uncertainty about the preferences of others, and about causal relationships.

One of the more important tools in the analysis of the first type is game-theoretic investigation of signaling and reputation (see Morrow 1999; Morrow 1994; Kreps and Wilson 1982). In most settings, signals sent by states are most

effective in changing the beliefs of others if these signals are costly. Otherwise, intended recipients are likely to dismiss signals as cheap talk. Analyses of some international monetary regimes sees them in this light, as commitment to a fixed exchange rate or a currency union involves a political cost that sends a signal about the intentions of governments (Giavazzi and Pagano 1988). However, in some circumstances even cheap talk can be an effective signal (Crawford and Sobel 1982). This occurs when states believe that they are likely to have a high degree of common interest, and that they will be better off if they coordinate their actions rather than making independent choices. Alternative models of monetary regimes that see them as solving coordination problems rather than as commitment devices draw on this logic, identifying particular exchange-rate systems as focal points (Frieden 1993; Broz 1997).

A second type of uncertainty in IPE concerns the relationship between policies and outcomes, or causal relationships. Some refer to this type of uncertainty as lack of precise knowledge about “the state of the world” (Goldstein and Keohane 1993b). Examples of such uncertainty in IPE proliferate. Will fixed or flexible exchange rates improve investment flows and macroeconomic stability? What will be the costs of adjustment after conclusion of a trade-liberalizing agreement? Where states are uncertain about the impact of their policies, prior beliefs again are central. Uncertainty about the relationship between economic policies and outcomes can make efforts at policy coordination counterproductive (Frankel and Rockett 1988; Iida 1990, Iida 1999). While some authors refer to this uncertainty as states “not knowing their own interests,” it is more fruitful to assume that states do know which outcomes they prefer, such as rapid economic growth, but are uncertain about which policies will get them closest to their goals. In this setting, expert knowledge and learning are important.

continued on page 5

Feature Essay cont.*continued from page 4*

One common strategy is to delegate some policymaking to experts, those with better knowledge about the relationship between policies and outcomes (Krehbiel 1991). This logic provides a way to ask about the influence of “epistemic communities” (Haas 1992) or “supranational entrepreneurs” (Moravacsik 1999). Another strategy is to learn from the experience of others, which may account, for example, for diffusion of liberal economic policies in the last fifty years (Simmons and Elkins 2000).

International Institutions. The role of information, uncertainty, and beliefs in shaping international interaction has highlighted the particular importance of international institutions. The rationale for the existence and influence of institutions at the international level is driven almost entirely by informational considerations. In a world of complete information, according to most current arguments, states would not demand institutions and institutions would have no impact on outcomes. However, once we consider the myriad uncertainties that states confront, a potentially powerful role for institutions emerges.

The turn toward taking international institutions seriously can be traced to a collective project on international regimes (Krasner 1983) and to Robert Keohane’s analysis of how institutions could facilitate the maintenance of patterns of cooperation “after hegemony” (Keohane 1984). The modern analysis of international institutions begins with simple assumptions. As a first cut, states are treated as unitary actors; domestic politics have barely begun to be integrated into the models. These states are assumed to confront generic collective-action problems. They may take the form of Prisoners’ Dilemma-type games. Or they may take the form of coordination or bargaining problems, where the difficulty is to choose a particular equilibrium in a situation in which the states disagree on which outcome they prefer (Martin 1992b). It is also possible for these problems to

coexist; states may face a bargaining problem followed by an enforcement problem. In a world of no transaction costs, states could solve these dilemmas to reach Pareto-superior outcomes. However, actual problems of incomplete information, such as costs of bargaining and monitoring, can prevent their resolution, leaving all states worse off. International institutions can perform information-provision functions that allow states to overcome collective-action problems and therefore have an impact on patterns of behavior, even if these institutions do not regulate, enforce, or otherwise take on the characteristics associated with “strong” institutions on the domestic level.

This insight has led to a large body of theoretical and empirical literature on international institutions, both in IPE and international security (see Martin and Simmons 1998).

