The Transactions Costs Approach to Understanding International Institutions: An Intellectual Legacy of Robert O. Keohane

Michael J. Gilligan
New York University

"*Why should it be worthwhile to construct regimes (themselves requiring agreement) in order to make specific agreements within the regime frameworks? Why is it not more efficient simply to avoid the regime stage and make agreements on an* ad hoc *basis*? *In short why is there any demand for international regimes apart from a demand for international agreements on particular questions?*" Robert O. Keohane (1982, p. 334)

Introduction

1984 marked the publication of Robert Keohane's monumentally important book *After Hegemony*, which was preceded two years earlier by an article version of the argument in a well-known edited volume of *International Organization*. The main points of Keohane's book—namely that countries demand regimes because they help solve cooperation problems and that these regimes make cooperation possible even after the decline of the hegemon—were ground-breaking insights at the time and they had a huge and immediate impact on the discipline. They were a much-needed antidote to the resurgence of realism following the publication of Waltz's *Theory of International Politics* five years earlier, and they were a worthwhile caveat to hegemonic stability theory, which in its various manifestations (Gilpin 1981, Kindleberger 1986, Kennedy 1988) was very much *en vogue* at the time.

But there was another important aspect of this work that made it equally innovative compared to previous work on international cooperation and continues to generate interesting insights today. This was Keohane's use of the work of Coase (1960), Williamson (1983) and others in the economics of organization literature that points to the importance of *transactions costs* as an important independent variable in understanding certain international cooperative phenomena. Keohane's use of the transactions costs approach was at least a decade ahead of its time.[1] Scholars in international relations and international law like Abbot and Snidal (1998), Trachtman (1996), Lake (1996), Morrow (2001), Koremenos Lipson and Snidal (2001) and the various authors included in their edited volume, and economists like North (1990), and Dixit (1996) have come to utilize the transactions cost approach for understanding political phenomena, but these efforts are pre-dated by Keohane's' analysis by anywhere from eight to a dozen years.

I regard the quote by Robert Keohane with which I began this paper to be one of the most important questions that has been asked within the study of international institutions. Before that question was asked scholarship on international institutions fell into one of two camps. Closet world federalists regarded international institutions as fetal world governments. Realists regarded them as meaningless façades that only served to mask the harsh reality of raw power in international politics. There were, of course, scholars at the time doing excellent work in a game theoretic tradition on international

[1] At least one international relations scholar, Conybeare (1980) used Coase's ideas before Keohane did, but his work was primarily prescriptive—Coase's theory was used only to question the need for more supranational authority—and it did not develop a research agenda the way that Keohane did.

cooperation and coordination[2] but, in this work, institutions played no role and so this work was unable to answer Keohane's questions: "Why create an international institution first? Why not just create a cooperative agreement directly?"

Keohane's question and his answer to it provided a new way of looking at these institutions: not as incipient world governments because states remain sovereign and the most powerful actors within the international system after the creation of these institutions just as they were before, and not as propaganda ploys created by modern day Machiavellis seeking to hide their cynical power plays behind a façade of international legality. Instead he conceived of these institutions as legitimate attempts by sovereign states to solve a problem. That problem is that the policies that states set unilaterally are often bad for each other, and this fact presents an opportunity for a mutually beneficial exchange between them in which each state changes its own policy as explicit *quid pro quo* for changes in the other country's policy. The negotiation, monitoring and enforcement of these mutually beneficial exchanges can be quite complicated, however, and that is where institutions come in.

In this paper I will revisit Keohane's innovation in our understanding of international cooperation and argue that it is and will continue to be one of Keohane's most important and enduring intellectual legacies. Specifically I will focus on this work's implied focus on the study of the *institutional* features of international cooperation, which distinguishes this approach from the more abstract game theoretic treatments of the subject of international cooperation. My comments on the fruitfulness of the transactions costs approach to international cooperation are not new. In addition to Keohane's own work in the area other scholars have also employed this approach, notably Trachtman (1996), Lake (1996) and Abbot and Snidal (1998). My purpose in writing this paper, rather than breaking new theoretical ground, is to point out how innovative these ideas were in the early 1980s and how useful they still are for understanding these issues today. I will then turn to a recent critique of the transactions costs approach, and, after presenting a defense of the transactions costs approach against that critique, offer some conclusions.

