

Chapter 1

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 United States and Western Europe. 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 2003: 407-14). As the EU expands its competencies and grows to 25 members, critics charge that the simultaneous deepening and broadening of the union is driven by self-aggrandizing 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 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; Powers 2002; Barnett 2002). To many taxpayers in donor states, U.N. bureaucrats are seen as profligate, fiscally unconstrained globalists who spend first, budget

second, and simply pass along the costs to member states. Possible corruption in the “oil-for-food” program in Iraq administered by the U.N. resonates with an already 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 serve 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 carefully 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 powerful 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 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 control of 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?” Neorealists, of course, are skeptical, whereas neoliberal 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 et al., 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: 192-194). We highlight the strategic behavior of IOs without sidelining the importance of rules. But we are primarily interested in: 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 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.¹ 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.² 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

¹ For examples see Gould, Broz and Hawes, Milner, and Pollack, this volume.

² For example see Thompson, Lyne, Nielson and Tierney, and, Hawkins and Jacoby.

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.

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*,³ 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

³ 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).

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.

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. 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, U.N. 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.

Principals incur *agency losses* or costs when agents engage in undesired 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 delegate (or re-delegate), principals must weigh the benefits of delegation, discussed in the next section, against the agency losses they must inevitably absorb.

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 influence. 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.⁴ 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

⁴ 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 visa versa). Accepting such a broad definition would rob the approach of its analytic clarity and would make it much more difficult for analysts to deduce falsifiable hypotheses.

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 influence 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 *relatively* theory-neutral. Many specific theories – employing particular assumptions regarding state preferences or deriving preferences through 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.

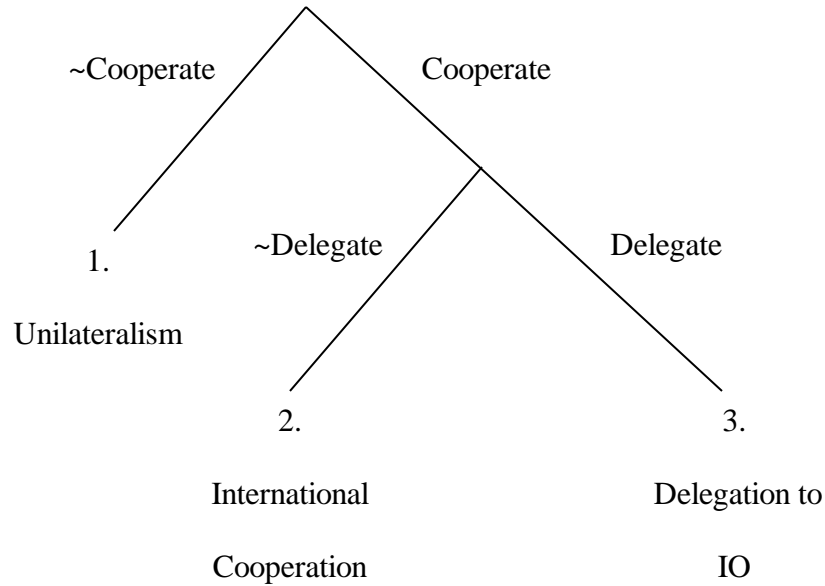
In the following sections we develop propositions about why states delegate and how they control agents. These arguments build on existing theories, which tend to be strongly rationalist. Yet the theoretical variation among those who study PA relationships is large, as reflected in this volume, and it 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. 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.

Figure 1: International Delegation Decision Tree



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 US pursued its own preferences and implemented its policy choices without its traditional allies.⁵ Other cases of unilateralism include Japan’s war on the U.S. 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.

Node 2. International Cooperation. In “standard” international cooperation, 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

⁵ After the fall of the Taliban regime other states cooperated by providing troops, aid, and other assistance.

unpublicized, informal agreements to legally binding multilateral treaties. Nonetheless, states themselves implement the policy rather than delegate authority to a third party. Examples include lowering tariffs under the GATT, arms reduction under START, 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 paradigmatic 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, there remain the questions of what tasks to delegate and how to control the IOs. The chapters below provide many examples of delegation.⁶

Any complete explanation of the decision to delegate to an IO also entails an explanation of why not cooperation without delegation, and why not unilateralism. Delegation to an IO must be compared to the “next best alternative.” In this volume, the “null policy” for delegation will be either unilateralism or international cooperation.

