
INTRODUCTION

Principals, Agents, and Indirect Foreign Policies

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After invading Iraq and removing Saddam Hussein from power in 2003, the United States raced to build a new government in Baghdad that would, in the hopes of the administration, be an ally in the global war on terror. As the civil war subsequently raged out of control, and Islamist fighters poured into the country to defeat the American “infidels” and establish a base of operations for global jihad, the United States sought to “step up” an Iraqi army that would allow its own forces to “step down.” It handpicked a new leader, Prime Minister Nouri al-Maliki, who it hoped would create a broad-based government representing all factions of Iraqi society and rob the insurgency of its fuel. Concerned about his own political survival, however, al-Maliki quickly formed a coalition dominated by Shia, deepening the sectarian cleavages that were feeding the flames of civil war. Only after the United States seized control of the conflict in 2007 with the “surge,” bolstered the Sunnis in the Anbar Awakening, and began withholding supplies from the Shiite militias allied with al-Maliki did the prime minister moderate his sectarianism. As the civil war ebbed, and with the Americans still eager to return home as soon as possible, al-Maliki held out for terms in the Status of Forces Agreement that he knew the United States would reject, leading to the withdrawal of U.S. troops in 2011. With the United States once again dependent on al-Maliki to accomplish its aims in Iraq, he returned to his earlier sectarianism, deepened ties to Iran, and further alienated the Sunnis. Despite billions of dollars in aid and extensive training of Iraqi forces, the still-weak state crumbled when ISIS invaded western Iraq in the summer of 2014. Although the United States tried to build up a local proxy (or agent—a subordinate charged

with some task) in what was to become the most important front in the global war on terror, it was ultimately unable to control the Iraqi government, its agent.

The most common image of world politics is states negotiating, cooperating, or sometimes fighting with one another: billiard balls bouncing around on the global pool table. Yet working through local proxies has always been a central tool of foreign policy.¹ To stabilize countries in the region as a prophylactic against renewed European imperialism, and to suppress local peasant movements that might demand land reform, the United States promoted local strongmen in the Caribbean and Central America in the early years of the twentieth century, and then turned a blind eye to their repressive rule. As President Franklin D. Roosevelt once quipped about Gen. Rafael Leonidas Trujillo y Molina of the Dominican Republic, "He may be an SOB, but he's our SOB."² The sentiment, however, applies more broadly. The United States also promoted pro-Western leaders in Europe after World War II, recruiting them as allies against the Soviet Union, and supported anti-Communist leaders and rebel factions globally during the Cold War. It supported the shah of Iran as its regional partner under the Nixon Doctrine of the 1970s, and then expanded this strategy to include other conservative regimes in the Middle East in the pursuit of a "new world order," including the regimes of President Hosni Mubarak of Egypt and, after an interlude in the Arab Spring, President Abdel Fattah el-Sisi. To varying degrees, in South Korea (chapter 1), Colombia (chapter 3), El Salvador (chapter 5), and elsewhere, the United States has effectively managed these proxy relationships to accomplish many of its foreign policy goals.

This reliance on local proxies is not unique to the United States. Historically, European empires, and especially the British, typically operated through local, collaborating elites. Germany allowed Denmark to retain its nominal sovereignty for much of World War II, expecting its leaders to suppress the local resistance. As Germany's probability of victory in Europe declined, the collaborationists stopped enforcing Berlin's will—ultimately prompting Hitler to take over the country and govern it directly (chapter 2). The Soviet Union created its own proxies in Eastern Europe after 1945, and paralleled U.S. efforts to promote sympathetic leaders in the developing world during the Cold War. In similar ways, Israel sets incentives for the Palestinian Authority to control violence emanating from the West Bank (chapter 7) and for Hamas to limit rocket attacks from Gaza (chapter 4).

Understanding indirect control, how to motivate local leaders to act in sometimes costly ways—and when and how it succeeds—is essential to effective foreign policy in today's world, especially for managing violence and illicit activities by nonstate actors operating from the territory of other states. Countries such as the United States reserve the right, and sometimes undertake direct action, to

fight transnational terrorists, insurgents, or drug lords. More often, however, they rely on local agents to suppress these threats. For instance, although the United States intervened directly in Afghanistan to overthrow the Taliban and pursue al-Qaeda, even there it quickly reverted to indirect control in creating, supporting, and operating through the government of President Hamid Karzai, and now that of Ashraf Ghani. Working through local agents to accomplish U.S. foreign policy goals is likely to become even more common in the years ahead. After long and unsuccessful wars in Afghanistan and Iraq, the American public has soured on direct military interventions. President Donald J. Trump has espoused a more isolationist foreign policy, and is seeking to induce allies and partners to take more responsibility for their own defense, at home and abroad. If the United States does less, it must rely on others to do more. The question is, then, how do we motivate proxies to do what the United States wants?

The Argument in Brief

To answer this question, we use a theory-driven investigation of case studies. One goal is to determine when it makes sense for a principal—a superior power—to engage in indirect control to deal with issues of counterterrorism, counterinsurgency, and counternarcotics operations, three areas where private actors within fragile states threaten global order and the interests of other states. In that sense, we test the limits of this strategic approach to transnational threats. A second goal, when indirect control makes sense, is to investigate how to manage that relationship successfully, at minimum cost to the principal.

We first develop a theoretical framework in which a principal can choose different courses of action in addressing what we generically call a disturbance, such as terrorism emanating from a neighboring country. It can take direct action, such as military strikes. At the opposite extreme, it can disengage and endure continuing attacks. Alternatively, and this is our focus, it can engage in indirect control, that is, the principal promises rewards and punishments to the proxy, which compel the latter to act to suppress the disturbance. The principal might additionally, or alternatively, bolster the suppressive capacity of the proxy by, for instance, supplying it with weapons or training.

The theory suggests that in making the right strategic decision, the alignment of interests, or objectives, between the principal and the agent is of paramount importance. Interests might diverge because of preferences—disturbances trouble the principal more than they do the proxy—or because the proxy has higher priorities or higher costs, perhaps dictated by domestic political pressures. If those interests strongly diverge, that is, if the principal is much more interested

in threat suppression than the local proxy is, it will be extremely costly for the principal to apply sufficient rewards and punishments to make the agent comply. To provide capacity in this case is also self-defeating, as weapons and training will be diverted by the proxy to its own purposes rather than to suppressing the disturbance that threatens the principal. Hence, in this case, the only feasible options for the principal are direct action or disengagement.

In contrast, for a medium range of interest divergence, the principal can tailor punishments and rewards to compel the agent more or less successfully to address the disturbance. By success, we mean the compliance of a proxy with the goals of the principal. This may fall short of absolute success—completely defeating an insurgency, eliminating the drug trade, and so on—since the principal itself may not want to expend the resources necessary to reduce disturbances to zero. Rather, the theoretical prediction that we aim to assess is whether one state, the principal, can induce actions it desires by another state, the proxy, with suitably chosen rewards and punishments.

Finally, only when the interests of principal and agent are very closely aligned will the principal choose a strategy of unconditional capacity building, through increased aid, military training, and other forms of assistance necessary to achieve their shared ambition. This was largely the case in postwar Europe, for instance, where both the United States and local allies saw the Soviet Union as a threat.

