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Review essays

COOPERATION AND GOVERNANCE IN INTERNATIONAL RELATIONS

Lisa L. Martin, *Coercive Cooperation: Explaining Multilateral Economic Sanctions*, Princeton: Princeton University Press, 1992, xiii + 299 pp., cloth £40, paper £14.95, ISBN: 0–691–08624–9.
Kenneth A. Oye, *Economic Discrimination and Political Exchange: World Political Economy in the 1930s and 1980s*, Princeton: Princeton University Press, 1992, x + 235 pp., cloth £32, paper £13.50, ISBN: 0–691–07849–1.
Beth V. Yarbrough and Robert M. Yarbrough, *Cooperation and Governance in International Trade: The Strategic Organizational Approach*, Princeton: Princeton University Press, 1992, xi + 182 pp., cloth £30, ISBN: 0–691–04263–2.

Two approaches have recently dominated the study of international cooperation. The first focuses on the strategic environment of the actors. The central question is, typically: how do states manage to cooperate in an anarchic international system? This approach was exemplified in an earlier volume edited by Kenneth Oye, *Cooperation Under Anarchy* (Princeton University Press, 1986). It is carried further in his new book, *Economic Discrimination and Political Exchange*. While more narrowly focused, this new work nonetheless continues the task of examining how states both cooperate within strategic settings and improve their chances for cooperation by altering these settings.

The second approach, known as neoliberal institutionalism, concentrates on the role of international regimes and organizations in facilitating cooperation. Following Robert Keohane's *After Hegemony: Cooperation and Discord in the World Political Economy* (Princeton University Press, 1984), the approach emphasizes how institutions reduce transactions costs, provide information, and thereby allow states to enter into mutually beneficial exchanges. Lisa Martin's *Coercive Cooperation* provides the first systematic test of the proposition that institutions improve cooperation, and finds substantial evidence to support the neoliberal position.

In the 'strategic organizational' approach, Beth Yarbrough and Robert Yarbrough combine these agendas to examine how states choose to structure their relations for joint gains. Drawing upon theories of relational

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contracting, first developed in economics but now finding wide application in political science, Yarbrough and Yarbrough seek to explain the form of cooperation, a broad topic too long overlooked, and identify a promising agenda for future research.

Strategies for cooperation

In *Economic Discrimination and Political Exchange*, Oye examines what he calls 'unrestricted bargaining' as an instrument of international economic cooperation and management. Unrestricted – or *ad hoc* – bargaining entails some discrimination between states, as actors seek to confer benefits or impose costs on negotiating partners; it contrasts with rule-based management, which proceeds by impartial and general axioms. Defying the conventional wisdom, and echoing the themes of the book by Yarbrough and Yarbrough below, Oye argues that *ad hoc* bilateral bargaining is not necessarily destructive but can actually be a source of greater international economic openness. Far from the villain in the denouement of liberalism in the 1930s, bilateralism slowed and ultimately reversed the trend toward international economic closure. Bilateralism, Oye concludes, has had much the same effect in the 1980s and, we can infer, the 1990s.

Building upon traditional theories of externalities in economics, Oye bases his analysis on the distinction between private, public, and divertible policy externalities. Broadly speaking, externalities are spill overs or effects of actions taken for other reasons that extend beyond the boundaries of the actor. According to Oye, private policy externalities – by inference, those cases where property rights are well specified and the asset is, therefore, marketable – are rare, but handled efficiently by the parties involved when they do occur. Public policy externalities, which characterize monetary relations, produce diffuse and general effects and are prone to the collective action problems and sub-optimal provision typically associated with externalities.

Divertible policy externalities – those that can be shifted from one target state to another – tend to characterize commercial and financial transactions and, Oye argues, can produce greater liberalization. Within states they stimulate domestic export-oriented sectors, offsetting other sources of protectionism. Between states they prompt third parties to join in liberalizing bilateral or regional negotiations; indeed, divertible externalities create a bandwagon effect, as no country wants to be the last to enter into a liberalizing coalition and bear, by default, the entire cost of mitigating the externality. Developing the logic and implications of these divertible policy externalities is the principal contribution of the book.