While theories of international institutions have grown more sophisticated over time, empirical work on the effect of institutions in IPE has been limited. It has been more evident in security issues (Duffield 1995; Wallander 1999) and environmental affairs (Keohane and Levy 1996). Recent years have not seen many focused studies of specific economic institutions. One obvious exception is the literature on the European Union. However, little of this literature adopts a particularly institutionalist perspective on the EU (despite the term “institutionalist” being tossed into some theoretical labels), or takes the factors identified as central to institutionalist theories seriously. Application of institutionalist theories to economic institutions thus appears to offer another promising, highly productive avenue for existing research. Basic theoretical precepts are in place, but they need to be adapted to the complexities and context of specific institutions and issues. The scope for careful empirical work is enormous. For example, Beth Simmons’ study of the legalization of international monetary affairs combines the theoretical insights of institutionalism with careful empirical

work to show that concerns of commitment and reputation help explain states’ decisions to create and comply with the rules of the IMF (Simmons 2000).

Multilateral trade organizations have received more empirical attention than most economic institutions. Much of this attention has been focused on the dispute-resolution mechanisms of the GATT/WTO (Goldstein and Martin 2000). Institutional analyses of GATT dispute resolution ask about the conditions under which states turn to the GATT to resolve disputes (Busch 2000) and the factors that determine the outcome of GATT disputes (Reinhardt 1999). Given the trend of other work on international cooperation discussed above, it is perhaps not surprising that empirical studies of GATT dispute resolution emphasize the importance of domestic factors, such as trade dependence and democracy, in determining outcomes. While our analytical framework begins with the simplifying assumption that states can be treated as unitary actors, it is inevitable that analysts begin to integrate domestic

*continued on page 6***Calendar****March 14-16**

Council for European Studies

March 22-24

Western Political Science Association

March 22-24

Public Choice Society and Economic Science Association

March 24-27

International Studies Association

March 27-30

Southwestern Political Science Association

April 25-28

Midwest Political Science Association

Feature Essay cont.

continued from page 5

politics in a systematic manner into this framework. This point brings us to the frontier of research in IPE: theories that concentrate on the interaction between domestic and international politics.

Domestic-international interaction

For decades, a principal challenge to students of international politics generally, and IPE specifically, has been the need to take into account both the domestic political economy of foreign economic policy and the role of strategic interaction among nation-states and non-state actors. While all scholars recognized the domestic and international levels as necessary building blocks of a more systematic and integrated analysis of international relations, the difficulties of this integration were just as evident. Recent models of domestic-international interaction have pushed IPE research forward along these lines in important ways, although of course much remains to be done

The core of the domestic-international connection is the impact of domestic institutions and interests on international interaction, and vice versa. Our ultimate goal is a simultaneous understanding of this mutual causation, recognizing feedback effects at both levels — a general equilibrium model, rather than a partial equilibrium one in which one level is held fixed while the other varies. Of course, endogenizing two such levels is extremely complex, and progress has been made in small steps at best. Nonetheless, there have been some promising efforts at integration.

One approach to domestic-international interaction looks directly at how the international economy affects domestic interests, institutions, and information in ways that then feed back to national policies. The international economy might affect national foreign economic policymaking by two related channels. The first runs directly from the global economy to the preferences of national socioeconomic and political actors. In this variant, international economic trends directly affect the

interests of domestic groups, leading them toward new policy preferences, or to change their domestic political behavior. For example, the expansion of world trade can have a powerful impact on firms’ or industries’ trade policy preferences. New export opportunities can lead previously protectionist firms to turn toward free trade, as some argue was the case for American manufacturers after World War Two; alternatively, the opening of new export markets can lead free-trade firms to redouble their lobbying efforts. Similarly, the state of international capital markets can have a big impact on the preferred policies of groups in potential borrowing countries: the prospects of access to thriving global financial markets can lead firms and sectors to champion national trade, monetary, or exchange-rate policies they might not otherwise support.

In addition to affecting domestic interests, the international economy might also affect domestic institutions, for example by making a previously feasible policy difficult to sustain. For example, national capital controls are relatively easy to impose and enforce when the world’s capital markets are dormant or barely active, as was the case until the middle 1970s. However, the explosion of international financial activity in the 1980s and 1990s made it extremely difficult for national governments, especially in the more financially developed industrial world, to sustain controls on cross-border investment (Goodman and Pauly 1993, Andrews 1994). Further, Eichengreen (1996) argues that movement towards Economic and Monetary Union (EMU) in Europe was made inevitable by the increasing difficulties European nations had in sustaining capital controls necessary for independent monetary policies, and more generally that high capital mobility has forced most countries to choose between irrevocably fixed and freely floating exchange rates, eliminating the

possibility of defending intermediate regimes.