The Transactions Cost Approach to Economics

My argument about Keohane's contribution to the study of international institutions hinges mainly on an analogy to the contributions of transactions costs economists to the traditional neo-classical study of markets, typically referred to as the Arrow-Debreu approach. Thus it may be worthwhile spending some time to distinguish between these two approaches to economic transactions. The unit of analysis in the transaction costs approach to economics, naturally, the transaction, which within this literature is typically referred to as a *contract*. Examples of economic transactions are fairly obvious. They can be a simple as a person paying their newsagent for the morning paper or their barber for a haircut and as complicated as major manufacturer of breakfast cereal buying sweeteners by the ton or hiring thousands of workers to staff their factories. In the classic Arrow-Debreau approach these transactions are completed in a market where the price at which suppliers are willing to supply the good or service equals the price at which consumers are willing to buy it. Arrow-Debreau and others have shown that allocations resulting

[2] Axelrod (1984) is perhaps the best known example.

from these transactions are efficient in the sense that they lead society to produce the most it can at the lowest possible costs.

If the price mechanism that is the crux of this approach is so efficient, though, why are not all transactions conducted by it? Many transactions are conducted not within markets via the price mechanism but are undertaken within organizations (typically *firms*). Those transactions are undertaken at the direction of the boss of a firm. For example, consider the relationship between a supermarket manager and a clerk in the store. There are constraints on what types of tasks the manager may ask the clerk to perform, but within those constraints the clerk does not have to be re-contracted to perform each specific task. The manager may redirect the clerk's efforts from stocking cans in aisle three to clean-up in aisle seven without a moment's consultation of the relative prices and marginal products of those two activities and without requiring the clerk to renegotiate his contract. Of course the local supermarket is a particularly simple example, but it contains the essence of much more complicated organizations like Sony or General Motors, which frankly bear more of a resemblance to Soviet-style planned economy than to the free market modeled so elegantly by Arrow and Debreu. As Coase (1937) so eloquently put it the free market of neo-classical economics does not exist in an unadulterated form—within so-called "free markets" there are pockets of central planning which bear the household names Time-Warner, Microsoft, IBM, General Mills and so on.

Why are some transactions, whether for labor or goods, organized within markets and other organized within firms? The Arrow-Debreu approach is extraordinarily powerful and fruitful but it is incapable of answering this question, as well as questions like "How do transactions within organizations differ from behavior within markets?" "Are there ways to design organizations to make them more efficient and/or effective?" The Arrow-Debreu approach, which does not admit a role for organizations, is incapable of answering these questions.

Coase's (1937) answer to the question "Why do firms exists?" or "Why are some transactions conducted impersonally via the price mechanism while others are conducted within organizations (firms)" was of course "transactions costs." Coase posited that there are costs to concluding transactions via the price mechanism—negotiation costs, contracting costs, costs of monitoring and enforcing the contract and so on. Coase and his successors argued that by concluding these transactions within firms economic agents are able to avoid these costs, or at least lessen them. The notion of transactions costs is, by design, as comprehensive as possible, a feature which can imbue the concept with a frustrating vagueness. North (1990, 27) defined transactions costs as "the costs of measuring the valuable attributes of what is being exchanged and the costs of protecting rights and policing and enforcing agreements." Williamson (1989, 142) defined them as "comparative costs of planning adapting and monitoring task completion under alternative governance structures."

