



**DANIEL L. NIELSON AND MICHAEL J. TIERNEY**

Delegation to International Organizations: Agency Theory and  
World Bank Environmental Reform

**HENRY FARRELL**

Constructing the International Foundations of E- Commerce—  
The EU-U.S. Safe Harbor Arrangement

**FRANCES ROSENBLUTH AND ROSS SCHAAP**

The Domestic Politics of Banking Regulation

**VIRGINIA PAGE FORTNA**

Scraps of Paper? Agreements and the Durability of Peace

**DAVID H. BEARCE**

Societal Preferences, Partisan Agents, and  
Monetary Policy Outcomes

**COMMENT AND RESPONSE**

**JOHN S. DUFFIELD**

The Limits of "Rational Design"

**BARBARA KOREMENOS AND DUNCAN SNIDAL**

Moving Forward, One Step at a Time

# IO International Organization

Edited at the Weatherhead Center for International Affairs,  
Harvard University

Published quarterly by Cambridge University Press

Founded in 1947 by the World Peace Foundation

---

Lisa L. Martin *Editor in Chief*

Thomas Risse *Associate Editors*

Beth V. Yarbrough

Rebecca L. Webb *Managing Editor*

Benjamin J. Cohen *Editorial Board Chair*

Helen V. Milner *Editorial Board*

Ronald Mitchell

James Morrow

John Odell

Louis Pauly

Robert Powell

Thomas Risse

B. Peter Rosendorff

John Gerard Ruggie

Kathryn Sikkink

Janice Gross Stein

Richard H. Steinberg

Daniel Verdier

Alexander Wendt

Beth V. Yarbrough

Michael Zürn

Emanuel Adler

Jeffrey T. Checkel

Benjamin J. Cohen

James Fearon

Martha Finnemore

Jeffry Frieden

Judith Goldstein

Peter Gourevitch

Joanne Gowa

Stephan Haggard

Peter Katzenstein

Robert O. Keohane

Stephen D. Krasner

David A. Lake

David Leblang

Edward D. Mansfield

Lisa L. Martin

*INTERNATIONAL ORGANIZATION* invites the submission of original manuscripts on all aspects of world politics and international political economy. Authors should follow the guidelines published annually in the Winter issue. Guidelines also may be found on the World Wide Web at <http://journals.cambridge.org>.

*Address for submissions:*

International Organization

Weatherhead Center for International Affairs, Harvard University

1033 Massachusetts Ave.

Cambridge, MA 02138

Statements and opinions expressed in *International Organization* are the responsibility of the authors alone and do not imply the endorsement of the Board of Editors, the Board of Trustees of the World Peace Foundation, the University of California, Cambridge University Press or the Weatherhead Center for International Affairs at Harvard University.

For abstracting listing and price information, please refer to the back of this issue.

---

Periodicals postage is paid at New York, NY, and at additional mailing offices.

© 2003 by The IO Foundation. ISSN 0020-8183

☼ This publication is printed on acid-free paper.

---

# International Organization

Volume 57, Number 2, Spring 2003

---

## Articles

- Delegation to International Organizations: Agency Theory and World Bank Environmental Reform *Daniel L. Nielson and Michael J. Tierney* 241
- Constructing the International Foundations of E-Commerce—The EU-U.S. Safe Harbor Arrangement *Henry Farrell* 277
- The Domestic Politics of Banking Regulation *Frances Rosenbluth and Ross Schaap* 307
- Scraps of Paper? Agreements and the Durability of Peace *Virginia Page Fortna* 337
- Societal Preferences, Partisan Agents, and Monetary Policy Outcomes *David H. Bearce* 373

## Comment and Response

- The Limits of “Rational Design” *John S. Duffield* 411
- Moving Forward, One Step at a Time *Barbara Koremenos and Duncan Snidal* 431

## Correction

- Testing War In the Error Term 445  
*Damon Coletta and Erik Gartzke*

Information about International Organization can also be found on the World Wide Web at <http://www.cup.org>, including articles in our symposium forum, Dialogue IO.

---

# Contributors

---

**David H. Bearce** is Assistant Professor of Political Science at the University of Pittsburgh in Pittsburgh, Pennsylvania. He can be reached at [dhb12@pitt.edu](mailto:dhb12@pitt.edu).