One variant of analysis of the impact of the international economy on domestic institutions is about the effects of “globalization” on the prospects for the social-democratic welfare state and similar social policies. For example, Rodrik (1997) has argued that economic integration has reduced the ability of governments to tax capital, thus limiting the scope for government policies to deal with the social dislocations that globalization itself creates. Others believe that these effects are less limiting, still allowing for different national economic-policy paths (Garrett 1998).

While these perspectives look at the impact of international factors on domestic interests and institutions, this can be turned around to look at how the structure of international economic institutions alters the information available to and policy incentives for some domestic actors. For example, some argue that WTO provisions allowing one country to retaliate for WTO-illegal

“theoretical work on international institutions has far outstripped the quantity and quality of empirical work”

policies by another country by excluding some of the violator’s exports will lead otherwise indifferent exporters

in the violator to lobby *domestically* against national trade policies that might lead to such retaliation (Goldstein and Martin 2000). For example, if country A obtains WTO permission to sanction country B for its barriers to A’s clothing exports, and country A then puts a tariff on country B’s grain exports to A, this will give B’s grain farmers an incentive to lobby *within their own domestic political economy* for a reduction in B’s barriers to clothing imports. This line of thinking has also been applied to the highly structured nature of interstate bargaining within the European Union, where cross-issue linkages are rife and often draw contending domestic interests into the political fray (Martin 2001). Here too, the chain of causation goes from

continued on page 7

Feature Essay cont.*continued from page 6*

international institutions to domestic institutions, information, and interests, then to national foreign economic policies.

In all these approaches, international factors affect national policy by way of their direct effect on the domestic political economy. Another, compatible, approach posits that national governments stand between the domestic and international levels, acting to mediate between them in ways not reducible to one or the other, and in ways that bring domestic-international interaction to the fore. A powerful metaphor for this view of national governments as mediating the domestic-international interaction is that of “two-level games” (Putnam 1988). Initial work on this problem had a very simple characterization of the relevant domestic institutions and interests. First, the central domestic institutional actor was assumed to be the “chief of government” (COG) or head negotiator, operating at both the domestic and international levels. Second, domestic interests were summarized in terms of the “win set,” the set of all international deals that would be preferred to the status quo by domestic society. In fact, much research in the two-level games tradition concentrates on the determinants of the win set. Third, initial work assumed that the COG was a disinterested representative of the interests of his constituency. This assumption has often been dropped in work building on the metaphor, as the COG is allowed to have independent interests. Adding another set of interests leads to the identification of the “acceptability set,” those international agreements that the COG finds preferable to the status quo. Any deal reached and implemented must lie within both the win set and the acceptability set.

The two-level game framework provides tools for thinking about domestic-international interaction. Most work in this tradition has focused on how domestic interests, institutions, and information influence negotiation and cooperation on the international level. One promising avenue is to look at the

impact of legislatures on the ability of governments to commit to international agreements (Martin 2000). In democracies, legislatures have the ability to block or frustrate the implementation of international commitments even if they do not require formal legislative approval. Therefore, agreements negotiated without legislative participation may lack credibility. Agreements gain credibility when the legislature has been involved in a structured, institutionalized manner in the negotiating process. One major reason has to do with considerations of uncertainty, as legislative participation reveals information to both its own government and others about which deals will be implemented.

Other productive applications of the two-level games approach include work on trade bargaining that formalizes ideas about win sets and ratification, and treats uncertainty explicitly (Milner and Rosendorff 1997; Milner 1997). These models identify a president with preferences over the degree of trade liberalization and a legislature that must ratify any international agreement. They assume two countries; for simplicity, the domestic politics of the “foreign” state are not treated in as much detail as those of the “home” state. On the international level, a Nash bargaining solution specifies the outcome of negotiations. Analytical interest thus turns primarily to the effect of the ratification requirement in the home state. Here, two factors get the most attention: the interests of the legislature, particularly how its ideal point differs from that of the president; and the degree of uncertainty associated with international negotiations.

