Book Reviews

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book review of

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Negotiating the World Economy, by John S. Odell. Ithaca, NY: Cornell University Press, 2000, 252 pp., $45.00 cloth, $19.95 paper.

Negotiations on economic matters occur regularly between governments and official institutions. The process by which this occurs is the topic of this volume, which is aimed primarily at academics (p. 4) but also—author John S. Odell hopes—negotiators. Indeed, Odell concludes by asserting that countries "should not be represented by anyone who is insensitive to pitfalls and opportunities that any reader of a book like this would know" (p. 221).

Previous studies of the topic, in Odell's view, have often been anecdotal rather than analytical, or overly abstract. So this book aims to fill the void in the international negotiations research literature. A key emphasis is on the division between negotiating strategies that are "value claiming" (zero-sum) vs. "value creating" (positive sum or "win-win," in popular terminology). The ideal bargaining solution will often be missed because negotiators are constrained in the real world by bounded rationality. But Odell believes that a pragmatic approach, typically involving a mix of the two strategies, will often move the outcome closer to the ideal than a policy of following only one approach.

Odell puts forward what he calls a "theory of the middle range" to explain the international negotiations process (p. 17). Readers will not find many of his observations controversial, e.g., market conditions are more important in economic negotiations than in negotiations over "security" (p. 48). Odell dislikes vague notions such as "bargaining power" (p. 202). But he sometimes slips, e.g., the United States is described at one point as more powerful than Japan (p. 154).

Odell does not raise certain questions about international bargaining. For example, do negotiators understand what is actually good for their country? One could question whether the mercantilist positions Japanese negotiators take are really in their national interest. Certainly, Odell's example of Japanese negotiators' resistance to sound international banking standards in hindsight suggests a problem with their stance (p. 193). Negotiators may not have a good sense of underlying economics. The incorrect assumption of U.S. negotiators in various examples Odell cites seem to be that the U.S. trade deficit was caused by foreign trade barriers (especially Japanese) rather than U.S. and foreign saving and investment behavior (p. 150). Similarly, protectionist or promotional strategies of developing countries—defended by their negotiators as fostering supposed infant industries—may have ended up by wasting national resources.

The matter of national interest as opposed to negotiating posture is not trivial. Odell repeatedly presents diagrams of "possibility frontiers" which are supposed to represent somebody's interests. Are they just interests as perceived (perhaps erroneously) by negotiators? Of course, if the diagrams are taken to represent national interests, the intractable problem of defining collective utility functions arises. That is also an issue the book does not address.

What methodology is best employed for grounding a theory of international negotiations? Odell argues that the best technique is case analysis. But the cases, he says, must be carefully chosen pairs that allow observation of "variation in the causal variable" (p. 21). In fact, many cases—not just particular pairs—appear in the text as brief interjected examples. Nonetheless, studying cases rigorously, Odell believes, will produce both better analysis and better negotiators. But, he says, the cases picked should not be examples drawn from war or sports, which would fundamentally confuse us because they are zero sum (p. 10).

Odell is not entirely consistent on that issue. Although sports analogies are not used, he does cite some military-related examples, e.g., a land-for-peace strategy in the Israeli-Palestinian conflict (p. 140). Nevertheless, his overall framework has a natural appeal to academics. Academics, after all, tend to believe that social phenomena should be approached clinically and that better outcomes will result if strategy is viewed as science rather than art. Of course, it is not just academics who feel that way. The idea of scientific management in the late 19th and early 20th centuries originated outside academia but found a warm reception there in the form of business school curricula. Indeed, today case studies are often the centerpiece of classes, not only in business schools but in schools of public policy and public administration. However, it is important to recognize that the case approach is itself open to research. Odell's assumption that professional negotiators who study cases are better at their trade than political appointees who learn on the job seems reasonable, but also testable. After all, as Odell himself notes at one point, "predicting human behavior is an uncertain art..." (p. 109).

In particular, knowledge of what has worked for others does not always translate into personal behavior. Not all physicians follow a healthy lifestyle; some smoke or are overweight. Odell notes that "facts normally support more than one inference" (p. 93) and that "learning can reinforce biases and errors as well as offset them" (p. 93). In short, case studies are helpful but—like "facts"—they can lead readers to alternative interpretations.

Odell tends to deal with the problem of alternative interpretations in the manner of a defense attorney who decides it is best to get the bad news in front of the jury before the prosecutor does. At least that way the defense can put the most favorable spin on an otherwise-harmful revelation. "My client may have once been a jewel thief but that was long ago; he didn't steal the jewels this time." Odell's analogy to this defensive approach is to include sections in various chapters on alternative interpretations. But he puts his spin on these alternatives and then strikes them down.