Coase's answer to the question of why firms exist only begs the next question: "why then are not all transactions conducted in one big firm?" Coase's response to this latter question was that inefficiencies arise when resources are allocated by managerial fiat within an organization rather than in response to relative prices. In such a case resources are no longer necessarily allocated in such a way that their marginal costs is equal to their marginal benefit. Coase was able to use his transactions costs approach along with simple notions of marginality to speculate about the size of firms. Firms would increase in size until the marginal cost of the inefficiencies of conducting a transaction within an organization were just equal to the marginal cost of conducting that transaction with an outside agent.

To illustrate with a concrete example suppose a firm makes some machine that requires a specialized type of ball bearing. The manager of the firm has one of two options in acquiring these ball bearings. She can either 1) contract with an outside manufacturer to produce them or 2) purchase the necessary machinery, hire workers to run them and have her own firm make them, or, what amounts to the same thing, she can purchase the outside manufacturing firm. Coase is simply claiming that the manager should, in equilibrium, choose the lowest cost option. Which one of these options is in fact lowest cost depends on a host of factors that were not explored by Coase in 1937 but have been extensively examined by scholars since, notably Williamson (1983, 1985, and 1989).[3] Indeed it is the major contribution of this literature that option (1) itself has a vast variety of forms of contracting, ranging from simple arms-length spot market transactions to much more complicated contracts that may include contingent clauses, renegotiation provisions, dispute resolution mechanisms and so on.

The Transactions Costs Approach to International Cooperation

Turning to international cooperation, the unit of analysis is also the transaction, but in this case that transaction is the *international agreement* or *treaty*. Understanding international agreements or treaties as transactions in this way is straightforward: two (or more) countries agree to change their policies in exchange for policies in the other country(ies). Examples might include:

1) "Our country will reduce our of CO_2 emissions by *x* percent if you will reduce your CO_2 emissions by *y* percent."
2) "Our country will eliminate barriers on trade in your goods and services if you do the same for ours."
3) "Our country pledges to come to your aid with *x* troops if you are attacked as long as you pledge to come to our aid with *y* troops if we are attacked."
4) "Our country will loan you *x* dollars if you agree to reduce inflation by *y* percent."

Obviously there are countless other possible examples of such arrangements. The point is that international agreements can be thought of as straightforward barter arrangements—a service for a service.[4]

[3] Some obvious examples of these factors might include the costs of monitoring workers to make the ball bearings or the costs of monitoring the quality of the ball bearings purchased from an outside firm. Negotiation costs will also obviously be important. Another important source of transactions costs are the possibility of being "held up" or exploited by the other firm in the future. One of Williamson's important contributions was to recognize that concerns with ex post factors like renegotiation of and compliance with the contract will produce ex ante transactions costs because firms will have to negotiate mechanisms ex ante to protect themselves from these types of opportunism.

[4] Trachtman (1996) says that states are transacting *power*. This terminology confuses the issue in my opinion. States are merely agreeing to alter their policies by a specified degree for some specified period of time as long as the other state also alters its policy by some specified degree for some specific period of time. They can continue the transaction as long as they benefit from it and they can withdraw from the transaction as soon as they see fit. No *power* actually exchanges hands in these transactions. States retain sovereign power after the transaction as before. These international transactions, as I understand them, are

To continue the analogy, we may fruitfully compare "received" international cooperation theory—what Abbot and Snidal (1998) fittingly called "*decentralized cooperation theory*"—with the Arrow-Debreu approach to markets. It would be fair to say that decentralized cooperation theory, along with perhaps constructivism, dominates the study of international cooperation today. Decentralized cooperation theory relies heavily on game theory, typically characterizing an international cooperation problem as a prisoners' dilemma where Pareto inefficient mutual noncooperation is the single-shot equilibrium.[5] Choosing to cooperate offers a Pareto improvement but compliance with the cooperative agreement is a potential problem due the absence of a state to enforce contracts (agreements/treaties). Decentralized cooperation theory posits that this enforcement/compliance problem is solvable because the games are repeated—as long as actors do not discount the future too heavily they will comply with their international agreements[6] Indeed according to the "folk theorem" there are many possible such cooperative solutions to the problem. Like the Arrow-Debreu approach decentralized cooperation theory was extraordinarily fruitful at answering a certain set of questions (when will countries cooperate, how will they enforce their agreements) and it continues to offer new an important insights today. However, it is incapable of answering a different set of questions about the effects of institutions because institutions play no role in that theory.

