PART I

Introduction

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Delegation under anarchy: states, international organizations, and principal-agent theory

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In December 1999, police fired tear gas and rubber bullets into a mob protesting the World Trade Organization meeting in Seattle. A central theme of this and similar anti-globalization protests is that the WTO, IMF, World Bank, and other global institutions are "runaway" international bureaucracies implementing a "Washington consensus" formulated by professional economists and other neo-liberals who have made their careers within these agencies (Stiglitz 2002; Rich 1994). Other critics charge that these international organizations (IOs) are imperialist tools of the powerful, exploiting poor and disadvantaged countries for the benefit of the West. Although they have not yet taken to the streets, American conservatives, at the other end of the spectrum, argue that these IOs fail to promote the interests of the United States (Meltzer Commission Report 1999; Krauthammer 2001).

Meanwhile, Europeans complain about the "democratic deficit" within the European Union (see Pollack 2003a: 407–14). As the EU expands its competencies and grows to twenty-five members, critics charge that the simultaneous deepening and broadening of the union is driven by unaccountable bureaucrats in the European Commission and the highly insulated judges of the European Court of Justice. Divorced from electoral pressures, these increasingly powerful EU institutions have allegedly escaped popular control. French and Dutch voters retaliated against the Brussels-led integration project by rejecting the proposed EU Constitution in June 2005.

Similarly, a variety of critics have excoriated the United Nations and its various agencies for their inability to take strong action on the one

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hand and for gross inefficiencies on the other. For victims in Bosnia, Rwanda, Congo, and elsewhere, states have preferred to fiddle while the world burns rather than give peacekeepers the authority and capacity to act (Gourevitch 1998; Power 2002; Barnett 2002). To many taxpayers in donor states, UN bureaucrats are seen as profligate globalists who spend first, budget second, and simply pass along the costs to member states. Corruption in the "oil-for-food" program in Iraq administered by the UN simply confirms pre-existing views of a skeptical American public.

In short, for some observers, IOs appear to be institutional Frankensteins terrorizing the global countryside. Created by their masters, they have slipped their restraints and now run amok. But for others, IOs seem to obey their masters all too well. Like the man behind the curtain in the *Wizard of Oz*, powerful Western countries use IOs to impose their will on the world while hiding behind the facade of legitimizing multilateral processes. Finally, other analysts claim that many IOs once served the purposes of their creators but were subsequently hijacked by other political actors to pursue undesirable ends. IOs become double agents, betraying their original purposes in serving new masters. While these debates rage among pundits, policy-makers and activists, students of international relations find themselves with few appropriate tools to assess these claims.

Contributors to this volume address these debates by drawing upon principal-agent (PA) theory – developed in other areas of the social sciences, especially economics and the study of American and comparative politics – and by examining IOs in their roles as agents variously responsible to member states. The seemingly incompatible perceptions of IOs persist in part because international organizations themselves vary widely in their range of activities and autonomy. Member states have tasked some IOs to act independently, even empowering them to sanction member states in order to facilitate dispute resolution or bolster treaty commitments. Yet other IOs are tightly constrained to follow the dictates of their member states.

To address such variation, this volume takes up two linked issues. First, why do states delegate certain tasks and responsibilities to IOs, rather than acting unilaterally or cooperating directly? Second, how do states control IOs once authority has been delegated? Specifically, what mechanisms do states employ to ensure that their interests are served by IOs? Overall, we find the causes and consequences of delegation to IOs to be remarkably similar to delegation in domestic politics. Despite assertions that international anarchy transforms the logic of politics and

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renders international institutions less consequential, we find considerable overlap between the reasons why principals delegate to domestic agents and why states delegate to IOs. We also find considerable similarity in the mechanisms domestic principals use to control their agents and those used by states to control IOs. There are, of course, important differences between the two arenas that we note below, but the similarities are striking.

This finding does not suggest that critics are incorrect to point to the problems of monitoring and controlling IOs. Underneath the charges leveled by anti-globalization protestors, for instance, are real concerns about opportunistic international bureaucracies. But the research presented in this volume suggests that it is not inherently more difficult to design effective delegation mechanisms at the international level than at the domestic level. There are variations in the ease of monitoring and controlling different IOs and in the extent to which states are willing to delegate to international agents. Nonetheless, these are questions of degree rather than kind. IOs are neither all evil nor all virtuous as their partisans too often suggest. Rather, they are better understood as bureaucracies that, like those within states, can be more or less controlled by their political masters. This volume helps to explain such variation.