Having outlined this theory, we use it to guide our reading of the case studies developed in subsequent chapters. From these analytical narratives (a method we explain below), we derive three main findings. First, when principals use rewards and punishments tailored to the agents' domestic political context, proxies typically comply. This finding follows from comparisons across our nine cases. In South Korea (chapter 1), for instance, immediately after World War II, the United States and President Syngman Rhee were at loggerheads. The United States sought to build a professionalized army able to defend the country from North Korea and its Communist allies. Rhee was more concerned with securing his hold on office, so he "coup-proofed" his military, stacking it with loyalists. Invasion from the north largely aligned Rhee's interests with those of the United States, and when those interests did diverge, relatively small rewards and punishments were effective in prompting Rhee to professionalize his officer corps.

Conversely, when the principal fails to use appropriate incentives, the local proxy shirks, failing to act to suppress disturbances, as desired by the principal. Iraq (chapter 9) is a clear example of principal failure. When the administration of President George W. Bush refused to make its rewards to al-Maliki contingent on behavior, the new leader ignored U.S. pleas to build a large coalition representative of all segments of Iraqi society. Instead, he formed a highly sectarian Shia-only coalition, which was ultimately dependent on Iran for support.

Second, we find that when the salience of the disturbance to the principal or the costs of effort (interest divergence) for the agent increase and the principal responds with higher-powered incentives—larger rewards and punishments—the proxy responds as expected with greater effort. This within-case comparison holds in all cases in which incentives are applied fairly consistently (five of nine) and often in the other four as well. Even in Iraq, for instance, where the United States did eventually impose small punishments on al-Maliki during the surge, the otherwise uncooperative prime minister responded by cracking down on his Shia coalition partners, as demanded by Gen. David Petraeus and Ambassador Ryan Crocker. The clear lesson: agents do respond to incentives.

Third, we also find examples in which indirect control is not attempted, or only partially implemented. Given its dependence on Pakistan to supply troops in Afghanistan, the United States lacked sufficient leverage to induce Islamabad's cooperation in the war on terror, or even in hunting down Osama bin Laden, ultimately taking direct action to capture the al-Qaeda leader. Similarly, Israel has tried rewards and punishments with the Palestinian Authority to control terrorism, but has been unwilling, for domestic political reasons, to grant the "big" reward of significant autonomy (or even sovereignty) desired by Palestinian leaders. Ultimately, as predicted by our theory, if interests diverge too much, the principal must either undertake direct action—as in the case of the surge in Iraq or the capture of bin Laden—or simply admit that indirect control is too costly to meet its ambitions.

Our case studies also demonstrate a finding at odds with our theory. As a principal, the United States too often assumes that its interests are closely aligned with those of its proxy, and funnels unconditional aid and support to the proxy's leader—ostensibly to build greater capacity—failing to use the levers it possesses to induce appropriate effort. This was the case in relations with Yemen after 2003, where the Bush administration, absorbed by the war in Iraq, abandoned a previously effective proxy (chapter 8), and of course in Iraq, where the administration failed to wield the incentives available to it (chapter 9). We examine these and three other cases (El Salvador, Pakistan, and the Palestinian Authority) in which the principal fails to incentivize as much as the model predicts it would, and ask why. Without appropriate incentives, self-interested proxies use the flow of resources for their own opportunistic ends, diverting aid to favored constituencies, using foreign-trained troops to fight sectarian battles, or otherwise benefiting their own political agendas. The proxy then fails to achieve the goals desired by the principal, such as suppressing terrorism, insurgency, or drug trafficking.

Indirect control is above all a political strategy. The interests of the principal and proxy are rarely aligned, differing at least at the margin and sometimes significantly. The greater the divergence in interests with its proxy, the larger the

incentives the principal must use to induce desired behaviors. So, incentives to the agent must be conditional either on proxy effort or, since those efforts are typically not fully observed, on the level of disturbances. Indirect control is therefore effective only under limited conditions.

In the remainder of this introductory chapter, we outline a general principal-agent theory tailored to the problem of indirect international control. We first describe the strategy of indirect control in more detail. Then we identify conditions enabling effective indirect control and the relationships between the costs and benefits of alternative strategies. The third section outlines our research design and the organization of this volume.

Indirect Control of Political Violence

The problem of private, nonstate actors projecting violence across national borders has waxed and waned over time and by region. The principle of national sovereignty is one of the great innovations of international society and provides the context within which transnational violence occurs today. Although often misunderstood, sovereignty is merely a statement about how political authority should be organized within and between states. As now conceived, sovereignty asserts that public authority is indivisible and culminates in a single apex in each territorially defined state.³ Two corollaries are especially important: the first raises the costs of direct action, while the second reinforces a reliance on indirect control.

If to be sovereign means that the state is the ultimate authority in a single, hierarchically ordered domain, it necessarily implies that no other state or ruler can exercise authority in that same area or over the same people. By extension, no foreign state can intervene legitimately in the internal affairs of a sovereign state. The norm of nonintervention was first articulated in the writings of Christian von Wolff (1748) and Emmerich de Vattel (1758), but the first serious attempts to establish it originated in Latin America, in the Calvo and Drago Doctrines, articulated in 1868 and 1902, respectively. The first doctrine holds that jurisdiction in international investment disputes lies with the country in which the investment is located. The second declares that no foreign power can use force against a Latin American country to collect debt. Both doctrines were subsequently recognized as customary international law, as well as embodied in several national constitutions and treaties. Opposed by the United States until 1933, the principle of nonintervention was finally included in the Convention on Rights and Duties of States, which stated that "no state has the right to intervene in the internal or external affairs of another." Elaborating further, the Charter of the Organization

of American States, signed in 1948, declares that “no State or group of States has the right to intervene, directly or indirectly, for any reason whatever, in the internal or external affairs of any other State.” That idea was universalized in article 2 (7) of the United Nations Charter, which states that “nothing contained in the present Charter shall authorize the United Nations to intervene in matters which are essentially within the domestic jurisdiction of any state or shall require the Members to submit such matters to settlement under the present Charter.”⁴

The principle of nonintervention is, of course, frequently violated in practice. Indeed, so frequent are exceptions to the principle that Stephen Krasner has labeled the entire idea of sovereignty an “organized hypocrisy.”⁵ Nonetheless, it has the effect of declaring as “unlawful” direct military interventions into other sovereign states except in extraordinary circumstances, such as preventive attacks. As with any law, states may choose to ignore the rule, as they do, but they pay a price in reputation, in balancing behavior by other states, or even in armed opposition. Direct action aimed at suppressing violent subnational groups remains possible under the parallel principle of self-defense, but it is now a practice that attracts international opprobrium as a violation of sovereignty.

If states are the ultimate authorities within their realms, it follows as a second corollary that they are responsible for all violence emanating from within their borders. States are permitted to use violence—wage war—against one another, but they are expected to suppress private actors from using their territories to project violence against other states. In turn, any violence that springs forth from their territory is presumed to be permitted or approved by the state, and thus a possible *casus belli*. This norm of public responsibility for private violence did not fully emerge until the end of the nineteenth (and the beginning of the twentieth) century, with the outlawing of privateering, mercenaries, and “freebooters” of all sorts.⁶ Like the norm of nonintervention, it has been fairly robust only since the early twentieth century. Eventually, though, violence from any source originating in one country against a second came to be interpreted as intentional, and thus an act of aggression. While states might deny knowledge of, or responsibility for, forces operating from within their borders, this is no longer an acceptable excuse. States are responsible, whether they like it or not, and hold each other to account for violence suffered in all forms.