Yet readers—like jurors—may not be entirely swayed by the defense. Are we sure that Nixon imposed his import surcharge in 1971 just as a bargaining chip? (p. 37). Maybe he was trying to reduce the degree of dollar depreciation entailed in his new economic policy by using the surcharge to cut import demand. Is it obvious that NAFTA was not a credible alternative for the United States to an agreement on the World Trade Organization? (pp. 166-167). Odell says so because, he asserts, U.S. exports to the Western Hemisphere were too small to be credible. But how small is too small? Was one in three U.S. export dollars at the time too small?

Just as his work has the optimistic air of scientific management, it also has a whiff of the progressivism of 100 years ago in its approach to the political process. Political appointees who end up learning-by-doing on the job are not likely to negotiate effectively, according to Odell. Negotiations should be left to professionals for best results. Domestic politics are potential distortions of good negotiating outcomes and various coping strategies are needed to insulate the process from too much outside scrutiny. The old progressives preferred a Tariff Commission that could produce a "scientific tariff" rather than ad hoc protection enacted by Congress. In the same way, Odell prefers professionalism to politics.

But note that the tilt toward professionalism was only half of old progressivism. In their dislike of politicians, the progressives also favored direct democracy, i.e., referenda and initiatives. And the idea persists abroad with regard to key international issues. Some important EU-related decisions have been put to popular referenda by member states. But there is no sense that Odell is keen on such an approach. Yet the anti-globalism public disturbances that began in Seattle seem grounded in the wide gap between professional negotiations and popular participation.

Much of the case material Odell cites involves the United States and some other party. An interesting question is whether this American orientation biases the examples in some way. The United States, in fact, seems more disposed to unilateralism—based on its internal political considerations-than many other countries. For decades, Democrats were the party of low tariffs and "cheap" money, i.e., free silver and its later progeny. Republicans were the party of high tariffs and "sound" money, i.e., the gold standard. To an outsider this configuration must appear as a puzzle. Democrats seemed to be internationalist on trade but isolationist on money. Republicans were internationalist on money but isolationist on trade. Of course, there really is no puzzle; both parties were responding to domestic interests. Nixon terminated Bretton Woods in order to be free to stimulate the domestic economy in 1971. Roosevelt torpedoed the 1933 London gold conference for the same reason.

This American phenomenon of viewing international matters as domestic affairs is not an artifact of the distant past. Odell is particularly interested in cases involving exchange rates. One episode he doesn't mention, however, was the odd creation of a Gold Commission by the Reagan administration in the early 1980s. A participant at an international conference at the time the Commission deliberated plaintively asked, *"How can a U.S. Gold Commission attempt to determine the role of gold in domestic and international systems without there being any foreign participation?"* (Jastram, 1983, p. 34).

To an outside observer, the gold standard is a particular regime of fixed exchange rates that requires as players at least two countries. But to the gold bugs on the Republican right—folks such as Jack Kemp and Steve Forbes—the gold standard was entirely a domestic issue. It would prevent inflation and check federal spending. Surely this type of American thinking must condition the way U.S. negotiators behave. Indeed, much of the history of Bretton Woods—to which Odell devotes a good deal of attention—is infused with the United States refusing to play by international rules of the game for domestic reasons.

Odell draws selectively from the labor relations literature in developing his analysis of bargaining. Since union-management bargaining is essentially economic, borrowing insights from that arena is entirely appropriate. Collective bargaining has potential for win-win, win-lose, and lose-lose solutions, as does international bargaining. Odell is particularly drawn to the 1965 classic work on collective bargaining by Walton and McKersie. Curiously, he prefers the original version of Walton and McKersie to their updated views. Odell argues that experience in the 1980s led those authors to complicate their theory, apparently in ways he does not like (p. 33). The process by which more empirical evidence would degrade a theory is not explained.

In any event, to this reviewer the major lessons to be learned from collective bargaining lie in its differences with international bargaining rather than its similarities. One big difference is that in collective bargaining the deal is for a finite period, most commonly 3 years. In contrast, international bargains, even simple bilateral trade deals, are generally forever. Forever is a long time and bargaining about forever leads to constraints which use of finite periods avoids. First, forever presents a big uncertainty barrier to concluding a deal. Who knows what the indefinite future will bring? In contrast, a contract that will reopen in three years is less risky for both sides. Mistakes can then be corrected; new circumstances can be encompassed. Second, finite multiyear bargaining requires repeat meetings, often with the same negotiators. That ongoing process is conducive to building up trust and improving communication as time passes.

Collective bargaining—with government assistance—has developed a cadre of mediators and other third-party neutrals to help resolve disputes. Of course, mediation occurs in the international setting but most prominently in the military sphere where Nobel Peace Prizes await. Perhaps it would be useful to foster the equivalent of the Federal Mediation and Conciliation Service at the international economic level. Perhaps international negotiators should try to frame their deals, wherever possible, within finite periods so that results could be observed and mistakes could be corrected. Discussion of these possibilities would be an interesting addition to a second edition of Odell's stimulating book.

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