**Damon Coletta** is Assistant Professor of Political Science at the U.S. Air Force Academy, Colorado Springs, Colorado. He can be reached at [damon.coletta@usafa.af.mil](mailto:damon.coletta@usafa.af.mil).

**John S. Duffield** is Associate Professor of Political Science at Georgia State University, Atlanta. He can be reached at [duffield@gsu.edu](mailto:duffield@gsu.edu).

**Henry Farrell** is Assistant Professor of Political Science at the University of Toronto, Canada. He can be reached at [farrell@utsc.utoronto.ca](mailto:farrell@utsc.utoronto.ca).

**Virginia Page Fortna** is Assistant Professor of Political Science at Columbia University, New York, New York. She can be reached at [fortna@columbia.edu](mailto:fortna@columbia.edu).

**Erik Gartzke** is Assistant Professor of Political Science at Columbia University, New York, New York. He can be reached at [gartzke@columbia.edu](mailto:gartzke@columbia.edu).

**Barbara Koremenos** is Assistant Professor of Political Science at the University of California, Los Angeles. She can be reached at [korememo@polisci.ucla.edu](mailto:korememo@polisci.ucla.edu).

**Daniel L. Nielson** is Assistant Professor of Political Science at Brigham Young University, Provo, Utah. He can be reached at [daniel\\_nielson@byu.edu](mailto:daniel_nielson@byu.edu).

**Frances Rosenbluth** is Professor of Political Science at Yale University, New Haven, Connecticut. She can be reached at [frances.rosenbluth@yale.edu](mailto:frances.rosenbluth@yale.edu).

**Ross Schaap** is a postdoctoral fellow at the University of California, Davis. He can be reached at [rdschaap@ucdavis.edu](mailto:rdschaap@ucdavis.edu).

**Duncan Snidal** is Associate Professor of Political Science and Public Policy at the University of Chicago. He can be reached at [snidal@uchicago.edu](mailto:snidal@uchicago.edu).

**Michael J. Tierney** is Visiting Assistant Professor of Political Science at the College of William and Mary, Williamsburg, Virginia. He can be reached at [mjtier@wm.edu](mailto:mjtier@wm.edu).

---

# Abstracts

---

## **Delegation to International Organizations: Agency Theory and World Bank Environmental Reform**

Daniel L. Nielson and Michael J. Tierney

Current international relations theory struggles to explain both the autonomy and transformation of international organizations (IOs). Previous theories either fail to account for any IO behavior that deviates from the interests of member states, or neglect the role of member states in reforming IO institutions and behavior. We propose an agency theory of IOs that can fill these gaps while also addressing two persistent problems in the study of IOs: common agency and long delegation chains. Our model explains slippage between member states' interests and IO behavior, but also suggests institutional mechanisms—staff selection, monitoring, procedural checks, and contracts—through which states can rein in errant IOs. We evaluate this argument by examining multiple institutional reforms and lending patterns at the World Bank from 1980 to 2000.

## **Constructing the International Foundations of E-Commerce—The EU-U.S. Safe Harbor Arrangement**

Henry Farrell

Much recent international relations scholarship has argued that states are unable to control e-commerce, so that private actors are coming to play a dominant role. However, this body of literature fails to account for emerging “hybrid institutions,” in which states create general frameworks of rules, which are then implemented by private actors. This article examines a prominent example of such an institution, the EU-U.S. Safe Harbor arrangement in the field of privacy, and sets out an alternative explanation of state–private actor relations in the sphere of e-commerce. It shows how Safe Harbor had its origins in efforts by the European Union (EU) and United States to mitigate problems of interdependence that threatened to undermine the principles of order on which their regulatory systems were based. Safe Harbor reflects neither the EU nor U.S. approach, but rather a novel blend of state and private regulation. The article demonstrates the vital role of argument and persuasion in identifying Safe Harbor as a solution, and in negotiating its particulars. It finds that conventional game-theoretic accounts of bargaining are unable to ex-

plain the negotiation of Safe Harbor, and argues that constructivist approaches should pay more attention to how argument can disclose new possibilities of action.