This second corollary somewhat offsets the first. If states are prohibited from intervening in the internal affairs of others, the failure of a state to fulfill its responsibilities and prevent transnational violence originating in its territory permits others to invoke the right of self-defense, regardless of whether the attack arose from a lack of will or capacity by the state. Tellingly, few states contested the right of the United States to invade Afghanistan and overthrow the Taliban after the terrorist attacks of 9/11, because the regime allowed or at least acquiesced in

al-Qaeda's use of its territory as a headquarters and for training bases. Equally important, state responsibility for transnational violence implies and even affirms the use of indirect control. States should regulate violence originating within their territories, and other states can—and should, when necessary—reward or sanction them accordingly. If a state consistently fails in this responsibility, moreover, it may be appropriate for a country like the United States to induce compliance, invest in state capacity, or even support the removal of a local leader. Moreover, even when direct action is permissible for self-defense, indirect control that attempts to assist leaders in controlling violence—or incentivizes leaders to meet their responsibilities—is possible, and potentially less costly than direct action.

Although indirect control as foreign policy dates back at least to the Roman Empire, three changes in the world today have made it more salient.⁷ First, private violence has gone global. New technologies, along with economic integration, have empowered even small private groups to wage war against states or other opponents from anywhere around the world. The ready availability of automatic weapons and the ease of assembling “suicide vests” allow committed individuals to carry out attacks against soft targets pretty much anywhere at will, as demonstrated repeatedly in recent years in Paris, Brussels, Orlando, Istanbul, New York, and more places than anyone cares to name. Communications technologies and open borders allow insurgents to learn from the internet and one another, coordinate their activities more easily, and recruit new members. The very globalization that so many violent groups now oppose has also allowed terrorists to carry out attacks on an unprecedented, worldwide scale. Where perhaps in the past the problem of transnational violence affected only neighbors, today it is a global scourge.

Second, more states now lack the capacity or will to police their own nonstate groups. Despite their nominal sovereignty, fragile and failed states do not—almost by definition—control all of their territory.⁸ Prior to 1945, in order to be recognized by their peers, states needed to demonstrate effective sovereignty, including the ability to prevent private violence from spilling across national borders. Since the formation of the United Nations and the movement to decolonization, states have adopted the notion of juridical sovereignty, which does not require that states actually control all of their territory or residents.⁹ Many countries today contain extended unpoliced peripheries, whose occupants are poorly served and whose international neighbors are at risk of violence and refugee flows. The number of such failed or fragile states has escalated in recent years. Other states are more or less willing to let transnational insurgents operate from within their borders, for their own political reasons or out of opposition to particular great powers. Some governments are actually supported by (and deeply integrated with) private violence-wielding groups, as in the case of drug cartels or al-Qaeda

in Afghanistan before the U.S. intervention. Increasingly, states either cannot or choose not to regulate violent nonstate groups that operate within their borders.

Third, the United States and other Western states have become frequent targets of transnational terrorists and drug cartels. In part, this is because they create and enforce a liberal international order that violates traditional values and social structures in countries increasingly integrated into the global economy. Under the “new world order,” and no longer checked and balanced by a near-equal superpower as in the Cold War, the United States has aggressively sought to expand the liberal international order into new regions, successfully in the case of Eastern Europe and less so in the Middle East, where there has been a violent backlash. It has also reached more deeply into societies in Latin America, Central Asia, and elsewhere to eradicate the drug trade at its source. At least some of the violence now directed at the United States and other Western states is “blowback” from the attempt to expand the *Pax Americana* to new areas.¹⁰ Related, and likely more important, is U.S. and European support for the repressive and autocratic governments that often serve as their proxies, especially in the Middle East today. Opponents in Saudi Arabia, Afghanistan, and even Jordan now understand that the road to reform or revolution at home often runs through Washington, DC. Rather than just focusing on the “near enemy”—their local and perhaps apostate regimes—opponents turn their violence toward the “far enemy” and its allies that, as in the case of recent attacks in Europe, can be targeted easily.¹¹

These changes combine to create new and unique threats to global leaders such as the United States and Europe, and to regional powers. Transnational terrorists can now hide in the interstices of state authority and rise up to wield significant force at the time and place of their choosing. Although not unprecedented, the scale and possibility of private violence have greatly increased in recent decades. In an age when interstate war has become increasingly unlikely, transnational insurgencies have emerged as the most potent and existential threat to some states and citizens and have radically disrupted the lives and politics of even those not directly targeted.

How has the United States responded to terrorism from abroad? The primary approaches—putting aside massive defensive efforts—have been direct control (as discussed above) and capacity building. Capacity building is also an indirect foreign policy, but one that relies on building up a local agent so that it can more effectively counter the perceived threat to the principal. That is, the problem is conceived as one in which the proxy lacks only the ability to suppress the disturbance, not the will. Under this assumption, it makes sense for the principal to expand the suppressive capacity of the proxy. As threats grow, the failure of that policy leads proponents to argue for providing even greater resources to the proxy.

Our theory implies, however, that when the assumption is wrong—that is, when the policy objectives or the interests of the principal and proxy are highly dissimilar—resources provided by the principal will not be used by the proxy to suppress threats to the former, but rather to pursue the priorities of the latter. Foreign aid may simply be used to repress the leader's political opponents (or enlarge his Swiss bank account) rather than to fight the insurgents or win the hearts and minds of the civilian population. Indeed, as long as the problem is conceived as inadequate capacity, then the more the proxy fails in fighting groups wielding transnational violence against the principal, the more resources it might expect to receive. If so, why would the leader ever seek to succeed? This problem of incentives severely limits the conditions under which capacity building should be pursued.

The main alternative to capacity building, and the focus of our volume, is the strategy of indirect control, characterized by the use of rewards and punishments (that is, tailored incentives) by the principal to motivate local proxies to suppress disturbances of concern. By making rewards and punishments contingent on success in reducing threats, the principal induces the proxy to engage in actions to suppress the disturbance. The further apart the interests of the principal and proxy, the larger the rewards and punishments must be to induce effort by the latter.

Beyond some threshold of divergence in policy interests, this strategy becomes too costly for the principal. In that case, the principal may choose to take action directly, since the proxy cannot be induced to do so, or may abandon the effort completely and simply accept some level of threat and violence. It is precisely in this circumstance, however, that capacity building will be particularly worthless, and perhaps counterproductive. When the principal and the proxy disagree on the purpose to which resources are to be directed, a strategy of capacity building will simply mean that the principal is throwing good money after bad.

In the wake of long and unsuccessful wars in Afghanistan and Iraq, and anticipating the need for more "small footprint" operations around the globe, which effectively require operating through local agents, understanding how to use indirect control to better counter transnational threats is an urgent priority. We are not, of course, the first to recognize these trends, or the first to use principal-agent theory to understand their dynamics and effect.¹² The need to work through local proxies, and the difficulties of doing so, is increasingly recognized.¹³ The value of our approach lies in its more rigorous specification of the alternatives to indirect control and the ways in which the size of the threat, which we call the disturbance, and the divergence in interests between the actors, which we capture as the costs of effort to the proxy, condition the choice of principals to work through local agents. By more clearly specifying the alternatives—capacity

building, direct action, or doing nothing—we can better explain why some principals continue to choose indirect control even though it does not appear on its face to succeed, if one defines success as the total suppression of disturbances. The threat may not be large enough to warrant sufficiently rewarding or punishing the proxy to bring about perfect suppression, or the costs of direct action—dealing with an insurgency itself, for instance—may be so high that working through a “poor” agent with very different policy interests may still be preferred. In short, nothing in our theory suggests that disturbances will be (or even should be) reduced to zero. But we can identify when a strategy of capacity building is possible, when indirect control is likely to be more effective, and when direct control or doing nothing are the only viable alternatives. We can also draw out comparative static predictions on the relationship between the disturbance, the costs of effort, and the use of incentives, all of which influence whether indirect control is likely to be more or less effective.