Delegation and Recontracting

Several of the contributions to this volume address the initial act of delegation, while others pursue problems that result once delegation has taken place. While there are some clear differences between these endeavors, many of the hypotheses suggested for explaining why states delegate should also have observable implications for why states restructure – or fail to restructure – their relationship with an IO given the agency problems that result. This restructuring may include increased monitoring, new administrative checks, or enhanced screening and selection of agents (see below). It could also include choosing to withdraw authority from the IO (or “de-delegating”), re-delegating more precisely designated tasks, or authorizing new pursuits for the IO. While principals can never fully anticipate problems

⁶ 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 2003.

with IOs, they likely foresee some potential difficulties and thus design mitigation mechanisms in advance. We thus see the initial delegation and subsequent “re-delegation” endeavors as focusing on slightly different aspects of the same question: How and under what conditions do states conditionally grant authority to an IO?

Why Delegate?

The literature on domestic delegation typically assumes that delegation occurs, and then focuses on how principals design institutions to control their agents (McNollgast 1987 and 1989). Congress can pass welfare legislation, for instance, but it is poorly suited to determine whether particular individuals pass a means-test to qualify for public aid. Thus, it appears unproblematic that Congress will delegate the implementation of its policy to some agent. At the same time, not all domestic delegation is a function of a principal’s inability to do something itself. Congress can delegate to the president the authority to decide whether a particular country meets a human rights standard or if a policy is in the “national interest,” but these are choices that the Congress can (and often does) make itself (Epstein and O’Halloran 1999).

In the international arena, the question of why delegate is central. States, especially powerful states, can accomplish unilaterally at least some of the tasks they delegate to IOs. Neoliberal institutionalists have persuasively argued that cooperation can serve state interests (Keohane 1984; Martin 1993). Delegation is not necessary for international cooperation. Why then do states delegate authority to an IO?

The Benefits of Delegation

All delegation is premised upon the division of labor and gains from specialization. These gains interact with all other benefits from delegation. We identify five additional benefits that may induce states to delegate to an IO: managing policy externalities, facilitating collective decision-making, resolving disputes, enhancing credibility, and creating policy

bias. As the benefits from delegation increase, all else constant, we predict that states will be more likely to delegate authority to IOs.

Not surprisingly, given that delegation is a form of cooperation, many of the benefits we identify here overlap with incentives to cooperate more generally. Yet, our analysis goes beyond the sources of cooperation identified in the extant literature by showing how delegating to an IO can actually enhance the prospects for cooperation. As actors look “down” the decision tree described above and work backwards from possible outcomes to actual choices, the availability of attractive options at the terminal nodes increases the probability that actors will choose cooperation at the upper branch. In this way, understanding the benefits of delegation can also help augment explanations about when and why states cooperate.

Benefits do not always translate smoothly into international delegation, however; the mere fact that countries can gain does not mean that they will choose to grant authority to an IO. Two mitigating factors – preference heterogeneity and power balances – interact with benefits to affect the probability of delegation. We develop each of these arguments below.

Specialization. Inherent in all delegation is a division of labor. Rather than performing an act itself, the principal delegates authority to a *specialized agent* with the expertise, time, political ability, or resources to perform a task. Without some gains from specialization, there is little reason to delegate anything to anybody. In turn, the greater the gains from specialization, the greater the incentives to delegate (and the greater the agency losses the principal is willing to tolerate, if necessary, to capture these gains).

Gains from specialization are likely to be greatest when the task to be performed is frequent, repetitive, and requires specific expertise or knowledge. One-time tasks capable of being performed by “anyone” are not likely to engender delegation; although the principal incurs opportunity costs in implementing the policy itself, this is offset by the inevitable costs in creating or finding and controlling an agent. Common tasks that require great expertise produce greater gains from specialization. The International Criminal Court, for example, centralizes the expertise needed for prosecuting war crimes and crimes against humanity, a task that states undertook with increasing frequency and intensity in the

1990s.⁷ In this volume, Martin and Thompson both highlight the gains from specialized agents who can collect information that is useful to agents, including financial conditions in the developing countries (IMF) and the intentions of actors seeking to use force (Security Council).

Delegation to an IO is most likely when the costs of establishing the specialized agent are more than the benefits to any single state but less than the benefits to a collection of states. Peacekeeping provides a clear example. In most cases, no single state benefits enough from peacekeeping to pay those costs itself. Yet the benefits from peacekeeping are larger than any state's costs if burdens are distributed in politically viable ways (e.g., Bangladeshi and Nigerian soldiers with Western money). The resulting gains are not necessarily more efficient than unilateral action (US peacekeepers acting alone might do a better job than Bangladeshis and Nigerians under UN command procedures), but they do provide collective gains to states as a group.