In decentralized cooperation theory, international cooperation can occur in an institutionless void. Cooperative policies are decided upon by states via international bargaining and enforced via the repeated prisoner's dilemma. The details of the institutional structure are unimportant. Indeed, in this approach, it is a little difficult to see why countries would even bother to write down their cooperative agreements.[7] But countries do write them down, of course, and, beyond that, they take great pains to write them down in very precise ways. By invoking Coase, Williamson, and the others, Keohane pointed the way to an explicit focus on *institutions*—not just cooperation (whether countries do it or not and whether countries comply with their agreements or not) but on the *institutional features* that make cooperation possible by removing some of the impediments to it.

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nothing more arcane than a simple exchange of services—"you scratch my back and I'll scratch yours." The legal instruments that facilitate the transaction are, of course, quite arcane, but the transaction itself requires no new or special terminology.

[5] There are other types of cooperation problems, of course—coordination games for instance. I focus on the prisoners' dilemma for illustrative purposes only.

[6] Early examples of this approach include the articles in the Oye (1986) edited volume, Stein (1982) and Snidal (1985b). A by-no-means-exhaustive list of a few of the more recent extensions might include: Downs Rocke and Barsoom (1996) who discuss selection bias in the compliance record of international agreements, Fearon (1998) who elucidates the dual roles of states' discount rates in both bargaining and enforcement, McGillivray and Smith (2001) who augment the basic repeated prisoners dilemma with an agent-specific framework, and my own work (2004) which extends the typical bilateral model to a multilateral setting.

[7] Morrow (2000) raised this question in his study of alliance agreements. Using a signaling model Morrow (2000) makes the case that by publicly committing to defend another country via a treaty of alliance states are subjecting themselves to costs of reneging ("audience costs") thereby making alliance commitments more credible. While not explicitly a transaction s costs argument, it could easily be reinterpreted into the terminology of transactions costs economics where allies write down their commitments to help prevent future opportunistic behavior, namely reneging on promises to defend ones ally once war actually breaks out.

The way in which Keohane employs the Coase theorem is well-known so I may be brief. Coase's (1960) main point was that "the problem of social costs" (what we typically refer to as externalities) are easily solved by private agents acting in their own self interest as long as there exists: 1) a legal system for enforcing contracts 2) perfect information and 3) no transactions costs. Keohane pointed out that these three criteria are typically not present in international politics, and so we cannot rely on countries to solve their externalities problems as easily as the Coase theorem might suggest. Keohane goes on to argue that it is in correcting these three "inversions" of the Coase theorem that the value of international institutions lies.

Keohane was most interested in addressing the questions "Is cooperation possible among rational egoists?" and "Can cooperation last beyond the fall of the hegemon?" Keohane uses his approach to answer both questions in the affirmative. Notice however that neither question required Keohane to resort to the notion of transactions costs. The first answer is a straightforward application of the "folk theorem" and Snidal (1985) was able to show that hegemons were in no way necessary for international cooperation. What does Keohane get out of employing the Coase framework?

The answer, of course, is that invoking transactions costs allows Keohane to answer the questions quoted at the start of this paper. His institutional approach allows us to begin to understand the great variety of institutional forms that we observe in international politics. It allows us to ask and begin to answer a host of questions that decentralized cooperation theory does not even ask: When will countries rely on relatively informal norms and when will they rely on more formal agreements? When will their formal agreements include an explicit dispute resolution procedure and when will they leave such procedures unspecified? How long will the treaties remain in force? Will renegotiation provisions be included? These are just a few of the questions that are worth answering but that are not even asked by decentralized cooperation theory.