A Principal-Agent Framework

Our framework for analyzing conditions and strategies for indirect control consists of two players.¹⁴ First, there is a principal, a relatively powerful actor interested in minimizing the occurrence of some disturbance. A disturbance might be a terrorist attack, noncooperation on diplomatic goals, nuclear weapons tests, human rights abuses, flows of drugs, or lawlessness, for example. Depending on the setting, the principal might be a counterinsurgent, the government of a neighboring country, or the government of a great power interested in minimizing disturbances arising from another country. Second, there is an agent (or proxy), a subordinate whose actions the principal might influence, and who can suppress disturbances at lower cost than the principal can (when acting directly). This agent can serve as the principal’s proxy in minimizing disturbances. The agent in our analyses varies across cases but is usually the leader of the country from which the disturbance originates. Our analysis focuses on characterizing the interaction between a principal and an agent in an environment in which both players act rationally subject to constraints, anticipating the behavior of the other player.

The principal can (1) do nothing, and live with the disturbance; (2) act directly to suppress the disturbance, which we call direct control; (3) provide unconditional assistance to the proxy, which we refer to as capacity building; (4) replace the proxy; or (5) use rewards and punishments contingent on the occurrence of disturbances, which we term indirect control. The proxy responds to the strategy of the principal by choosing whether to reduce the disturbance and how much

effort to exert in doing so. Critically, the proxy's actions (or, equivalently, the costs of taking those actions) are not fully observed by the principal.

Key parameters in our theory and cases are the expected size and frequency of the disturbance—which determine the principal's interest in dealing with it—and the costs of effort by the proxy. The latter summarizes two elements. On the one hand, these costs capture how difficult it is for the agent to deal with the disturbance. Dealing with a transnational terrorist group that is popular at home is more costly to the agent, for instance, than dealing with a reviled one. On the other hand, these costs capture how divergent are the interests of principal and agent with regard to the disturbance. Indeed, a situation in which the agent is intrinsically interested in addressing the problem (that is, well aligned with the principal) is captured in the model by low effort cost. At the limit where the agent would, when unprompted, do exactly what the principal wishes it to do, the effort cost would be nil. This would be the case of a perfectly aligned agent.

The first step in our analysis specifies the empirical scope of the theory by highlighting the baseline assumptions of the theoretical model. The second step describes the structure of the implicit contract between the principal and the agent and the optimal use of the incentive tools by the principal. The third step analyzes how the contract changes in response to changes in the environment. The final step derives predictions from an extension of the model in which we consider the principal's investment in the agent's capacity to deal with disturbances.

Scope Conditions

Our framework applies to a large number of principal-agent relationships in which the following three conditions hold. First, relative to the principal, the agent has a natural advantage at controlling the disturbance, due to a particular level of expertise, familiarity with the problem, or simply a lower cost of dealing with it. However, there is divergence in interests between the principal and the agent: the agent in isolation would exert less effort at suppression than the principal would like it to. Indeed, the agent may even benefit from the realization of the disturbance, so it might not exert any effort at all if left alone. This local advantage is essential: if it did not exist, the principal would never choose indirect control. Typically, the advantage of the agent derives from knowledge of local conditions that would be costly for the principal to acquire. This is the main source of local advantage in our cases.¹⁵

Second, the agent is subordinate, in the sense that the principal has tools that it can use to compel the agent to exert effort in minimizing disturbances. The principal can reward the agent through diplomatic concessions, military aid, or

economic investments. As opposed to capacity-building resource transfers, discussed later in this introduction, rewards are of private benefit to the agent and are contingent on the agent's cooperation. The principal can punish the agent through withheld economic aid, diplomatic or military confrontation, or even engagement in actions that debilitate the agent. If the agent is a leader, the principal can have the agent removed, either directly by regime change or indirectly by supporting the agent's opponents. The principal uses these tools to incentivize the agent and thus address the divergent interests. This scope condition excludes from the purview of our theory instances where the agent can exert enough influence (or counterinfluence) over the principal to negate these rewards and punishments (other than by not suppressing disturbances).¹⁶ The case of Pakistan (chapter 6), in which the United States needed Islamabad's cooperation to resupply its troops in Afghanistan, is one in which this subordinacy condition may be violated.

Finally, there is private information on the side of the agent that hampers the principal's ability to perfectly provide incentives. This private information can take the form of unobserved effort (hidden action) or unobserved costs (hidden information). For example, it may be the case that the principal cannot observe perfectly how much effort is being exerted by the agent. That is, the agent claims it is exerting effort but it is instead shirking—the principal does not observe exactly what the agent is doing, so who is to say the agent is lying? Alternatively, it may be hard to determine the correct kind of effort, that which is most effective in suppressing disturbances. An agent might be observed bolstering his own private Praetorian Guard, but when confronted about it, might claim that building elite forces is the best way to defeat terrorist cells. Not knowing exactly what is going on in the country, the principal has a difficult time assessing this claim, which might or might not be correct.

Alternatively, it may be the case that the principal can observe fully what the agent is doing and knows exactly what should be done. What the principal does not observe, however, are the full costs that the agent would incur if it exerted the right level and type of effort. For example, this cost of effort could be the threat of an internal coup, greater domestic resistance to the agent's rule, or the collapse of a critical patronage network; the principal may not be able to assess the extent of these threats. In this case, the right interpretation is that the agent can always claim that it is doing the maximum that could reasonably be expected from it, and the principal cannot properly assess or audit this claim. For ease of exposition, we will eschew this version of imperfect information in what follows, and focus on the case where the principal cannot observe either the level or the kind of effort that the agent is exerting. This problem of unobserved costs produces predictions identical to those that follow.

In reality, we often see the principal investing in monitoring the agent, to reduce private information. A larger contingent of military advisers, for instance, or directing intelligence collection and analysis at the proxy, may provide more information about the agent effort. Such investments, however, are typically costly to the principal, of diminishing marginal value, and imperfect. In our analysis, we assume that despite the principal's monitoring, the agent still holds private information.

Complicating the principal's problem is that disturbances have a random element; they may occasionally occur even when the agent is fully cooperating, and sometimes no disturbance occurs even when proxy effort is absent. For example, even if the agent exerts the correct kind and amount of unobservable effort, a disturbance may occur due to circumstances beyond the agent's control. In this situation, because of the presence of private information, the principal would not be able to tell if the disturbance was due to low effort exerted by the agent or instead to a fully complying agent's being unlucky. Given the principal's lack of information, an agent always has an incentive to claim that it cooperated but suffered bad luck, even if the agent's low effort is in fact at fault. That is, disturbances do not fully reveal proxy effort to the principal, so the principal's rewards and punishments will sometimes be allocated unfairly (and punishments will be even more frequently protested).

To summarize, indirect control describes a situation in which a principal compels an agent to deal with a potential disturbance. Because of divergent interests between the two parties, the principal must provide incentives to the agent, the provision of which is complicated by asymmetric information. In designing incentives, the principal recognizes that the agent may pretend to cooperate and make excuses if disturbances occur. The principal must react to the realized disturbances (rather than to reported effort), so as to provide *ex ante* incentives for the agent.