Specialization allows others to provide services that states are unable or unwilling to provide unilaterally. States sometimes lack technical expertise, credibility, legitimacy or other resources to make policy on their own. The greater the needs of states, the larger the gains from specialization and the more likely principals are to delegate to agents, even though large agent capabilities also increase the possibility of shirking by those agent.

Policy Externalities. Principals benefit from cooperation and may delegate to an IO when there are large policy externalities (see Milner 1997: 44; Lake 1999: 44-52). The greater the externalities, the more likely states are to engage in mutually coordinated action. The gains from cooperation, however, can also be enhanced by delegating to an agent.

Policy externalities arise under two conditions, characterized as dilemmas of coordination and collaboration, respectively (Stein 1990; Martin 1993). In coordination dilemmas, states seek to avoid mutually distasteful outcomes (exemplified by the Chicken

⁷ The US representative to the Rome Conference argued explicitly that the transaction costs of setting up numerous regional courts, like those in the former Yugoslavia and Rwanda, was too great and that these tasks ought to be consolidated by creating the ICC. See Scheffer 1997.

game, where the actors desire to avoid the DD outcome) or enhance the certainty of their choosing mutually desired outcomes (exemplified by the “battle of the sexes” game, where the actors prefer to choose either CC or DD, but run some risk of choosing CD or DC “by accident”). Compared to other strategic problems, coordination dilemmas are relatively easy to solve – but no less important to world welfare. The risk that cooperation may fail in such situations arises from mistaken signals of resolve or other misperceptions.

Delegating authority to a *coordinating agent* can help resolve such dilemmas. Since the fact of agreement is typically more important than which policy is selected, states can reduce transactions costs by granting authority to some neutral, third party that can evaluate alternatives on more technical or social welfare criteria. In such cases, states are likely to grant some discretion to their agents. Since cooperation may fail due to informational problems, states can also gain by delegating to agents to monitor their behavior, provide information about the various policy alternatives, or otherwise “endorse” various cooperative solutions (see Milner 1997; Lake and McCubbins, this volume). Such agents are likely to be granted significant discretion. International standards agencies, such as the International Postal Union or agencies to allocate the radio spectrum, are all examples of IOs with typically broad discretion to coordinate national policies.

In collaboration dilemmas, the equilibrium outcome (or in cases of multiple equilibria, some range of outcomes) is sub-optimal. To realize cooperation in such strategic settings, states must bind themselves to act against their “natural” tendencies. Even so, states will typically retain incentives, at least in the short run, to “defect” from cooperation (the exemplary game is Prisoner’s Dilemma). Nonetheless, states often try to develop some mechanism to restrain defection and facilitate cooperation.

Public goods constitute a major class of collaboration dilemmas. When states can benefit from a good (such as a clean environment) whether or not they contribute to its provision, the classic free rider problem arises and, in the absence of centralized provision, the outcome is likely to be sub-optimal. In such cases, states may benefit by delegating to an IO that they empower and finance to provide the public good. In the area of public health, the World Health Organization (WHO) provides an example of such public goods provision, especially in the monitoring and control of infectious diseases (see Cortell and Peterson, this volume). In theory, states might also use multilateral development

organizations to avoid policy externalities in the form of giving some countries too much aid and others too little, though Milner (this volume) finds no evidence for that hypothesis.

Alternatively, states may elect to contribute individually to public goods, but create agents to collect and reveal information about their efforts – often a necessary condition for successfully overcoming the free rider problem (See Keohane 1984; Abbott and Snidal 1998). Examples here include the Organization for Security and Cooperation in Europe (OSCE), which monitors human rights practices, the International Atomic Energy Agency (IAEA), which monitors non-proliferation policies, and the Organization for Economic Cooperation and Development (OECD), which monitors macroeconomic policies of member states. Since states still have incentives to free ride, they might individually desire to control their agents but nonetheless collectively grant the IO a small amount of discretion so that it can more effectively provide public goods or, alternatively, police their individual contributions. Nonetheless, such *collaboration agents* are likely to possess far less leeway than their coordinating counterparts.