Analytically, we treat IOs as actors in their own right. This furthers the development of an actor-oriented and strategic approach to international institutions. Much of the literature in international relations asks "do institutions matter?" Neo-realists, of course, are skeptical, whereas neo-liberal institutionalists claim that international institutions can and do facilitate interstate cooperation. More recently, scholars have moved beyond this debate to specify and test propositions about when and why states create international institutions and how they operate. Important new research has begun to advance a political approach in which strategic, forward-looking states intentionally adopt and design international institutions in pursuit of their goals (Goldstein et al. 2000; Koremenos, Lipson, and Snidal 2001).

We build on this work by reintroducing and emphasizing the importance of IOs as *actors* that implement policy decisions and pursue their own interests strategically. Most of the existing literature treats international institutions primarily as sets of rules (Simmons and Martin 2002: 192–94). We highlight the strategic behavior of IOs without ignoring the impact of rules on member states or IO staff. But we are primarily interested in a set of related questions: When and why do states delegate to an IO and what sets of rules govern that interaction? How do IOs behave once established; do they follow orders issued by their member

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states? To what extent do states foresee the problems that might occur by creating IOs as independent actors and how does that anticipation structure the relationship? In short, we seek to understand when, why, and how states create not only rules but also political actors who, in pursuing their own interests, might thwart the goals of states – or, at least, how these concerns might force states to expend valued resources to bring IOs to heel. By reinserting agency into institutionalist theory, we shed new light on the sources and difficulties of international cooperation.

This volume also seeks to contribute to the growing literature on PA theory in political science. First, the authors test a number of standard principal-agent hypotheses in new empirical settings (see chapters by Broz and Hawes, Gould, Martin, Milner, and Pollack, this volume). As results accumulate across sub-disciplines, scholars can be more (or less) confident in the general predictions that follow from specific variants of PA theory. Second, a number of chapters draw novel implications from PA theory that have not been deduced or tested before (see chapters by Thompson, Lyne, Nielson, and Tierney, and Hawkins and Jacoby, this volume). Third, in the international settings studied here some of the conditions that drive predicted outcomes in PA models – such as stability of decision rules, the heterogeneity of preferences, and the reflection of social power in formal decision rules – take on extreme values seldom witnessed in domestic politics. By testing models under these conditions, we help to establish scope conditions for the PA approach. Although the authors in this volume take principal-agent theory seriously, the project was not conceived as, nor is the final product, an uncritical celebration of this approach. Rather, in pushing the approach to a new area – the anarchic international system – we hope to identify the approach's weaknesses as well as its strengths.

In this introductory essay, we define the key terms employed in the volume and derive propositions regarding the nature and extent of delegation to IOs. Our arguments center on the interaction between the benefits to governments from delegating tasks to an IO, and the complications introduced by preference heterogeneity and power differentials among states. As the benefits increase, the probability of international delegation grows, all else equal. However, given a set of potential benefits, the probability of delegation to an IO decreases when preferences become more heterogeneous or voting rules fail to accord with the distribution of power among states. Following our discussion of the "why delegate" question, we then turn to the mechanisms of control used both domestically and internationally by principals to control their agents.

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DEFINING DELEGATION

Delegation is a conditional grant of authority from a *principal* to an *agent* that empowers the latter to act on behalf of the former. This grant of authority is limited in time or scope and must be revocable by the principal. Principals and agents are mutually constitutive. That is, like "master" and "slave," an actor cannot be a principal without an agent, and vice versa. The actors are defined only by their relationship to each other.

The preferences of principals and agents are important determinants of outcomes in PA models. Nonetheless, the PA approach does not imply any particular assumptions about the preferences of actors. Rather, the preferences of both principals and agents are "filled in" as necessary by the specific assumptions of particular theories. The PA framework is employed to model the strategic interaction between these actors and to help make sense of the outcomes we observe. Further, the PA approach does not require that the actors be fully informed or motivated by material interests. Thus, the approach is equally consistent with theories that posit rational, egoistic, wealth-maximizing actors and those that assume boundedly-rational altruistic actors. What unites specific theories under the umbrella of "principal-agent theory" is a focus on the substantive acts of principals in granting conditional authority and designing institutions to control possible opportunism by agents.