The Implicit Contract between Principal and Agent

A principal facing an agent can structure an implicit contract in which it commits to a specific set of actions as a function of what is observable to it. Because effort is unobservable to the principal, actions cannot be contingent on agent effort. Instead, the principal must commit to a level of rewards, a level of punishments, and a probability of replacement that depend on the realization and size of a disturbance, the outcome that the principal can perfectly observe.¹⁷ The agent is assumed to know the implicit contract in advance, and it privately chooses an effort level. After this happens, a potential disturbance is realized; after observing the disturbance and its size, the principal follows through on the terms of

the contract. Given that the principal cannot observe the agent's effort, and the disturbance is stochastic, rewards and punishments following disturbances are not a contract violation, or "out of equilibrium," but are required by the contract.

We focus on the optimal contract from the perspective of the principal: the contract that minimizes the size and number of disturbances subject to the cost of incentivizing the agent. Importantly, rewards and punishments to the agent are costly for the principal, so the principal will minimize their use. That is, other things equal, the principal would rather not transfer monetary or in-kind resources to the agent, and would prefer not to expend valuable diplomatic, reputational, or military capital punishing it. Replacement, on the other hand, while costly for the agent, need not be costly to the principal.¹⁸ This depends on the quality of the likely replacement agent: if the incumbent agent is worse than possible replacements, the principal benefits, but if the incumbent is better than the replacements, then replacement is costly.

Predictions of the Model

The evidence base of this book is a set of cases, which we use to test the main propositions that follow from the theory outlined above. These are summarized in table 0.1.

The cost of effort to the agent is crucial in determining the optimal implicit contract between principal and agent. It is therefore important to understand the nature of the agents' effort cost. As we discussed above, these costs are related to two factors. The first is the direct cost of disturbance suppression, which is a function of the competence of the agent. Some agents are simply better at, say, counterinsurgency or counternarcotics operations than others, because they have better equipment, more experience, or better relationships with sources of operational intelligence.¹⁹

The second factor that raises costs is divergent preferences over the disturbance. As already noted, the principal seeks to reduce disturbances to some cost-effective level, but the agent might not share those priorities. For instance, the agent may share the principal's desire to suppress terrorists or the drug trade, or it may feel that its coercive resources are better spent defending the borders, deterring warlords, or collecting taxes, for example. Indeed, the agent may actually benefit from the disturbance, perhaps receiving bribes from drug lords, as in the case of Colombia (chapter 3), or gaining political support from citizens diametrically opposed to the policies of the principal, as in the case of Denmark seeking to overthrow Nazi control (chapter 2). Agents themselves may also have independent policy preferences, which differ from those of their constituents, or they may be dependent on different constituencies, with some latitude about

TABLE 0.1 Predictions of the theory**Basic predictions**

- H₁: The higher the cost of effort to the agent, the more likely the principal will be to engage in direct control or do nothing.
- H₂: The smaller the disturbance, the more likely the principal is to reward the agent.
- H₃: The larger the disturbance, the more likely the principal is to punish the agent.
- H₄: Rewards and punishments will never be observed simultaneously.
- H₅: The larger the disturbance, the more likely the principal is to replace the agent.
- H₆: When interests are not fully aligned, and the principal does not offer contingent rewards and punishments, the agent is not likely to exert effort. Conversely, when the principal offers larger contingent rewards and punishments, the agent is more likely to exert effort.

Comparative static predictions

- H₇: Conditional on indirect control being preferred to either direct control or doing nothing, as the cost of effort to the agent increases, the principal will be more likely to reward, punish, or replace the agent.
- H₈: Conditional on indirect control being preferred to either direct control or doing nothing, as the cost of rewards to the principal increases, the principal will be more likely to punish or replace the agent.
- H₉: Conditional on indirect control being preferred to either direct control or doing nothing, as the cost of punishment to the principal increases, the principal will be more likely to reward or replace the agent.
- H₁₀: Conditional on indirect control being preferred to either direct control or doing nothing, as the cost of replacement to the principal increases (possible replacements are less competent), the principal will be more likely to reward or punish the agent.
- H₁₁: As the cost of disturbances increases (the principal's goal becomes more important), the principal will be more likely to engage in indirect control, and the more likely it will be to reward, punish, or replace the agent.

Capacity-building predictions

- H₁₂: The lower the agent's indirect costs of effort (the more aligned the agent's interests are with those of the principal), the more likely the principal will be to invest in capacity building.

where they draw their support from. As is frequent in our cases, the agent may share the principal's general goal (political stability) but differ dramatically in how it prefers to suppress the disturbance (attention to civilian casualties, degree of democratization, emphasis on reducing corruption, and so on).

We will refer to all of these differences in objectives and costs between principal and proxy as divergent interests, or misaligned interests. Differences across settings in the degree of interest alignment are a source of variation that is key to understanding our case studies. The higher the cost of effort to the agent, the more powerful the incentives the principal must employ to induce high effort—that is, the larger the rewards for effort and punishments for lack of effort. How do

these costs affect the nature of the optimal implicit contract between principal and proxy?

High-Cost Agent. Rewards and punishments are costly to the principal. The higher the costs of effort are to the agent, the stronger the incentives that the principal must use in order to compel the agent to act. It follows that there is some level of effort cost so high that indirect control is precluded. Even if the agent is better at accomplishing the task than the principal is, the agent requires such massive incentives to overcome its distaste for suppression that the principal will choose to engage in some other strategy. There are three possibilities: First, the principal might decide on direct control and itself attempt to control the disturbance, through deployment of forces, air strikes, or drone strikes, for example. Second, the principal might give up entirely, doing nothing to address the disturbance. In practice, this can involve temporarily or permanently withdrawing from the troubled territory or, alternatively, waiting for a change of leadership, when a lower-cost agent might emerge as a proxy. Or the principal could replace the agent, perhaps using a temporary episode of direct control to do so. This logic is reflected in hypothesis H_1 , in table 0.1.

Low-Cost Agent. If the agent has sufficiently low costs of effort, then it is worthwhile for the principal to engage in indirect control, since incentives are not too costly. The optimal implicit contract under indirect control takes the following form, as illustrated in figure 0.1, which graphs rewards and punishments on the vertical axis against the level of damage from disturbances on the horizontal.