Oye distinguishes between different types of bargaining strategies or linkages available to states: exchange, granting side payments; extortion,

demanding bribes from others; and explanation, transmitting information on the consequences of actions ('if you do X, and I will do Y'). While interesting and conceptually helpful, and noted where appropriate in the case studies, these strategies play little explanatory role. As Oye acknowledges, it is rarely possible in practice to distinguish reliably one from the other. Opportunities to link are 'largely products of a nation's position within the international environment', but the characteristics of this environment are not specified, and the choice to link is 'strongly influenced by the domestic context of linkage diplomacy', again unspecified except to point to the general importance of cognitive and organizational processes (p. 46).

Finally, Oye examines how bargaining can affect preference formation within states. Preferences change, he posits, by altering political coalitions within states and through belief change. The former moves toward a dynamic theory of politics; the bargaining outcome at time 1 alters the domestic political structure and, thus, preferences of states at time 2, which in turn alters the bargaining outcome at time 3, and so on. This is one of the most promising insights of the book. The second source of preference change, however, is used mainly as a *deus ex machina* to account for important historical breaks that influence but remain outside the bargaining approach of the study.

Oye then analyses trade, financial, and monetary relations in the 1930s (Part III) and 1980s (Part IV). The story is deftly and concisely told; the analytic framework is applied to the material with great effect. Oye shows clearly how the trend toward closure was reversed through bilateral agreements beginning in 1934 – except for monetary relations, which as predicted were consolidated into exclusive blocs. While the historical revisionism is perhaps less novel than Oye implies – from the outset, in my view, the 'conventional wisdom' is somewhat mischaracterized (see p. 3) – the record is plumbed with greater insight and detail than in other recent analyses.

In the 1980s, he argues, bilateral and regional trade bargaining has generally produced greater liberalism by enlarging domestic anti-protectionist coalitions and offsetting domestic biases toward protection. In case of the United States and Japan, trade agreements have tended to open rather than close markets – a pattern repeated in US–Canadian and intra-European trade negotiations. In international monetary relations, as in the 1930s, the publicness of the externalities impede effective management; countering the widespread perception that monetary management has been relatively successful, Oye argues that the decade was plagued by 'a kinder and gentler version of benign neglect' (p. 196). Finally, in financial relations – even though they are inherently divertible – creditors have respected cross-default clauses while debtors have refrained from preferential servicing. Paradoxically,

Oye concludes, the absence of financial discrimination in the 1980s may have preserved the multilateral system but it has impeded new lending to the Third World – setting the stage for a future crisis and, eventually, a return to bilateralism.

This last point reveals, to my mind, the central weakness of an otherwise fine book – a weakness in two parts. First, Oye waffles on whether non-discrimination produces better results than discrimination. On p. ix, he presents discrimination as 'a management mode of last resort'. But later, he writes that 'the combination of (oft violated) nondiscriminatory norms and discriminatory actions may well be preferable to either pure nondiscrimination or pure discrimination' – an argument employed to demonstrate the supposed benefits of hypocrisy in international political economy (p. 137). Better performance, of course, can only be assessed relative to some standard, and Oye vacillates between an ideal world of liberal multilateral rules, the real world of multilateralism since 1945, and the world as it might have been absent bilateral liberalization in both the 1930s and 1980s. This shifting standard makes both theoretical and practical evaluations of unrestricted bargaining difficult.

Second, and more important, Oye fails to explain when and why discrimination arises. That it is not simply a function of the type of externality is clearly suggested by the differences in international finance between the 1930s and 1980s – or between commercial policy in the 1930s and 1980s, on the one hand, and the period 1950–80, on the other. At several places he seems to imply that non-discriminatory liberalization can best occur under hegemony, but he is simultaneously critical of the theory of hegemonic stability and describes it as 'devoid of practical significance' (p. 25). Others, conversely, associate the Reciprocal Trade Agreements Act of 1934 – central to the bilateral commercial liberalization of the 1930s – with the first phases of American hegemony. As noted, Oye does not attempt to specify fully the circumstances under which linkage will occur, and so this criticism may be slightly unfair. But while we now understand better how bilateralism affects the international economy – no small accomplishment – we still lack a positive theory of unrestricted bargaining.