In a purely economic setting Coase's argument implies that we would expect transactions with relatively low costs to take place via arms-length transactions, whether bargained between two economic agents or undertaken in price-taking fashion through markets. Transactions with relatively high costs should be undertaken within the confines of an organization—the firm—or should not be undertaken at all. By analogy international cooperative transactions with relatively low transactions costs should be undertaken via negotiated agreements. International cooperative transactions with high relative transactions costs, if they are undertaken at all, should take place within international institutions. These institutions themselves must be negotiated, of course, and so we will only observe such institutions if the relative transactions costs of creating them, amortized over the expected lifetime of the regime, are also sufficiently small. It is important to recognize that in all cases the concern is with transactions costs *relative* to the total value of the transaction. States may be willing to pay enormous transactions costs if the value of the treaty they are negotiating is even more enormous, and negligible transactions costs may be sufficient to induce states to forgo negotiations altogether if the expected value of the treaty is sufficiently small.

The value of the transactions costs approach is that it not only tells us that states may, under the right circumstances, cooperate, but it gives us insight into the great varieties of forms that that cooperation may take (what Lake has evocatively called "the varieties of international relations"). Consider two countries each of which has a policy that produces some external cost in the other country (think it as a level of pollution). Roughly speaking we might say that the two countries have four classes of options: 1) do nothing 2) negotiate a single treaty that reduces their level of pollution by some specified amount, perhaps for some specified period of time 3) negotiate a treaty to reduce the pollution and in addition create a more formal international organization and conduct future negotiations under the auspices of that organization or 4) integrate, that is create a supranational institution that sets a level of the policy for them.

Item (1) is particularly important because it reminds us that if the costs of a cooperative transaction are too high relative to the value of that transaction the two countries will simply forego cooperation. This has important methodological implications because it indicates that we cannot really infer much about the presence of transactions costs from observing international negotiations—if transaction costs are too high countries will not even bother to negotiate, as I will discuss in greater detail later. Both items (2) and (3) represent fairly large categories; indeed casual empiricism would suggest that almost all of the international cooperation that we observe falls into these categories. Breaking them up in two categories is thus somewhat artificial—even within these intermediary categories international cooperation can take any form along a continuum of one-time agreements where two countries merely agree to alter a particular policy all the way to more complicated agreements where new organizations may be created with explicit dispute resolution procedures, renegotiation provisions, contingency (i.e. “escape”) clauses and so on. Instances of (4) are, of course, not unheard of in international politics as the creation of the Common External Tariff and the recent events in the creation of the European Monetary Union attest. Lake (1996) makes a compelling case that empires are essentially an example of (4) whereby a powerful state integrates the security policies of weaker states into its own.

The transactions costs approach to international institutions has been extended fruitfully by a variety of scholars all of which I unfortunately cannot review here. Interestingly some of the greatest insights have come in the field of international security particularly in the way alliances are organized. Lake (1996) offers a fascinating study in which he uses the transactions costs approach to explain why some security relations like NATO are organized as alliances while other are organized as empires. Abbot and Snidal (1998) focus on formal international *organizations* rather than on the broader category of institutions referred to by Keohane and they provide a long list of possible functions for such organization. International trade policy has been a particularly common area where the approach has been applied. In addition to Trachtman (1996), which I already mentioned, Dixit (1996) provides a case study of some GATT rules within the context of the transactions cost approach, as do Yarborough and Yarborough (1992), who also extend their analysis to regional trade agreements. Although not exclusively a transactions cost approach enterprise, the papers in the edited volume by Koremenos Lipson and Snidal (2001) do employ some transactions costs ideas to their case studies of the rational design of international institutions.