Collective Decision-making. States may also delegate to IOs when they possess socially intransitive preferences or other problems of collective decision-making. That is, when states as a group are unlikely to reach a stable agreement on policy (i.e., will cycle through alternatives), they can delegate power to an *agenda-setting agent* to induce an equilibrium when one might not otherwise exist. This is a standard solution to the collective choice problem in domestic politics, and may be reflected in the considerable agenda power given to the European Commission within the European Union (see Pollack 2003: 84-5, and this volume).

Although the choice of institution or the leader of that institution may also be subject to collective choice dilemmas, presumably the IO and its leadership stand someplace near the median of the managing coalition of member states. On any particular policy choice, therefore, the leadership will try to move the group closer to its own ideal

point and, therefore, closer to the managing coalition's collective preference.⁸ Yet, we can anticipate a policy struggle over agenda control between states closer to the median of the group, who prefer to delegate agenda power to an IO they control, and powerful states with more extreme preferences who prefer to act unilaterally, as in the wrangling between great powers before the 2003 Iraq War. The closer the membership's preferences and the politically weaker the preference outliers in socially intransitive settings, the more likely states will be to delegate to an agenda-setting IO or restructure an IO contract to provide agenda-setting authority.

Dispute Resolution. States may also delegate authority to agents to resolve disputes between themselves. As international interactions have grown more rule-governed (Goldstein et al. 2000), there has been a corresponding increase in the use of third party agents to resolve disputes. Such *arbitrating agents* can be important in securing the social benefits of cooperation – and it is the cooperation so facilitated that helps to explain why states delegate to these agents in the first place.

The key problem in most interstate disputes is the incomplete nature of the contract among the principals. Although it is possible in theory to consider all possible future states-of-the-world and to negotiate ex ante the responsibilities and appropriate actions by all parties to an agreement in each of those states, in practice a large number of future conditions are left unconsidered in negotiations (see Williamson 1985). The anticipation of future conflicts over the terms of the contract, in turn, inhibits cooperation.

When contracts are incomplete, the principals can lower their future transactions costs and secure cooperation by delegating authority to an agent who is empowered to decide disputes between the parties. In agreeing in advance to refer disputes to an arbitrating agent, the principals select (or create) agents who are known to be impartial and, more importantly, to possess a high degree of autonomy, as Alter's analysis in this volume illustrates. Agents that are expected to be biased or constrained to decide disputes on

⁸ In the context of American politics, this is argument pursued by Kiewiet and McCubbins 1991 and Cox and McCubbins 1993. They show, persuasively, that delegation can work in favor of the collective interests of the principals.

anything other than application of the relevant rules are unlikely to be acceptable to one or both parties to the agreement. At the same time, since the principals themselves disagree on what the contract implies, they cannot instruct the agent on exactly how to decide on the issue(s) under dispute. Principals, therefore, go to considerable lengths to select (or create) impartial agents with relatively high autonomy. In some cases, especially at the level of constitutional courts, the principals create not an agent, to whom they can both grant and revoke authority, but a *trustee*, to whom authority is permanently transferred, as Alter points out in this volume. For both agents and trustees, however, the purpose of the grant of authority is the same. The autonomy of the agent increases the likelihood that over some unknown number of future disputes regarding unforeseen issues, an individual principal is likely to “win” as many times as it “loses.” This permits the agreement to go forward on a “risk neutral” basis.

Nonetheless, the principals still seek to constrain their arbitrating agents in a variety of ways, including specifying clearly the intent of their agreement – and therefore stipulating the principles to be upheld in dispute resolution – and agreeing on procedures, the types of evidence permitted, and the forms of argument to be followed should a dispute arise. Despite considerable discretion, principals do not grant agents the autonomy to decide disputes any way they want. If principals have designed the process well, the agent’s decision will reflect what the architects of the agreement would have wanted on average even if they disagree on the particulars in a specific instance.

Credibility. States may delegate authority to an IO or revise an existing IO contract to enhance the credibility of their policy commitments (Martin 1993; Stone 2002). Problems of credible commitment often arise under what economists call the time-inconsistency problem – actions that are in a political actor’s long term interest may not be in its interest at any particular moment. Although there are advantages in the long run to a balanced budget, for instance, at each moment politicians have incentives to satisfy the demands of their constituents for more services and less taxes through deficit spending. Credibility problems can also arise, as Pollack argues in this volume, when issues impose concentrated costs and diffuse benefits. Competition policies in the EU, for example, hurt producers but

benefit all EU citizens and thus raise credibility problems for states with major producers adversely affected by the rules..