Finally, and quite ironically given the book's debt to Ronald Coase's early work on externalities, the analysis does not develop the important roles in structuring the level and form of cooperation of institutions, examined in the book by Martin, or transactions costs, addressed by Yarbrough and Yarbrough. Although Oye recognizes that transactions costs, and implicitly institutions, may affect the choice of rule based management or *ad hoc* bargaining, the concept is not used to any purpose. By staying within the confines of the strategic approach to cooperation, Oye demonstrates both the power of the framework as well as its limitations.

Institutions for cooperation

In *Coercive Cooperation*, Martin examines 'the conditions under which two or more states will jointly impose economic sanctions against a third' (p. 4). This is a potentially strong area for finding cooperation, for if sanctions are to be effective they typically require collective action by more than one state. Nonetheless, Martin finds that levels of cooperation vary, and that problems of credibility are central to this variation. In nearly every case, she argues, one state acts as the 'leading sender' that needs to convince others, who might otherwise prefer to free ride, to cooperate in the joint effort. As Martin argues, echoing the themes of Oye's book: 'In this situation, the leading sender must use tactical issue linkage – either threats of countersanctions or promises of side payments – to convince other states to cooperate. If the leading sender does not attempt to make such linkages, or to establish a credible commitment to them, little cooperation emerges' (p. 12).

In establishing credibility, two factors are central. First, the leading sender must itself bear substantial costs in imposing sanctions; somewhat counter-intuitively, if the lead state is not willing to absorb significant pain, potential partners will not believe it is serious about wielding the carrots and sticks necessary for gaining their compliance. Second, international institutions, acting at the request of one or more members, must call for sanctions. Institutions work, she argues, 'through the linkages they create among issues and the information they provide to members about other members' preferences and actions' (p. 8). Finally, when commitments to sanctions are credible, Martin concludes, states bandwagon: cooperation begets greater cooperation.

Martin begins by identifying three generic games of cooperation. In coincidence games, states share interests in imposing sanctions; while the problem of cooperation here is relatively simple to solve, states may nonetheless require assurances that others will not irrationally or involuntarily defect. Coercion games naturally produce unilateral sanctioning by the leading sender, as it strongly prefers action against the target while others prefer to free ride. In this situation, cooperation requires the leading sender to use issue linkage, threats, side payments, and other tools of statecraft to gain compliance. Finally, in coadjustment games, such as the classic Prisoner's Dilemma, states impose sanctions, but at a sub-optimal level. Any sanctions attempt, Martin argues, is likely to combine several of these games; the leading sender, for instance, may be in a coercion game with its partners, but the partners may face coadjustment games with each other.

Using the games as a heuristic rather than a deductive theory (noted on p. 249), Martin derives seven hypotheses on the determinants of cooperation (summarized on pp. 44–5). These hypotheses are then subjected

to a rigorous quantitative examination in 101 cases of sanctions since the Second World War. A central problem is that 'cooperation' cannot be observed directly. To compensate, Martin employs three different measures of the variable, uses statistical tests appropriate for each, and – in validation of the approach – obtains robust results. She finds that when an international institution calls for sanctions or the proposed sanctions impose high costs on the major sender, the level of cooperation increases substantially. Assistance to the target by others, sanctions crossing the East–West divide of the Cold War, economic conditions in the target, and the goal behind sanctions all have weaker and often mixed effects. She finds no support for the proposition that cooperation falls with declining hegemony.

On the basis of these quantitative results, Martin undertakes four detailed case studies (some comprising more than one actual sanctions episode). Each focuses on the costs to the leading sender and role of international institutions and traces through the process by which these variables, highlighted in the aggregate data analysis, work their effects in particular instances.