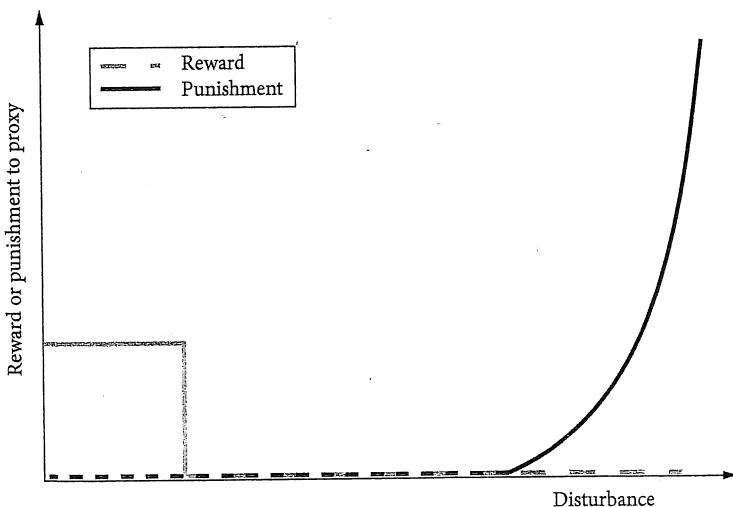


FIGURE 0.1. Rewards and punishments as a function of disturbances

1. *The principal reacts to zero or small disturbances with rewards.* The better the observed outcome for the principal (i.e., low damage from disturbances), the larger or more likely the reward prescribed by the contract (H_2). Note that the reward does not need to serve a purpose other than increasing the agent's incentives to exert effort. In other words, our prediction holds if the reward is a pure resource cost to the principal as well as if the principal partially benefits from the reward (if it serves the purpose of capacity building for the future, for example).
2. *The principal reacts to large disturbances with punishments.* The larger the disturbance, the larger the punishment (H_3). As in the case of rewards, this punishment does not need to serve any purpose other than increasing the agent's incentives to exert effort (for example, it need not be linked to controlling or targeting insurgents). The gradation of punishments in response to worse outcomes is not derived from any sense of fairness but is due to the efficient provision of incentives: large disturbances are associated with large punishments because such large disturbances are more likely to occur if the agent did not exert effort. Punishments may even seem to the agent and outside observers to be disproportionate to the disturbance, engendering criticism from the international community, for instance, for "overreactions" to any particular disturbance. This occurs because the principal is not reacting to any known level of effort by the agent but is attempting to condition the agent's incentives to exert high effort (now and in the future).
3. *The principal does not use rewards and punishments simultaneously in response to a disturbance (H_4).* This is because both are costly to the principal and they work against each other in incentivizing the agent. As a consequence of this insight, we may see inaction by the principal for intermediate-size disturbances; these are not small enough to elicit a reward and not large enough to elicit punishment. As shown in figure 0.1, at low levels of disturbance the principal uses rewards, at high levels of disturbance the principal uses punishments, and at intermediate levels the principal uses neither.
4. *The principal reacts to larger disturbances by increasing the likelihood of replacing the agent (H_5).* Agents with low suppression costs are more likely to endure. A principal may be eager to replace a high-cost agent with one that has lower costs. In this case, replacement can be observed for a wide range of disturbances and may occur simultaneously with punishment as well as rewards. In contrast, a principal will hesitate to replace an agent with low costs, since any replacement agent with higher effort costs will be less compliant. Therefore, replacement of low-cost agents is

only observed after large disturbances. In this case, replacement is used, together with large punishments, as a disciplining mechanism (even if the replacement is likely to be higher cost).

5. *Agent compliance*: When interests are not fully aligned and the principal does not offer contingent rewards and punishments, the agent is not likely to exert effort (H_6). As we will see, this case is often relevant. Proxies with consistently aligned interests trivially satisfy the scope condition, so we ignore such cases. Principals often generate variation within cases over time in their willingness (or perhaps ability) to offer high-powered incentives, so we will have plenty of evidence with which to test this prediction.

How the Implicit Contract Responds to Changes in the Environment

Having described the structure of the optimal contract, we can now discuss how the contract evolves in response to changes in the environment. These are comparative statics predictions.

Changing Agent Effort Cost. The costs of effort to the agent may change. For example, the agent may lose influence with his or her population, making suppression more difficult. Alternatively, the agent may be replaced through an election process by another agent with higher costs. How does the implicit contract adapt? Our earlier discussion applies. If the agent's cost of effort becomes sufficiently high, the principal may choose to forgo indirect control altogether, either engaging in direct control or doing nothing. If, instead, the agent's effort cost remains low enough that indirect control is not abandoned, then the principal will respond with more high-powered incentives (H_7). This means that the principal becomes more responsive to disturbances; it will reward the agent more following small disturbances and it will punish the agent more following larger disturbances (a vertical stretch of the curves in figure 0.1). Intuitively, the agent's effort cost has increased, so larger carrots and larger sticks are required to induce it to act. This increases the cost to the principal of providing incentives.

Changing Principal's Cost of Incentives. The cost of utilizing different incentive tools for the principal can evolve over time, which changes the structure of the optimal contract. When the cost of rewarding the agent with concessions increases (or, equivalently, the benefit that the agent derives from these concessions declines), the principal responds by reducing its use of rewards and increasing its use of the other incentive tools (H_8). In particular, it will punish more often and more severely and will replace the agent more often in response to large disturbances. In some circumstances, this change can make incentive provision by the principal so difficult that it may choose to forgo indirect control altogether.

Analogous reasoning applies if the cost of punishment rises. For instance, punishments may become more costly for the principal if there is a greater public backlash by the principal's own constituents about their use, if the agent becomes immune to their pain, or if other, more pressing proxy relationships elsewhere in the world increase the opportunity costs of punishment. Increased cost of punishment will result in the principal's punishing less often and utilizing rewards and replacement incentives more (H_9). Again, incentive provision by the principal may become so costly as a consequence of such a change in the environment that indirect control is abandoned altogether.

Finally, the same argument holds if the cost of replacement rises—for example, because the expected costs of effort by the replacement agent increase. In this case, replacement is used less often by the principal, who shifts to using rewards and punishments more often (H_{10}). In short, the optimal incentive contract is driven by the relative costs and benefits of the three incentive tools. Increasing the cost and reducing the effectiveness of one tool leads to greater use of the other two, and vice versa.

Changing Importance of the Principal's Goal. As a final comparative static, consider what happens if the benefits of indirect control increase for the principal. For example, this occurred for the United States after 2001 when sensitivity to attacks increased, and again as the Iraq war dragged on and public support for direct action declined (see chapter 9). In this case, using the agent to prevent these attacks becomes significantly more important to the principal, who will deploy higher-power incentives to induce agent effort (H_{11}). This might seem counterintuitive: the more important disturbances become to the principal, the more eager the principal is to delegate their suppression to the agent. To understand, recall that, with the right incentives, the agent is more efficient at dealing with the disturbance than is the principal. This means that a less competent agent who might otherwise be too costly to engage through indirect control may become a worthwhile agent if the disturbance becomes more salient to the principal. In such a circumstance, because the agent has high costs of effort, high-powered incentives will be utilized: bigger (or more likely) rewards and punishments.

Capacity Building

At one level, and as practiced by the United States before and after the end of the Cold War, building proxy capacity is conceived as an alternative strategy to indirectly controlling threats: the principal expands the ability of the agent to suppress disturbances through noncontingent flows of resources. We can incorporate capacity building into our principal-agent model, and identify conditions

under which it is likely to be effective. The relationship between principals and agents is dynamic: a principal can choose to incur investment costs in the present that increase the agent's future effectiveness of suppressive effort. (Almost equivalently, the principal can invest in the political survival of a low-cost proxy.) This is, in terms of theory, what we mean by capacity building.

After an investment in proxy capacity, since the proxy's effort becomes more effective at suppressing disturbances, the probability of large disturbances diminishes, which benefits the principal. This can be achieved through military training, logistic support, material support, and institution building. Capacity building may also increase public support for the agent and thereby make it easier to control the disturbance. This investment is costly to the principal but differs from the rewards considered above in three ways: (1) it takes place before the agent's decision to exert effort, (2) it does not provide any (direct) personal benefit to the agent, and (3) it is not contingent on the agent's level of effort in the current period. In its pure conceptual form, capacity building only increases the agent's effectiveness at controlling the disturbance.

Crucial to the discussion is that capacity building is complementary to the agent's effort decision. In other words, if the agent exerts the required effort, the principal reaps the benefits of investing in an increased effectiveness of effort. If the agent does not exert effort, capacity building has a muted effect on the insurgency and might even be counterproductive, enabling the agent to engage in actions that the principal finds positively undesirable, such as using better-trained military forces against internal political rivals—perhaps including innocent civilians—or rivals supported by the principal.