Principals can mitigate these problems by delegating policy to *enforcing agents* with high discretion and, typically, more extreme preferences so that, left to their own devices, the agents will move policy in the desired direction. To succeed in establishing policy credibility, it must also be costly for principals to revoke authority from their agents or to overturn their specific decisions, otherwise there is nothing to prevent the principals from promising to act in the long-term interest but then giving in to short-term temptation. Costs may arise from issue linkages, so that withdrawing on one dimension of policy threatens losses on other dimensions as well. Costs may also be imposed by others (say, international investors) who interpret the withdrawal itself as a signal of impending policy change (possibly a return to a more inflationary monetary policy) and react negatively (increasing the cost of borrowing to the state).

“Lock-in” (Creating Policy Bias). Political decisions always create winners and losers, but political uncertainty is endemic; today’s winners could be tomorrow’s losers. Policy winners who want to continue to win in the future can bias policy in their favor through delegation. In domestic politics, political parties may alternate in power and, representing different coalitions of interests, enact different policies. In international politics, states may rise (or decline) in power, forcing a renegotiation of a more (or less) favorable agreement than was possible before (Powell 1999). Of course, these two arenas interact; domestic coalitions can seek to lock in their domestic benefits through international agreements (Moravcsik 2000).

In American politics, this is the widely discussed bureaucratic “lock-in” effect. As Moe (1990: 213, 222) put it, most political institutions “arise out of a politics of structural choice in which the winners use their temporary hold on public authority to design new structures and impose them on the polity as a whole....” McNollgast (1987) demonstrates that administrative procedures acts have been used to structure the incentives of bureaucracies and insulate current policy beneficiaries from future change. Similarly, in some ethnically-divided societies, consociational institutions have been constructed that lock-in the balance of ethnic power that exists at a particular moment and, in turn, delegate

authority to elites (Lijphart 1977). The United Nations Security Council, empowered by the international community to defend international peace and security, has a permanent membership drawn entirely from the major victors of World War II. This has served to lock-in the international balance of power as it existed in 1945.

Unlike arbitrating or credibility-seeking agents, such *policy-biased agents* do not necessarily need much discretion (though they may have it). Rather, principals ensure their utility by crafting careful mandates that are difficult to undo or by structuring voting rules in ways that ensure the continued dominance of those who hold power at the moment of the rule-drafting. For example, Moravcsik has argued that elites in unstable democracies created the European Court of Human Rights (ECHR) in order to secure democracy and bias future policy against autocratic elites who might try to seize power. The Court enjoys discretion, certainly, but more important to principals is its mandate protecting certain kinds of rights and decision rules that help ensure the Court is staffed by those sincerely committed to individual rights (Moravcsik 2000). While this logic is sound, Hawkins and Jacoby (this volume) emphasize that the costs of adverse agent decisions can be quite high, and so in practice states have delegated very cautiously to the Court despite their strong incentives to lock in policy.

Preference Heterogeneity

While the gains from delegation may motivate states to grant conditional authority to IOs, they do not determine the outcome. Instead, benefits interact with the preferences and power of states to affect the probability and extent of delegation.

It is of course unlikely that all states share the same goals and policy preferences. Except in coordination dilemmas where states are largely indifferent between alternative equilibria or collective decision dilemmas plagued by social intransitivities, where delegation is a means of overcoming policy differences, delegation typically requires states to resolve their policy conflicts before they can decide to grant conditional authority to an agent and, then, usefully instruct that agent on the action they want implemented. The greater the preference heterogeneity of any group of states, therefore, the less likely they will be to delegate to an IO. Similarly, the less similar their preferences, the less likely states will be to revise an existing delegation relationship (Nielson and Tierney 2003; Lyne

et al, this volume). Since revising the relationship will likely produce a policy change, the greater the preference heterogeneity of states the more likely one or more members will prefer the status quo to the proposed outcome. Depending on the rules for institutional decision-making, this may allow states to veto any proposed revision of the delegation relationship and, thus, give the agent more autonomy (Martin, this volume).