Sanctions initiated by the United States against human rights violators in Latin America failed to elicit significant cooperation because the leading sender was unwilling to pay substantial costs; driven by domestic politics and deeply ambivalent about the issues, the Carter administration satisfied its constituency at home that it was 'doing something' but signaled its partners abroad that they did not need to follow – all the while maintaining relatively good relations with the target states. The Falklands Islands conflict, and the resulting sanctions against Argentina, demonstrates the importance of international institutions. Here, the European Community both provided information about the preferences and actions of others, by encouraging debate and defining clearly what constituted 'sanctions' against Argentina, and facilitated issue linkage, forcing Britain to compromise on a persistent European Community budget dispute in order to maintain restrictions once military hostilities began.

In the case of East–West technology controls the United States obtained significant cooperation in 1980, following the Soviet invasion of Afghanistan, because its willingness to impose a grain embargo signaled its firm commitment and others were not willing to place CoCom (Coordinating Committee for Export Controls) at risk by defying the new American insistence on 'no exceptions' – a policy that imposed comparatively greater costs on the US as well. Finally, the gas-pipeline sanctions in response to the Polish 'crisis' failed, Martin concludes, because the United States – again, the lead sender – was unwilling to bear any substantial cost, epitomized by the Reagan administration's refusal to impose a grain embargo. This 'sent a double signal to the

Europeans. It told them that American threats of countersanctions were not credible and it raised questions about the real objectives of US policy', which many Europeans suspected were to expand the scope of permanent export controls (p. 205).

Meticulously researched and carefully designed, *Coercive Cooperation* is an important and persuasive book. Walking the reader through each step, Martin's quantitative analysis provides a new exemplar for the field of international relations. The marriage of large-*n* and small-*n* research designs, using the strengths of each to compensate for the weaknesses of the other, produces a far stronger book than either approach would have alone. Substantively, *Coercive Cooperation* provides the most compelling evidence to date that institutions matter in promoting international cooperation. It should not be read simply as 'another' book on sanctions. Even scholars with little interest in the topic *per se* will have to grapple with the conclusions of this study.

Despite this praise, there are still several areas of concern. First, like many works in international relations, *Coercive Cooperation* suffers from the problem of selection bias. While the dependent variable, the level of cooperation, does indeed vary, the study nonetheless excludes those cases where a single state does not initiate sanctions because it knows others will not follow and the target country complies with the wishes of the possible senders prior to the imposition of sanctions. As with any instance of selection bias, the estimated effects of the causal variables are likely to be lower than they really are, implying that some of the indicators in the quantitative tests may be more important than they now appear.

Second, the models used to inform the hypotheses and motivate the inquiry are all 'single shot' games in which both actors possess complete and perfect information. Martin acknowledges that these conditions are highly artificial (p. 37). Of course, all theories are simplifications – indeed, the simpler the better, for the most part. But here the quest for simplicity leads to determinant predictions of behavior and inferences that do not hold if the assumptions are relaxed. For instance, Martin writes that 'When we see cooperation in a coercion game, it means that one state has, through tactical issue linkage, successfully changed the incentives facing others' (p. 44). Yet, cooperation might also result from a strategy of linking the same issue over time (conditional cooperation under iterated play) or from a mixed strategy under imperfect information. Martin's generalization is but one of several possible game theoretic explanations. To further complicate matters, in the cases Martin infers the structure of the game from the behavior of the actors. Writing on the relatively widespread sanctions against Pinochet's Chile, for instance, she notes that 'it was the result of coincidence of interests among most European states, fitting the pattern of a coincidence game

rather than one of coadjustment or coercion' (p. 127; for another example, see p. 141). While this categorization helps interpret the relevant events, the game itself cannot then be used to explain the case.

Third, while presented forcefully, the case for institutions may be less strong than it seems. Institutions may be epiphenomenal, or possibly even spurious. The two cases where they mattered most – the Falklands and Afghanistan sanctions – are 'security crises' precipitated by challenges to the territorial status quo, while the others are largely concerned with human rights. States may be more likely to bring proposals for sanctions to institutions, and others may be more willing to let institutions act, depending on the issue at hand, with security being more salient than other possible motivations. Such differences are partly captured in the variable 'goal' used in the statistical analysis, a dummy variable coded for minor and all other policy changes. Nonetheless, this indicator is too coarse to pick up many relevant variations. The case material is consistent with this alternative hypothesis, and in the absence of adequate controls in the quantitative analysis we cannot dismiss this possible explanation.