Critiques

The transactions costs approach to understanding international institutions has come under something of an attack lately. I am not speaking of the neo-realist onslaught that was unleashed shortly after the publication of *After Hegemony* (Grieco 1988

Mearsheimer 1990 are exemplary). That critique was based on misconceptions of the role of models in the social sciences and of the role of assumptions within models, a point which was made convincingly by Powell (1994). Instead I am speaking of a much more serious critique offered by Moravcsik (1999). Employing case studies of the negotiation of five major European integration treaties, Moravcsik concludes that EC/EU staff did little to further integration and in some cases even lagged behind the efforts of state leaders in bargaining the agreements. This research has important negative implications for some constructivist claims that supranational actors do in fact foster cooperation, but Moravcsik extended his critique more broadly to question the importance of transactions costs generally. In his account, states seemed to have little trouble finding agreements on the contract curve, and so he concludes that ex ante transactions costs are generally unimportant impediments to international cooperation.

There are two aspects of Moravcsik's paper that are very important. First his treatment of the role of supranational entrepreneurs is a valuable corrective to some of the more extreme claims of the constructivist school. The second important aspect of Moravcsik's article is more devastating to the topic of the present paper, namely after conducting numerous case studies of important international negotiations in search of transactions costs Moravcsik comes away asking "Where's the beef?"[8]

This latter point is one that really must be addressed before the transaction cost research program can move forward. As mentioned above definitions of transactions costs are often frustratingly vague. Empirical examples of them are often offered on an ad hoc basis. Without more precision about what transactions costs are and how they can be measured critics of the approach will remain unconvinced. Simon's critique of transactions costs economics (calling it by its other name "the new economics of institutions) is if anything more appropriate to the transactions costs approach to international institutions:

> [the new economics of institutions] suggests a whole agenda of … empirical work that must be performed … Until that work has been carried out the new economics of institutions and related approaches are acts of faith, or perhaps piety (19991, 27).[9]

Moravcsik is completely correct in demanding that we subject the transactions costs approach to international institutions to this same kind of empirical testing. Indeed he has done so and he reports that the evidence is lacking.

However, while I agree with Moravcsik's motives and with much of his account of the negotiations I part company with him in his conclusions. I take issue with his analysis at two levels. First, Moravcsik's cases are all examples of major *institutional* innovations in the process of European integration: the Treaty of Rome, the creation of the Common External Tariff and the Common Agricultural Policy, the European Monetary System, the Single European Act and the Maastricht Treaty. If transactions costs are generally negligible one must wonder why the members of the EC/EU deemed it necessary to create these institutions in the first place—to paraphrase Keohane's

[8] My sincere apologies to both Clara Peller and Walter Mondale.

[9] Simon's critique notwithstanding, transactions costs economics has made some headway in evaluating its empirical claims. For a thorough, if somewhat dated, review of empirical work in transactions cost economics see Shelanski and Klein (1995).

questions from the prologue why not simply skip the institution creation and innovation stage and make agreements on an ad hoc basis? Even if Moravcsik is correct that transactions costs were not insurmountable to states without the help of supranational entrepreneurs in these particular negotiations, the question remains why the countries felt the need to create these institutions in the first place. According to the transactions costs approach the very institutional innovations that Moravcsik describes were undertaken to reduce costs on *future* transactions conducted within the framework of those institutions. In other words Moravcsik could be accused of changing levels of analysis. He looks for transactions costs in the *formation* of institutions but the claim of the transactions costs school is that these institutions reduce transactions costs of other cooperative ventures in the future such as engaging in trade negotiations with outside states and setting common agricultural and monetary policy.

My second issue with Moravcsik's analysis is more methodological but flows from an important theoretical consideration. Moravcsik seems to be assuming that the data that the world has given him was randomly generated. Drawing on the argument I made above there is no reason why we should assume this is the case. We should expect to observe governments negotiating in cases where transactions costs are low and/or organization costs are high relative to the surplus to be divided by the treaty. If that were not the case, states would simply forgo negotiating altogether because the value of the transaction would not cover the transaction costs. The fact that we even observe governments negotiating on these matters suggests that they are cases where transactions costs were low relative to the surplus to be divided.