The relations between a principal and an agent are always governed by a *contract*,[1] even if this agreement is implicit (never formally acknowledged) or informal (based on an unwritten agreement). To be a principal, an actor must be able to both grant authority and rescind it. The mere ability to terminate a contract does not make an actor a principal. Congress can impeach a president, and thereby remove him from office, but this power does not make Congress the principal of the President as we define it. Alternatively, Congress can authorize the President to decide policy on its behalf in a specific issue area – for example, to design environmental regulations – and then later revoke that authority if it disapproves of the President's policies. In this case, the Congress is indeed the principal of the President. To be principals, actors must both grant and have the power to revoke authority.

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[1] Contracts are "self-enforcing agreements that define the terms of the relationship between two parties" (Lake 1996: 7). A principal delegating to an agent in a vertically integrated setting is an extreme form of a relational contract (Williamson 1985; Milgrom and Roberts 1992).

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Agents receive conditional grants of authority from a principal, but this defining characteristic does not imply that agents always do what principals want. *Agency slack* is independent action by an agent that is undesired by the principal. Slack occurs in two primary forms: *shirking*, when an agent minimizes the effort it exerts on its principal's behalf, and *slippage*, when an agent shifts policy away from its principal's preferred outcome and toward its own preferences. *Autonomy* is the range of potential independent action available to an agent after the principal has established mechanisms of control (see below). That is, autonomy is the range of maneuver available to agents after the principal has selected screening, monitoring, and sanctioning mechanisms intended to constrain their behavior. Autonomy and slack differ in subtle ways: autonomy is the range of independent action that is available to an agent and can be used to benefit or undermine the principal, while slack is actual behavior that is undesired.

Finally, as discussed in greater detail below, *discretion* is a dimension of the contract between a principal and an agent. Since it is often the most prominent feature of the contract, and often used as a synonym for autonomy, a brief digression is warranted. Discretion entails a grant of authority that specifies the principal's goals but not the specific actions the agent must take to accomplish those objectives.[2] As we explain later, discretion is an alternative to rule-based delegation. Where discretion gives the agent leeway the principal deems necessary to accomplish the delegated task, autonomy is the range of independent action available to the agent. Greater discretion often gives agents greater autonomy, but not always. To anticipate propositions we develop at greater length below, if a principal combines large discretion with mechanisms of control, the agent may have less autonomy than under rule-based delegation with less restrictive instruments of control. For example, UN weapons inspectors in Iraq enjoyed substantial discretion regarding which sites to inspect and how to gather evidence, but ultimately enjoyed little autonomy due to constant pressure from the United States and other members of the Security Council to produce specific results. Discretion is something the principal intentionally designs into its contract with the agent; autonomy is an unavoidable by-product of imperfect control over agents.

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[2] A military commander may order her lieutenant to "take that hill," while leaving him considerable discretion regarding specific tactics. Alternatively, a commander may order her lieutenant to take the hill by a frontal assault at noon, leaving him with less discretion.

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Principals incur *agency losses* or costs when agents engage in un-desired independent action or when they themselves expend resources to contract with or monitor and control those agents. Since principals always incur some costs in contracting with or supervising agents – even with the most "sincere" types that are unlikely to slack – there are always agency losses associated with delegation. In choosing whether to dele-gate (or re-delegate), principals must weigh the benefits of delegation, discussed in the next section, against expected agency losses.

This conception of principals and agents hews closely to the classic definition of delegation in the PA literature (see Alchian and Demsetz 1972; Fama 1980; and Williamson 1985). It eschews definitions that broaden the scope of delegation to encompass any situation where the "principal" can affect the "agent's" incentives (see Bernheim and Whinston 1986). For example, Dixit, Grossman, and Helpman (1997) extend a principal-agent relationship to embrace all situations of influ-ence. In this view, legislators are simultaneously agents of party officials, campaign contributors, and voters. Similarly, bureaucrats are agents of courts, the media, interest groups, and lawmakers.[3] But under our narrower definition of delegation, the legislators' principals are strictly voters, who are the only actors who grant authority to act on their behalf and are empowered to terminate the legislators' employment. Similarly, legislators or executives, or perhaps both, are the only actors that can write and terminate a contract with bureaucrats. This is not to say that the political influence of campaign donors, party leaders, interest groups, the media, and courts is trivial. Quite the opposite. We expect third parties will vigorously pursue their interests and may attempt to influ-ence the principals, who then instruct their agents to act in certain ways. Alternatively, third parties may bypass the principals and try to influence agents directly, who may then act independently of their principals. However, third parties necessarily have a different relationship with principals and agents than those two actors have with each other.