The choice of institutions may also be endogenous. In other words, with more than one institutional forum available to them, states choose that institution most likely to produce the results they desire. This is particularly evident in the Falklands case, where Britain, after obtaining a supportive resolution in the United Nations Security Council calling for a ceasefire and Argentine withdrawal, declined to push further in either the General Assembly or Council for fear of a negative vote. Instead, it turned to the European Community where it expected greater support. Conversely, Ireland tried to return the issue to the United Nations believing that institution would not call for mandatory sanctions (p. 138). The United States and the European countries also differed on the 'proper' institution for discussing human rights issues and sanctions in Latin America (p. 121). 'Institution shopping' again undermines the independent explanatory power of this variable. To understand the role of institutions, we must pay attention to the choice of institution and the decision-making procedures and rules each uses.

Contracting for cooperation

In *Cooperation and Governance in International Trade,* Yarbrough and Yarbrough ask 'What can explain the historically observed institutional variety in efforts to liberalize or open the world trading system?' (p. 3). Going beyond the usual attempts to explain variations in the level of protection, they seek to account for the form of international trade liberalization. The mid-nineteenth century, they argue, was characterized by *unilateral* liberalization spearheaded by Britain. After the Second World

War, the United States led others toward a new system of *multilateral* liberalization embodied in the General Agreement on Tariffs and Trade (GATT). By 1965, however, multilateral liberalization began to be displaced by *bilateral* liberalization, including the US–Israel, EC–Israel, ASEAN, and European Free Trade Association agreements. Finally, beginning in the late 1980s, a new form of *minilateralism* arose involving cooperation among small groups of countries, such as the European Community under the Single European Act or the Canada–US Free Trade Agreement (the book was written before but clearly applies to the North American Free Trade Agreement).

Summarizing their analysis, Yarbrough and Yarbrough write that 'Institutional variety in trade liberalization reflects the efficacy of alternative governance structures for different types of trade transactions in different political and economic environments' (p. 19). Within their approach, the problem of opportunism in international trade is central. Specialization according to comparative advantage can lead to relationally specific investments that possess considerably more value in one than others – such as transportation facilities (e.g. pipelines), linked upstream and downstream production (common to raw materials extraction and machinery dependent upon replacement parts), or 'targeted' production (office equipment capable of using Japanese *kanji* characters). With relationally specific investments, a party to an exchange can be harmed by its partner. Thus, trade relations become a familiar prisoner's dilemma and can flourish only when either a third party exists to enforce agreements and limit opportunism or the parties themselves can negotiate self-enforcing agreements. These governance structures can range from bilateral agreements, easiest to negotiate and enforce, to minilateralism, with limited third party enforcement often from some supranational institution, to multilateralism, in which enforcement is supplied by a hegemonic state.

In the nineteenth century, states possessed few relationally specific investments, thus unilateral liberalization was appropriate and sufficient. As the twentieth century progressed, on the other hand, relationally specific investments greatly expanded. American hegemony provided effective third party enforcement of trade agreements, allowing liberalization. As American hegemony declined, bilateralism emerged and was eventually supplemented by minilateral agreements in some areas of particularly dense economic and political transactions. Yarbrough and Yarbrough do not address the interwar period, but Oye's description of the bilateralism of that era is generally consistent with the expectations of the strategic organizational approach and might have added an additional dimension to the analysis.

The historical cases are examined only briefly and do not constitute tests of the theory; indeed, Yarbrough and Yarbrough claim only that

their approach is 'consistent with the "stylized facts" of modern trade history' (p. 145). Their approach is used to capture and interpret policy trends within each era, but there is no systematic assessment of falsifiable propositions, no evidence presented that states actually act in ways expected by the theory, nor any process tracing of key decisions to probe whether policy makers understood the kinds of issues and tradeoffs identified by the approach. This is unfortunate; one could, for instance, test whether there were greater relationally specific investments in dyads with bilateral or minilateral agreements than in dyads without such agreements. While the book is persuasive because of its logic and general empirical fit, more rigorous testing can and should be undertaken.