### **The Domestic Politics of Banking Regulation**

Frances Rosenbluth and Ross Schaap

This article seeks to ground financial regulatory choices in domestic politics. Based on evidence from twenty-two industrialized countries, we argue that electoral rules—specifically, the extent to which they are centrifugal or centripetal—have a significant effect on whether the banks or their consumers pay for the security of the banking system. Moreover, despite the homogenizing effects of global financial integration, the political dynamics generated by these electoral rules continue to shape the nature and extent of prudential regulations that countries adopt in the place of banking cartels.

### **Scraps of Paper? Agreements and the Durability of Peace**

Virginia Page Fortna

In the aftermath of war, what determines whether peace lasts or fighting resumes, and what can be done to foster durable peace? Drawing on theories of cooperation, I argue that belligerents can overcome the obstacles to peace by implementing measures that alter incentives, reduce uncertainty about intentions, and manage accidents. A counterargument suggests that agreements are epiphenomenal, merely reflecting the underlying probability of war resumption. I test hypotheses about the durability of peace using hazard analysis. Controlling for factors (including the decisiveness of victory, the cost of war, relative capabilities, and others) that affect the baseline prospects for peace, I find that stronger agreements enhance the durability of peace. In particular, measures such as the creation of demilitarized zones, explicit third-party guarantees, peacekeeping, and joint commissions for dispute resolution affect the duration of peace. Agreements are not merely scraps of paper; rather, their content matters in the construction of peace that lasts.

### **Societal Preferences, Partisan Agents, and Monetary Policy Outcomes**

David H. Bearce

If different producer groups have divergent interests concerning macroeconomic policies, how do societal preferences translate into state policy outcomes? I develop and test a party-as-agent framework for understanding the importance of societal preferences with regard to monetary policy under capital mobility. Following the principal-agent model, political parties function as agents for different societal principals. Rightist parties tend to represent internationally oriented business groups with preferences for monetary convergence, while leftist parties do the same for domestically oriented groups preferring monetary autonomy under capital mobility. I present statistical evidence showing that OECD leftist governments have been associated with more monetary autonomy and currency variability than their rightist counterparts, even after controlling for basic economic indicators such as inflation. The statistical evidence also shows that societal group

size tends not to explain either autonomous monetary policy choices or exchange-rate stability. Thus even large and wealthy societal groups may be unable to obtain their preferred policy outcome when their respective partisan agents do not hold government power.

### **The Limits of “Rational Design”**

John S. Duffield

“The Rational Design of International Institutions” (special issue of *IO*, Autumn 2001) makes a significant contribution to the theoretical literature on international institutions. It is important, however, to recognize the limits of both the Rational Design project in its current form and the conclusions that can be drawn from the special issue about the project’s usefulness and validity. This article evaluates the project on its own terms, as a rationalist attempt to explain variation in international institutions. I identify three significant sets of limitations: those of the scope of the project, those of the analytical framework, and those of the efforts that are made to evaluate the framework through empirical analysis. Although the first set of limitations is largely a matter of choice, the last two raise questions about how much of an advance the special issue in fact represents. Nevertheless, these shortcomings are not absolute—they can be remedied through further theoretical and empirical research.

### **Moving Forward, One Step at a Time**

Barbara Koremenos and Duncan Snidal

We reply to John Duffield’s critique of the Rational Design project, a special issue of *International Organization* that explains the features of international institutions from a game-theoretic perspective. The project was deliberately limited to the analysis of explicit and observable institutional arrangements, and focused on the specific institutional properties of centralization, membership, scope, control, and flexibility. Its empirical contribution relies on case studies, but it is significantly amplified by the tight connections provided by a common theoretical perspective that is oriented toward testing a set of specific conjectures about institutional design. The results raise further issues of measurement and cross-case comparisons that provide valuable lessons for future work on institutional design. Although all of these research design choices are worth revisiting and questioning, as Duffield does, the initial results of the Rational Design project show that it provides a good basis from which to explore alternative research design decisions.

### **Testing War in the Error Term**

by Damon Coletta and Erik Gartzke

The proof for “War Is in the Error Term,” a piece that appeared in the Summer 1999 issue of *International Organization*, contains a subtle error. Once the correction is made, there are broader implications for testing theories of war using quantitative studies. Large-*n* tests to verify the incomplete information explanation for war will be more difficult to perform than originally anticipated.