These definitions of principals, agents and related terms are *rela-tively* theory-neutral. Many specific theories – employing particular as-sumptions regarding actor preferences or deriving preferences through

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[3] If delegation is simply a situation where actor A can affect the payoffs that actor B receives, then nearly any strategic interaction would qualify A as the principal of B (and usually vice versa). Accepting such a broad definition would rob the ap-proach of its analytic clarity and would make it much more difficult for analysts to deduce falsifiable hypotheses.

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inference or observation – can gainfully employ the principal-agent framework. Thus far, our use of the principal-agent approach has served as an analytic tool to identify important categories and dimensions of relationships that may be unfamiliar to international relations scholars. Such analytic tools are useful to the extent that they highlight understudied real-world phenomena or help us to understand more fully the phenomena that we already study without PA tools.

In the following sections we develop propositions about why states delegate and how they control agents. These arguments build on existing theories, which tend to be strongly rationalist. Yet the theoretical variation among those who study PA relationships is large, as reflected in this volume, and it would be a mistake to discuss "the" theory of delegation. We chart a middle course by forging a common language and identifying some generalizable answers to key questions that demonstrate the utility of a PA research program.

Delegation to IOs

Any theory of delegation must specify not only what delegation is, but also the alternatives to delegation. If we are to explain delegation, we must also be clear on what is "non-delegation." One possible construction of the dependent variable for this study is depicted in Figure 1.1. We distinguish first between whether states cooperate with one another – where, following Keohane (1984: 51–54), cooperation is defined as mutual policy adjustment – and then whether states choose to delegate authority or not to an IO. Conceptualized in this way, delegation to an IO is a particular form of international cooperation, broadly defined, and one of three possible outcomes.

Node 1. Unilateralism. In unilateral actions, there is no adjustment of policy and IOs are not the implementing agency for any policy. A recent example of unilateral action was the US war on Afghanistan, where the United States pursued its own preferences and implemented its policy choices without its traditional allies.[4] Other cases of unilateralism include Japan's war on the United States in 1941, the Smoot-Hawley Tariff of 1930, repeal of the British Corn Laws in 1846, and arguably the American policy on global warming today.

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[4] After the fall of the Taliban regime other states cooperated by providing troops, aid, and other assistance.
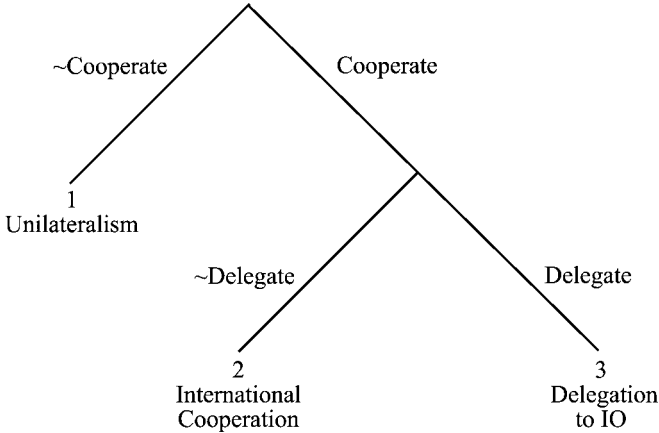
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Figure 1.1. International delegation decision tree

Node 2. International cooperation. In "standard" international cooper-
ation, the parties adjust policy but implementation is through strictly
national laws or regulations. Cooperation can be achieved through a
variety of mechanisms, all the way from unpublicized, informal agree-
ments to legally binding multilateral treaties. Nonetheless, states them-
selves implement the policy rather than delegate authority to a third party.
Examples include lowering tariffs under the GATT, arms reduction under
START, bilateral foreign aid contracts, and restricting the production of
specific chemicals under the Montreal Protocol on Ozone Depletion.

Node 3. Delegation to IOs. In a second form of cooperation, the para-
digmatic case for this book, principals agree (or not) on a common policy
and then delegate the implementation of that policy to an IO. Of course,
even if states have jointly decided to delegate to an IO, questions remain
over what tasks to delegate and how to control the IO. The chapters
below provide many examples of such delegation.[5]

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[5] Of course, states might also delegate authority to private firms, NGOs, or a third
state rather than a formal international organization. For work that employs a
similar PA framework to these phenomena see Martens et al. 2002; Cooley and
Ron 2002. In this volume Lyne, Neilson, and Tierney examine a case where the US
government shifts authority from an IO agent to a newly formed domestic agent in
an attempt to minimize agency slack.