The central problem in testing the approach, of course, is that relationally specific investments are difficult to measure. Building on theories of industrial organization, which posit that firm specific assets are the primary determinant of integration, Yarbrough and Yarbrough use intra-firm trade as a proxy for relational specificity (see pp. 31–2). On this basis, they conclude that the nineteenth century was characterized by low and the twentieth century by high relationally specific investments. Unfortunately, systematic data on intra-firm trade is available only from the 1970s (p. 33), rendering judgments on the nineteenth century dependent once again on stylized facts. Intra-firm trade may also be a poor proxy for relationally specific investments. The pattern of complementary trade found in the nineteenth century, consisting of the exchange of manufactured items and raw materials, may have created relationally specific assets of a different but no less important type; resource extractors were perhaps more dependent upon European processors and markets in the late-nineteenth century than General Motors is on offshore sourcing today. The dependence of the former is not captured at all in the present analysis.

More important, Yarbrough and Yarbrough fail to address and do not develop the implications of possible alternatives to interstate governance. Early on, they suggest that there are two sources of opportunism: by firms, who actually conduct international trade, and states, who regulate cross-border transactions. By focusing on intra-firm trade as the indicator of relational specificity, Yarbrough and Yarbrough implicitly assume that firm level and interstate governance structures are complements; the more transactions that are internalized in firms, the more need there is for interstate governance. Yet, under some circumstances, firms may choose to internalize trade as an alternative to relying upon state-to-state enforcement of rules governing exchange. Firms may choose to diversify production sites to mitigate the 'obsolescing bargain' inherent in any investment (i.e. where the firm's leverage over the government declines dramatically once the fixed costs of investment are incurred). The greater flexibility that comes with necessarily more

artificial pricing within a firm may mean private actors are better able to deal with varying government taxes and subsidies. When firm level and interstate governance structures are substitutes rather than complements, the need for third party enforcement, whether through multilateralism or minilateralism, or bilateral state-to-state bargaining is dramatically reduced. The relationship between private and public governance structures is more complex than implied.

Similarly, domestic structures will influence the likelihood that states will act opportunistically. A regime supported by capitalists with large international investments is likely to be a more trustworthy partner than one dominated by nationally-oriented capitalists. The need for third party enforcement will be smaller in the first instance, and higher in the second. Thus, the degree to which agreements are self-enforcing will vary with the domestic characteristics of the states involved. Likewise, when interstate governance structures are weak, private actors and states may choose to internalize political relationships to reduce opportunism, transforming interstate into intrastate relationships. In this sense, the imperialism of the nineteenth century is the functional equivalent of American hegemony and the GATT in the twentieth. When London, for instance, controls both ends of a 'foreign' trade transaction, the problem of interstate policy opportunism all but disappears. Given the prevalence of imperialism in the earlier period, this raises questions about the nature of 'unilateral' liberalization under British hegemony. While Yarbrough and Yarbrough are on the right track by focusing only on interstate governance structures they adopt a too narrow lens that stifles the range of issues and questions they might profitably address.

Finally, relationally specific investments and state behaviors are interdependent, and predictions are therefore indeterminate. The decisions of states either to act opportunistically or to enforce international trade rules are a product of their domestic political environments. If private actors are highly dependent on relationally specific investments, they will pressure their governments to enforce appropriate rules. Even though American hegemony has waned, relationally specific investments have accumulated and domestic political pressures to enforce the multilateral trade rules continue. Conversely, the investment decisions of firms are a function of the expected international governance structure. If private actors are confident that public opportunism will be low, they will undertake relationally specific investments. If they lack such confidence, however, firms will be reluctant to make such investments. Rather than being a cause of third party enforcement of international trade rules, relationally specific investments are equally a consequence of effective enforcement. Indeed, they may follow rather than lead trade regimes. In any theory, it is necessary to take something as exogenous. But in this case the causal arrows clearly go both ways.