For this reason, in the optimal contract the principal only transfers resources to build capacity when agents have sufficiently aligned interests so that indirect control is the principal's optimal strategy—in other words, if there is a cost-effective contract that can induce the agent to exert effort after capacity building. If the cost of effort is so high that it is very expensive to induce the agent to exert effort with the incentive tools considered above, the principal has no reason to invest in capacity. Such investments would be wasted since the benefits are only realized if the agent actually exerts effort within a situation of indirect control.

This is an important implication of the theory for contemporary policy, as we will see in the chapters to come. If the interests of the principal and agent are sufficiently misaligned (i.e., the agent's effort cost is so high that it exerts no effort), capacity building by the principal is wasted. Therefore, the greater the interest misalignment between principal and agent, the less likely is capacity building by the principal. Stated positively, only if the preferences that underlie interests are sufficiently aligned should the principal invest in capacity (H_{12}).

Possible Objections

One possible criticism of our approach is the notion of a "contract" between principal and agent. Above, we define an implicit contract, which we mean quite literally. Principal and agent need not sit down and agree on a schedule of rewards and punishments contingent on disturbances. Rather, given (our second scope condition) that the proxy is subordinate, the principal can impose a schedule of rewards and punishments for effort. At no time is it likely in the cases we consider that a complete schedule is dictated—or that a discussion occurs at all. Although we do not model it explicitly, the real-life principal need not announce a complete schedule of rewards and punishments. Through repeated interactions, the agent will eventually learn the schedule of rewards and punishments the principal is using, and respond accordingly. All that is necessary for our model is that the agent knows the relationship between disturbances observed by the principal and the rewards or punishments that will be imposed in response.

A second critique is that actors we treat as agents might not think of themselves as such, and would reject our analytical characterization of them as proxies. One such case is Hamas, as an agent of Israel, investigated in chapter 4. In the theory, any actor can be understood as a proxy for the principal, though they vary in their costs of effort—by which we mean, again, the cost to the agent of suppressing disturbances. The further apart the policy interests of the principal and the agent, the higher the cost of effort. With diametrically opposed preferences, Israel-Hamas might seem to take on an extreme value on this dimension; indeed, it is one of the few cases we examine where the agent may actually gain from the disturbance that hurts the principal and that the principal wants suppressed. In fact, some of the disturbances in question are surely rockets launched by Hamas.

We do not often observe principal-agent relationships of this nature. By analogy, we do not normally hire lawyers to defend us who actually benefit from seeing us go to jail. But, as noted above, the theory can accommodate exactly this situation and predicts that the principal must use very large rewards and punishments to overcome the high cost to Hamas, in this case, of complying with Israel's demands. Because the costs to the principal of rewards and punishments are very large, there is usually a better alternative, and thus we do not observe many cases of principals choosing indirect control over agents whose stated intention is to destroy them.

To understand the Israel-Hamas case, and possibly others like it, the agency relationship is best placed in context—and this context actually reveals some of the power of our model and its explicit consideration of policy alternatives. In the theory, principals have five options: (1) do nothing, and suffer the cost of the disturbance—terrorism, in the case of Israel-Hamas; (2) directly suppress

the disturbance, which is enormously costly for Israel, as it would require invading and permanently governing Gaza; (3) provide direct capacity assistance to Hamas, which is unlikely to be utilized to achieve Israel's ends given interest misalignment; (4) replace the agent, which is also prohibitively costly for Israel; or (5) try to manipulate the incentives of the proxy as much as possible, which is what Israel has done. It is not that Israel wants Hamas as an agent. It would greatly prefer a proxy with preferences more aligned with its own. But given that Israel cannot tolerate continued terrorist attacks, and either suppressing terrorism itself or invading Gaza and overthrowing Hamas is prohibitively costly, Israel is stuck with a proxy it dislikes but tries to push in the "right" direction through selective rewards and punishments. It is precisely because the alternatives are so unfavorable that Israel must—despite its reluctance and the problems of dealing with a stated enemy as its agent—nonetheless try as much as possible to use incentives to induce Hamas to restrain attacks.

Does indirect control work well in this instance? No. Attacks from Gaza against Israel still occur. But does it work better than the alternatives? There the answer is unfortunately yes, and not just for Israel but for Hamas as well. Faced with the alternatives of direct Israeli control, or some other entity acting as Israel's proxy, Hamas, like Israel, chooses the least bad option in pursuing a proxy strategy. This case is useful in illustrating the limits of agency relationships in reducing violence. It also helps demonstrate the value of a theory that forces us to consider all the parameters and options simultaneously in order to explain a surprising equilibrium as the result of constrained choices of strategy, as Israel and Hamas have had to do in this case.

Case Studies

The case studies in this volume illustrate the theory in action, using propositions derived from a common theory (H_1 through H_{12}) to elucidate important events. The case studies are "analytic narratives" structured as the examination of specific events from the point of view of a single general theory.²⁰ We draw two different kinds of comparisons from our cases. First, we compare across cases. Because we lack comparable data from different countries and time periods, we reach only tentative conclusions at this level.²¹ Most important, we can examine whether the principal used incentives keyed to the agent's local political context, and whether these incentives moved the agent's behavior in the expected direction. We can think of this most appropriately as a test of the noncontingent capacity-building approach versus our indirect-control approach. The finding is in that sense quite clear: when principals use incentives, agents respond accordingly, complying

when rewards or punishments are sufficiently large, and shirking when rewards and punishments are small or not used at all. The cases are ordered from the simplest that clearly fit the expectations of the theory (Korea) to the most complex that are more problematic for the theory (Iraq), leading the reader through successively more challenging examples. The first four chapters explore cases where the principal successfully uses incentives in strategic ways to control the agent's actions. The next five chapters examine cases where the principal often fails to use incentives fully, and faces the consequence of an agent shirking.

Second, we compare within cases over time, structuring the narrative around significant changes in the parameters of the model, especially changes in the agent's cost of effort or the costs of the disturbance to the principal. With each case as its own best control, we can assess whether changes in parameters produce the changes in behavior by the principal or agent predicted by the theory.²² We find that changes in key variables nearly always correlate with changes in behavior as expected. This holds even in the latter cases where the principal often fails to use available incentives fully. For example, sanctions were eventually employed even in Iraq, where the Bush administration was reluctant to punish Prime Minister al-Maliki for his obvious noncompliance with U.S. goals, as the disturbance and the cost of that disturbance to the president increased. In response, al-Maliki altered course, at least in the short run. These within-case comparisons strongly support the theory and highlight the efficacy of indirect control.

Case studies are most useful and appropriate when key variables in the theory are difficult to operationalize or code systematically (and sample sizes are thus necessarily small). In our case studies, a key factor is the agent's costs of effort. Precisely because the agent's level of effort is observed only imperfectly, if at all, the principal bases the implicit contract on actual disturbances. If levels of effort by agents are difficult for principals to know—despite all their incentives for acquiring additional information so as to induce high effort by the agents—it is equally difficult for outside analysts like ourselves to know, even *ex post*, whether effort was exerted. Indeed, retrospective accounts by decision makers are likely to be biased to justify their actions, given the available information, and are thus flawed measures of their interim knowledge. Nor can a theory of asymmetric information be assessed by observing outcomes and then reasoning backward to what the effort “must have been” or how it must have been perceived at the time. Such retrospective histories may provide an account of how events unfolded, but not why. Due to the inherent unobservability of key factors in the theory, the case studies draw on diverse sources of information that differ from one to the other and rely on context and case-specific knowledge in interpreting the available information. The case studies also engage in disciplined counterfactual

reasoning to render the best assessments of the agent's costs of effort and other variables in the theory.