This is quite plausibly the case in the negotiations that Moravcsik examines, which were major events in the formation of the European Community/Union. Transactions costs even if they were high in some absolute sense, were quite low compared to the surplus to be divided by the treaties which was probably huge. The types of *major* institutional innovations that Moravcsik examines are precisely the sorts of situations where stakes are high and as such states are probably willing to pay the transactions costs of negotiating these treaties, particularly when one considers that once the new institutions are created the transactions costs of creating them will be amortized over a long period of time.

Perhaps the following table can help summarize my point. Moravcsik's argument is about the inefficacy of supranational entrepreneurs and its implications for the presence of transaction costs. In the Table 1, I dichotomize each of these two variables and summarize the possible outcomes. Supranational entrepreneurs can be either "effective" or "ineffective" at promoting cooperation and transactions costs can be either high or low. Moravcsik's cases cluster in the lower right corner, which does not mean the other cells are empty simply that Moravcsik did not find cases of them. Indeed by focusing on major negotiations that lead to the deepening of European integration Moravcsik excluded cases in the lower left cell.

[TABLE 1 ABOUT HERE]

Indeed in later work Keohane (1989) himself recognized this methodological problem and its implications for regime creation:

> If transactions costs are negligible it will not be necessary to create new institutions to facilitate mutually beneficial exchange; if transactions costs are extremely high it will not be feasible to build institutions—which may even be unimaginable … Therefore according to this theory one should expect international institutions to appear whenever the costs of communication monitoring and enforcement are relatively low compared to the benefits to be derived from political exchange. (p. 166-67)

My point in dwelling on these issues is not to be critical of Moravcsik's analysis, which, with regard to the role of supranational entrepreneurs, is a valuable corrective to some of the more extreme constructivist claims, and which, as I said above, justifiably demands more empirical evidence for the transactions costs approach. Instead my point is to defend the transactions costs approach against one of its most cogent critics and to try to convince the discipline that Keohane's insight about the role of transactions costs in international relations is as fresh today as it was 20 years ago.

Conclusion

Keohane's use of the transactions cost approach to international institutions was strikingly innovative in 1982. To me it is Keohane's greatest intellectual legacy and one which will continue to bear fruit in years to come. Few works in international politics can compare in terms of the vistas they have opened for new inquiry. The real beauty of this line of research is that the field of international relations has barely scratched the surface of the possible insights that might flow from it. There are literally tens of thousands of agreements, the institutional characteristics of which have gone unstudied by this approach, and which could render numerous insights as to how best to craft agreements so as to bring about greater international cooperation. Scholars have made some headway in this area, but the harvest is rich and workers are few. Part of the problem is that scholars who find the transaction costs approach so appealing tend to enjoy employing formal models and large data sets in their research. We often lack the patience to engage in close, deep studies of the particular institutional features of agreements that is essential to this line of inquiry.[10] By contrast scholars who do have the patience for such in-depth work are often less enamored with the transactions costs approach and rely instead on more constructivist theoretical traditions to guide their research. My hope in writing this paper in addition to honoring this important intellectual legacy of Robert O. Keohane is to encourage scholars to honor that legacy further by advancing the important research program that he began.

[10] The lack of close study of the characteristics of these institutions been raised by Abbot and Snidal (1998) and Trachtman (1996) who both cite Rochester (1986). Incidentally both Abbot and Snidal (1998) and Trachtman (1996) in part blame regime theory developed by Keohane for the unwillingness to delve into such detailed studies. My argument suggests that that criticism is unfair and that the transactions costs research program calls for precisely such studies.

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Table 1: Possible Combinations of Supranational Entrepreneurs and Transactions Cost

	Relatively High Transactions Costs	**Relatively Low Transactions Cost**
Supranational Entrepreneurs are Effective	Negotiations aided by Supranational Entrepreneurs	Negotiations aided by Supranational Entrepreneurs
Supranational Entrepreneurs are Ineffective	No negotiations or negotiations that stop short of an agreement	Negotiations unaided by Supranational Entrepreneurs