An agenda for cooperation

These three books represent the best of the new works on international cooperation. Taken as a group, they demonstrate the tremendous progress made in this area of research. Developed partly in response to the intellectual hegemony of classical realism and neorealism – which emphasize international anarchy, self-help, and the war of all against all – these and other recent works challenge the innate pessimism of traditional theories of international relations. They show that there is more cooperation in international relations than sometimes supposed – even in periods, as Oye demonstrates for the 1930s, that were previously understood as essentially conflictual and dominated by autarky and nationalism. Somewhat more controversially, they also show that institutions do facilitate cooperation.

It is now time, I believe, to move beyond paradigmatic debates about the level of cooperation. The key question is no longer 'Do nations cooperate?' but 'When, under what circumstances, and why do nations cooperate?' The books examined above point in this direction, but do not go far enough. Oye does not present a theory of unrestricted bargaining. Martin does not address the problem of endogenous institutions. Yarbrough and Yarbrough focus only on third party enforcement and, consequently, do not incorporate domestic sources of international credibility, the relationship between public and private governance structures, or other international governance structures – such as empires – that internalize the risks of policy opportunism. The next stage of research, in my view, should focus on describing, analyzing, and explaining the *form of cooperation*, or what Yarbrough and Yarbrough appropriately call *governance*.

Yarbrough and Yarbrough build on a most promising theoretical foundation, discussed in Chapter 6 of their book under the heading of the 'New Economics of Organization' (NEO). The key insight of the NEO is that the unit of analysis is not the actor but the transaction. Economics was revolutionized with the simple question, 'What is a firm?' The now standard answer is that the firm is a nexus of contracts between numerous workers, managers, and owners who find it more efficient to internalize some exchanges within a single organization rather than conduct their affairs as independent operators engaged in 'arm's length' relationships. The central hypothesis of the NEO, in turn, is that the parties to an exchange choose governance structures to control opportunism and minimize transactions costs; in other words, they choose the structure most efficient for regulating the transaction. Thus, as circumstances change transactions once efficiently carried out between firms may be internalized within a new and larger firm or even a multinational corporation. Specific, testable propositions are generated by

specifying the actual range of relevant governance structures and the determinants of efficiency – variables around which there continues to be substantial debate and, consequently, multiple theories united by a common approach.

Applied to politics, the NEO also takes the transaction as the unit of analysis – trade liberalization, financial stabilization, economic sanctions, as in the books under review. It then attempts to explain the form of political organization in which these policy exchanges are carried out. Oye's unrestricted bargaining and multilateral rules, Martin's coercion and institutions, and Yarbrough and Yarbrough's bilateralism, minilateralism, and multilateralism are all alternative governance structures through which states seek to manage and regulate their political interactions. All of these seemingly diverse phenomena are governance structures providing solutions to the problems of pooling efforts and resources for joint action in the international arena. Furthermore, states themselves, taken as primordial units in all of the books under review, are also governance structures; appropriately in an age in which we are simultaneously witnessing the rise of new forms of supra-nationalism in Europe and the collapse of multinational empires in the former communist bloc, the NEO questions and opens an avenue for theorizing about the nature of states as we know them. The great promise of the relational contracting approach is that it allows us to pull together into a single, coherent theoretical approach many diverse literatures in international relations, including those on empires, alliances, supra-national institutions, multinational corporations, trade blocs, and the size, shape, and functions of nation-states.

The tasks before us are, first, to identify the possible dimensions of variation that unify alternative governance structures and, second, to explain when and why some are chosen over others. As in economics, we need to specify the range of alternatives and the determinants of choice. Although the governance structures and constraints international political economists choose to emphasize may be different, the structure of the analysis remains the same. What did the actors gain by organizing their relations this way rather than that way? Why did they choose this governance structure over another? How can we explain observed forms of international cooperation?

The books reviewed above place the capstone on debates over whether or not nations cooperate. Despite the problems identified above, they also identify some of the conditions that make cooperation more or less likely. Finally, as a collection, and read in light of the contribution by Yarbrough and Yarbrough, they also call our attention to the variety of forms of cooperation. This may be their most important contribution. International governance structures surround us. Even within international anarchy, as Oye, Martin, and Yarbrough and Yarbrough show,

there are many ways of organizing cooperation. The NEO provides a ready set of methods and concepts to begin understanding the alternative governance structures of international relations. There is a rich empirical and theoretical agenda before us.

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