Case selection required a disciplined application of scope conditions. In particular, we required that (1) the agent possess some advantage in suppressing disturbances, typically local knowledge; (2) the agent be subordinate, that is, that the principal is powerful enough to wield rewards and punishments effectively and, in some cases, even to replace the agent; and (3) the agent possess private information about its own actions (or costs). Those three conditions create an "agency problem," at least potentially.

In addition, cases were chosen because they were *salient*, by which we mean that the disturbance was sufficiently costly to the principal that we might expect it to seek a proxy relationship or, at an extreme, to engage in direct control. In the case of very small disturbances, our theory predicts that the principal will not react, as long as both direct action and indirect control are costly. Though non-response by a principal to some small disturbance would support the theory, it is more challenging to code the parameters in such "non-events" and, in any case, does not make for a very interesting or compelling study. Conversely, in cases of very large disturbances—such as the 9/11 attacks on the United States—direct action is likely necessary, with the option of fighting a perpetrator through proxies left unconsidered. All of this implies that there are many more cases that would support the theory than the range of salient agency relationships we focus on here.²³

It is useful to note cases not studied. Peer relationships such as the United States and Russia are characterized by rewards and punishments, but both countries have the ability to influence the actions of the other (other than through shirking), so subordination is absent. We also rejected as uninteresting subordinate relationships among allies, in which interest alignment is so close that capacity building is the obvious choice and rewards and punishments would be redundant.

Finally, our cases were not selected with foreknowledge of whether or not they would support the theory. One advantage of such difficult-to-assess variables is that they make (inadvertently) drawing a biased sample unlikely, since considerable research into a case is necessary before drawing even tentative conclusions about the theory's success in predicting outcomes. We discuss our analytical narrative approach more fully in the conclusion.

As a check on coding and analysis of cases, preliminary drafts were circulated internally among the group, and discussed critically with principal investigators in team meetings over a period of almost three years. In addition, to check again that cases were not being shoehorned to fit into a common theoretical

framework, more developed drafts were circulated among subject experts and discussed by those experts—who included academics and practitioners—in a conference in Washington, DC, in September 2016. We summarize our thoughts on that process in the conclusion as well.

No case illustrates the theory perfectly. In nearly every instance, the principal or proxy deviates in some way from the spare and parsimonious expectations of the theory. However, in most cases there is strong congruence. In South Korea, existential threats to the domestic regime and the U.S. battle against global Communism forced an alignment of interests with the United States, which in turn provided assistance with building capacity and threats of punishment that brought a reluctant regime to the bargaining table. In Denmark, Colombia, and Gaza, the interests of agents deviated dramatically from those of principals over time, and greater rewards and punishments were necessary to induce sufficient effort. We then turn to El Salvador, where the United States as principal used inexplicably weak incentives on a noncompliant proxy. We follow with two cases where the high costs of punishments and rewards severely restricted the principal's ability to manage its proxy, namely, the United States with Pakistan and Israel with the Palestinian Authority. We close with two further cases of a problematic principal: Yemen, where the United States expanded its demands while cutting its rewards, and Iraq, where the United States mostly failed to condition its rewards and punishments on the behavior of its proxy. We summarize the results of the cross-national and especially the within-case comparisons in more detail in the conclusion.

NOTES

1. On proxy relationships in foreign policy, see Ladwig 2016, 2017. On client states more generally, see Carney 1989 and Sylvan and Majeski 2009. For an empirical study, similar to ours, that finds that only contingent rewards and punishments work to motivate proxies, see Macdonald 1992.

2. Quoted in Lowenthal 1995, 24.

3. On sovereignty, see Glanville 2014; Krasner 1999; Osiander 2001; and Ramos 2013. For a more developed discussion of the ideas here, see Lake 2016, chap. 2.

4. Although the principle was stated here in very general terms, there is now a large corpus of General Assembly resolutions, meeting records, reports, letters, and official documents clarifying the meaning of the principle and its specific applications (Onuf 1998, 151). The most important documents are General Assembly resolutions 2131 (XX), December 21, 1965; 2625 (XXV), October 24, 1970; and 36/103, December 9, 1981. For other documents, see article 2 (7) at <http://www.un.org/en/sc/repertoire/principles.shtml>.

5. Krasner 1999.

6. Thomson 1994.

7. On indirect control by Rome, see Padró i Miquel and Yared 2012.

8. Risse 2011.

9. Jackson 1990.

10. On blowback, see Johnson 2000.

11. Gerges 2009.
12. Ladwig 2016, 2017.
13. See Karlin 2017a, b; Watts et al. 2014; Watts 2015.

14. For a rigorous version of the theory sketched here, see Berman, Lake, Padró i Miquel, and Yared 2018. Our framework builds on the work of Yared (2010) and Padró i Miquel and Yared (2012), who formally analyze such situations using a framework of repeated games with private information. For principal-agent theories of international politics, see Hawkins et al. 2006a. In the language of game theory, a player is an actor who pursues an objective by making strategic choices, aware that her opponents are doing the same, and capable of calculating the outcome that may result. Game theory began with John von Neumann's 1928 paper "*Zur Theorie der Gesellschaftsspiele*," available in English as "On the Theory of Games of Strategy." The assumption of unitary principal and unitary agent is an abstraction. Obviously, the U.S. government, for instance, is not a strict hierarchy in which only the president, as the ultimate decision maker, matters. It is empirically possible—indeed, we can think of examples of this—that branches of the government will work at cross-purposes with one another, with Defense, for instance, rewarding the agent, and the State Department punishing it. The same for the agent: the quasi-civilian leaders and the intelligence agencies in Pakistan, for instance, do not always work in tandem. When referring to the principal and agent in our cases, we refer to the aggregate of all decisions made by the parties constituting each entity.

15. This does not imply that the proxy can always manage the disturbance alone, especially when it lacks capacity. As in the South Korean case (chapter 1), the agent might lack the ability to suppress the disturbance entirely on its own but nonetheless have a cost advantage in doing so because of its knowledge of local conditions.

16. On the "big influence" of sometimes small allies, see Fox 1959; Rothstein 1968; Keohane 1969, 1971; Handel 1990.

17. Equivalently, in the case of unobserved costs, the principal responds to the direct observation of the agent's effort.

18. There may be some fixed costs to the principal of replacement in stimulating a coup, subsidizing the opposition at the time of the next scheduled election, and so on. Regime change need not take only the level of cost suffered in Iraq in 2003. The higher these fixed costs, the less likely the principal is to select replacement relative to the other strategies, but this does not affect any of the other predictions of the model.

19. For evidence on how counterinsurgents improve their sources of operational intelligence through improved governance, development assistance, and other means, see Berman, Felter, and Shapiro 2018.

20. On analytic narratives, see Bates et al. 1998.

21. Because we cannot observe key factors, cross-case comparisons are difficult to make, though we do so to the extent possible and have made considerable efforts as a group to challenge one another's conclusions on this score. Although we cannot claim certainty in our cross-case comparisons, a common theory and deep collaboration among the authors allow some degree of calibration across variables in the several studies. The main exception is the chapter by Matthew Nanes (chapter 4), which compares relations between a single principal (Israel) and two agents (Lebanon and Hamas) with very different costs of effort. With this most similar case design, Nanes can draw more focused assessments.

22. On within- versus cross-case comparisons, see Goertz and Mahony 2012, chap. 7. Comparative static assessments differ slightly from the process-tracing approach advocated by qualitative-methods theorists; see George and Bennett 2005.

23. In truncating the range of variation in one of our key parameters, we increase the uncertainty over but do not bias our inferences. See King, Keohane, and Verba 1994, 137.