Work on domestic-international interaction has made substantial progress over the past fifteen years. Yet there is much to be done. At this point, the analysis of domestic-international interaction requires heroic assumptions and simplifications, such as reducing domestic institutions to an executive and a legislature, or reducing domestic interests to a median voter. Future work will need to allow for more nuance and

development, incorporating other domestic institutions such as political parties, courts, and central banks, and a more sophisticated treatment of domestic interests. Models of domestic-international interaction will also need to address more issue areas than international trade, where they have been developed most successfully, perhaps because of the strong preexisting microfoundations.

Conclusions

The study of international political economy has made great advances in 25 years. After a period of internecine paradigmatic conflict, most scholars in the field have accepted a general, positivist, approach to investigating

continued on page 8

American Political Science Association

Political Economy Section Officers, 2002

Chair

Elisabeth Gerber, Univ. of Michigan

Secretary/Treasurer

Chuck Shipan, Univ. of Iowa

Executive Committee

Bill Bernhard, Univ. of Illinois
Virginia Hauffler, Univ. of Maryland
Anna Harvey, New York Univ.
David Lake, UCSD
Carol Mershon, Univ. of Virginia
Mike Thies, UCLA

Newsletter Editors

Michael Hiscox, Harvard Univ.
Brian Burgoon, Univ. of Amsterdam

Newsletter Assistant

Amanda Harris, UCSD

Award Committee

Book Award

Lawrence Rothenberg, Univ. of Rochester,
Chair
Lee Alston, Univ. of Illinois
Layne Mosely, Notre Dame Univ.
Craig Volden, Claremont Graduate Univ.

Dissertation Award

Scott Adler, Univ. of Colorado, *Chair*
Brandice Canes-Wrone, MIT
Dan Treisman, UCLA
Mark Brawley, McGill

continued from page 7

issues in the politics of international economics, with many common elements. The sub-discipline has moved strongly in a direction in which new work builds self-consciously upon, rather than firing broadsides against, existing work, and in which abstract theoretical work complements empirical scholarship.

While the general method of analysis is well-established and widely accepted, this hardly means that IPE has exhausted its potential. In fact, it is surprising how narrow is the range of analytical and empirical problems that existing scholarship has tackled in earnest. American trade policy, EMU, and a few international institutions have been studied in some detail; but almost every other area of IPE is wide open for investigation. It may be that a great deal of theoretical, analytical, and methodological brush needed to be cleared before scholars could give these issues as much attention as they warrant.

If so, the academic study of IPE has virtually limitless opportunities to demonstrate the effectiveness and appropriateness of its theoretical and empirical tools.

Theoretically, we see the most important frontier as the integration of the domestic and international levels of analysis. Some promising frameworks have been developed, but this work is in its infancy. We also see scope for applying existing frameworks to a wide variety of under-studied empirical issues. Probably the best-studied area of IPE is trade, followed closely by monetary issues. Financial issues, including international investment of various types, receive little attention in the current literature. Likewise, theoretical work on international institutions has far outstripped the quantity and quality of empirical work. As international organizations such as the WTO, IMF, and potential investment agreements are the

focus of sustained political attention, and at the forefront of debates about globalization, applying the analytical tools of IPE more seriously to these institutions is likely to be both important and fruitful.

The full version of the paper is available in Ira Katznelson and Helen V. Milner (eds.), *Political Science: State of the Discipline III*, NY: Norton for APSA, 2002.

Acknowledgments: The authors acknowledge useful comments and suggestions from Benjamin J. Cohen, Geoffrey Garrett, Miles Kahler, Ira Katznelson, Margaret Levi, Helen Milner, Andrew Moravcsik, Dani Reiter, Ronald Rogowski, and Ken Shepsle.

¹ The review we present, however, is not intended to be exhaustive. We do not, for example, attempt to include the work of scholars who challenge the positivist approach that is assumed here. We believe that this survey does reflect the principal focuses of North American scholarship, although it is not reflective of much European scholarship.

**The Political Economist
Ford School of Public Policy
440 Lorch Hall, 611 Tappan Street
University of Michigan
Ann Arbor, MI 48109-1220**