---

# Reviewers

---

*International Organization* gratefully acknowledges the assistance of the following additional reviewers in 2002:

Kenneth Abbott	Daniel Drezner	Madeleine Hosli
James Alt	A. Cooper Drury	Simon Hug
Karen Alter	John S. Duffield	Paul Huth
Jeffrey Anderson	Barry Eichengreen	G. John Ikenberry
Deborah Avant	Kimberly Elliott	Torben Iversen
David Baldwin	Robert Franzese, Jr.	Robert Jervis
Thomas Banchoff	Giulio Gallarotti	Miles Kahler
Michael Barnett	Geoffrey Garrett	C. S. Kang
Robert Bates	Scott Gartner	Ethan Kapstein
Kenneth Benoit	Erik Gartzke	Devesh Kapur
Thomas Berger	Barbara Geddes	R. Daniel Kelemen
William Bernhard	Christopher Gelpi	Judith Kelley
Liliana Botcheva-Andonova	Matthew Gibney	Alan Kessler
J. Lawrence Broz	Michael Gilligan	Yuen Khong
Allison Brysk	Charles Glaser	Elisabeth Kier
Bruce Bueno de Mesquita	Hein Goemans	Gary King
Brian Burgoon	Miriam Golden	Stephen Kobrin
Marc Busch	Judith Goldstein	Barbara Koremenos
Barry Buzan	Peter Gries	Friedrich Kratochwil
Walter Carlsnaes	Peter Haas	Andrew Kydd
Clifford Carrubba	Peter Hall	David Laitin
Lars-Erik Cederman	Mark Hallerberg	Deborah Larson
Rupen Centinyan	Lawrence Hamlet	Brett Ashley Leeds
Willam Clark	Wendy Hansen	Jeffrey Legro
Dale Copeland	Jeffrey Hart	Russell Leng
Neta Crawford	Caroline Hartzell	Marc Levy
Christina Davis	Andreas Hasenclever	Charles Lipson
Daniel Deudney	C. Randall Henning	Michael Loriaux
Paul Diehl	Jeffrey Herbst	Dieter Lutz
Jack Donnelly	Philip Heymann	Walter Mattli
George Downs	Michael Hiscox	Hanns Maull

Sylvia Maxfield  
Fiona McGillivray  
Kathleen McNamara  
Neil Mitchell  
Ronald Mitchell  
Jeannette Money  
Peter Montiel  
Will Moore  
Andrew Moravcsik  
Harald Muller  
Thomas Naylor  
Daniel Nielson  
Sharyn O'Halloran  
Kevin O'Rourke  
Thomas Oatley  
Craig Parsons  
T.J. Pempel  
Susan Peterson  
Jon Pevehouse  
Paul Pierson  
Kal Raustiala  
Eric Reinhardt  
Dan Reiter  
Chris Reus-Smit  
Jeffrey Ritter  
Ronald Rogowski  
Marc Rosenblum

Robert Rotberg  
Nicholas Sambanis  
Anne Sartori  
Fritz Scharpf  
Ken Scheve  
Frank Schimmelfennig  
Cheryl Schonhardt-Bailey  
Paul Schroeder  
Kenneth Schultz  
Yossi Shain  
Martin Shapiro  
Beth Simmons  
Anne-Marie Slaughter  
Mathew Slaughter  
Alastair Smith  
James Smith  
Tony Smith  
Duncan Snidal  
Glenn Snyder  
Jack Snyder  
Etel Solingen  
David Soskice  
Deborah Spar  
Hendrik Spruyt  
Alan Stam  
Richard Steinberg  
Randall Stone

Duane Swank  
Sidney Tarrow  
Ann Tickner  
Michael Tierney  
Michael Tomz  
Daniel Treisman  
Peter Trubowitz  
Kellee Tsai  
Cornelia Ulbert  
Milada Vachudova  
John Vasquez  
Erik Voeten  
David Vogel  
Romain Wacziarg  
Ole Waeber  
Celeste Wallander  
Michael Wallerstein  
Stephen Walt  
Barbara Walter  
Michael Ward  
Barry Weingast  
Erik Wibbels  
Jeffrey Williamson  
Jeff Winters  
Deborah Yashar  
Oran Young  
Mark Zacher