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Review Essay

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Abstracts

Toward a Positive Theory of International Institutions: Regulating International Aviation Markets

by John E. Richards

The regulation of postwar international aviation markets suggests that existing approaches to international institutions cannot adequately account for important elements of international institution building. In particular, scholars have neglected how domestic politics shapes the incentives of national governments to create and maintain international institutions and the impact of domestic politics on the scope and functions of international institutions. Drawing on positive theories of regulation and the literature on property rights, I argue that national politicians use international institutions to increase the wealth available for domestic redistribution. In short, national politicians create and maintain international institutions to maximize domestic political support. I present a domestic political model that explains how, when, and why national politicians create international institutions. The model is applied to the creation of institutions governing international aviation markets in the late 1940s and the reformulation of these institutions over the past two decades.

Origins of the Federal Reserve System: International Incentives and the Domestic Free-rider Problem

by J. Lawrence Broz

The Federal Reserve System was established in 1913 to provide the public good of domestic financial system stability. Its main purpose was to safeguard the nation from banking panics and other economically costly financial disturbances. In this article, I explain the collective action behind the Federal Reserve Act by way of the joint products (selective incentives) model. The selective inducement that motivated lobbying for the Federal Reserve was the desire to internationalize usage of the U.S. dollar, a benefit restricted primarily to money-center bankers. Bankers internalized the costs of producing the Federal Reserve because the private gains associated with internationalizing the currency could not be disassociated from production of domestic financial stability. The article provides a road map of the joint products model and demonstrates empirically the supply technology that bound together the public and private goods of the Federal Reserve Act.

Democratic Institutions and Exchange-rate Commitments
by William Bernhard and David Leblang

Since the collapse of the Bretton Woods system, countries have been able to choose from a variety of exchange-rate arrangements. We argue that politicians' incentives condition the choice of an exchange-rate arrangement. These incentives reflect the configuration of domestic political institutions, particularly electoral and legislative institutions. In systems where the cost of electoral defeat is high and electoral timing is exogenous, politicians will be less willing to forgo their discretion over monetary policy with a fixed exchange rate. In systems where the costs of electoral defeat are low and electoral timing is endogenous, politicians are more likely to adopt a fixed exchange-rate regime. Consequently, differences in domestic political systems can help account for variations in the choice of exchange-rate arrangements. We test this argument using constrained multinomial logit and binomial logit on a sample of twenty democracies over the period 1974–95. Domestic political institutions have a significant effect on exchange-rate regime choice, even after controlling for systemic, macroeconomic, and other political variables.

Asset Specificity and the Political Behavior of Firms: Lobbying for Subsidies in Norway
by James E. Alt, Fredrik Carlsen, Per Heum, and Kåre Johansen

Previous research into endogenous trade policy has described extensively the political incentives of firms with specific assets, but no studies have shown directly that firms behave as predicted. We adopt insights from transaction costs economics to develop measures of asset specificity and to investigate how variation in these measures affects the political behavior of firms. In particular, we examine the lobbying choices of Norwegian firms in the 1980s. Given available subsidy funds from Norway's oil boom and some government decisions in the 1970s, firms with more specific assets faced potentially greater losses from adjusting to new activities in the face of competitive pressures and thus had greater incentives to lobby for subsidies to protect themselves. Joint contacting of Parliament and government on behalf of firm interests by representatives of both management and labor should be particularly likely where firms had specific assets. Data analysis shows that asset specificity, as indicated by R&D intensity and job immobility, predicts joint contacting independently of plausible alternative explanatory variables like firm size and export orientation.

Retaliation, Bargaining, and the Pursuit of "Free and Fair" Trade
by Kishore Gawande and Wendy L. Hansen

That domestic political economic factors are important determinants of a nation's trade barriers has been empirically well established. However, the question of how effective strategically retaliatory trade barriers are in deterring foreign protectionism has received far less systematic empirical attention. In this article we use bilateral nontariff barrier (NTB) data between the United States and five developed partner countries (Japan, France, Germany, Italy, and the United Kingdom) to systematically examine the effectiveness of strategic retaliation. We employ a simultaneous Tobit model where the home and foreign NTB levels are determined endogenously in a bilateral game. The model provides estimates of deterrence coefficients, that is, the reduction in foreign trade barriers as a result of U.S. retaliation, which we use to characterize the nature of bilateral NTB games. Our hope is that the empirical results presented here, which have realistic though controversial implications, will inform U.S. trade policy.

Case Studies and the Statistical Worldview: Review of King, Keohane, and Verba's *Designing Social Inquiry: Scientific Inference in Qualitative Research*.
by Timothy J. McKeown

Gary King, Robert O. Keohane, and Sydney Verba's *Designing Social Inquiry* exploits the metaphor of researcher-as-statistician to develop guidelines for conducting social scientific research that are allegedly applicable to all empirical investigations. Their approach has sharp and often unflattering implications for case studies and similar research strategies. Because their statistical worldview is unable to make sense of important aspects of case study research or of the importance that is sometimes attached to the findings of a single case, their argument seemingly casts doubt on the wisdom of producing or consuming such studies.

I argue that the foundation of classical statistics and the epistemology of Carl Hempel and Karl Popper is an inadequate and misleading basis for a critical evaluation of case studies. I then present examples of research that are not easily accommodated within the authors' framework and sketch the elements of an alternative epistemological framework rooted in a "pattern" model of explanation. The latter is a standpoint that is much more helpful in understanding and criticizing case studies than the framework presented in *Designing Social Inquiry*.