Institutional Rules, Power and Delegation

In addition to their preferences over policy, states also care about how institutional rules at the international level aggregate national preferences into policy and control over possible IO agents. Institutions aggregate preferences in different ways (see Rogowski 1999). In the case of American politics, for instance, voters elect representatives at the local level, senators at the state level, and presidents at the national level. Not surprisingly, the House of Representatives, the Senate, and the executive all have different medians or “ideal points” on many policy issues despite their electoral connections to the same voters. Similarly, in the European Union, the Council of Ministers, representing voters as aggregated through national level political institutions, differs in its positions from the European Parliament, elected directly by voters themselves. Rules not only identify voting constituencies, they also govern how decisions are made in collective principals and tell agents (or not) how to resolve potentially conflicting instructions from different member states in the case of multiple principals. Generally, the greater the number of states required to approve an action, the greater the autonomy of the agent. As with preference heterogeneity, decision-making rules requiring widespread support are likely to discourage delegation and to increase agent autonomy. Cortell and Peterson (this volume) elaborate this logic and show how unanimous decision-making rules give greater autonomy to some agents. Lyne, Nielson and Tierney show that different rules for aggregating preferences result in different decisions by the principal.

Because institutional rules matter, they also interact with the power of different states to influence delegation outcomes. As depicted in the decision tree above, states weigh their ability to realize their aims by acting alone versus acting through an IO. Powerful states are able to obtain their goals through their own influence and capabilities.

As a result, they have a more attractive “outside option” and, if they choose to do so, can more effectively realize their preferences (see Gruber 2000). When institutional rules fail to reflect accurately the distribution of power, powerful states will more readily choose to act alone outside the institution, in a “minilateral” group with like-minded states, or in concert with weaker states they can control. Bush’s “Coalition of the Willing” in the 2003 Iraq War is one of the most prominent examples.

When institutional rules reflect the power distribution, powerful states will more likely choose to act within the institution and delegate to the IO to reap the benefits of delegation discussed above. One of the reasons why the US is so willing to work through the IMF may be that its weighted decision rules make it responsive to US concerns, as suggested in the chapter by Broz and Hawes. As powerful states are also likely to be large in absolute terms, the absolute benefits of delegation may be quite important.⁹ The greater the benefits of delegation, of course, the greater the gap between rules and power the powerful states are likely to tolerate and still delegate to an IO. Weak states – or those that lack international influence – will typically favor delegation because, first, they cannot affect international outcomes unilaterally and, second, they share in the benefits of delegation discussed above. To the extent that institutional rules do not reflect accurately the power distribution among states, moreover, the rules are likely to enhance their influence on world affairs, as in the United Nations General Assembly, for instance, where both large and small states all have one vote.¹⁰ With weaker states normally disposed toward greater delegation, the impetus for or against delegation to IOs typically originates from the more powerful members of the system.

⁹ Large states may constitute a “privileged group” in providing public goods. See Olson 1965, Snidal 1985.

¹⁰ Parks and Tierney 2004 demonstrate that multilateral granting agencies with rules closer to one country one vote, like the UNDP and the Montreal Protocol Fund, allow weaker states to realize their aid allocation preferences to a greater degree than they can within the weighted voting systems of multilateral development banks.

Thus, in choosing to delegate to an IO, the existing institutional rules are important. Cortell and Peterson expand on this point later in this volume. But also important is the possible disjuncture between the international power of particular states and their influence within international institutions. The greater the divergence between power and institutional rules, the less likely the powerful states will be to delegate to IOs. As power is constantly in flux, and institutions are sticky and evolve slowly, this may well be an important impediment to international cooperation and delegation.

Summary

There are important benefits from delegation to IOs. By delegating, states reap gains from specialization, as well as capture policy externalities, facilitate collective decision-making, resolve disputes, enhance credibility, and lock-in policy biases. The larger these benefits, the greater the likelihood that states will choose to delegate to an IO. Similarly, the larger the gains, the greater the agency losses states will tolerate before revoking authority from an agent or renegotiating the agency contract. Delegating to an IO, in turn, is likely to enhance international cooperation as well.

Yet, despite the potential gains, states face at least two impediments to delegation. The more diverse the preferences of states, the less likely they are to agree to a common policy and delegate to an IO. In the same way, the more the distribution of power and institutional rules diverge, the less likely states will be to delegate to that IO. The most powerful states are critical to the decision to delegate and will be most likely to support delegation to or through international institutions that accurately reflect their global influence. By a similar logic, the greater the preference heterogeneity of states and the greater the divergence between institutional rules and the power of states, the fewer agency losses states will accept before abandoning the current contract or agent.

Structures of Delegation

In any instance of delegation, there is a central tradeoff between the gains from delegation and the agency losses that arise from the opportunistic behavior of the agent. The structure of the agency relationship – the form of delegation – is designed to manage this tradeoff and, specifically, to maximize the interests of the principals in a manner that is compatible with the incentives of the agents. In this section, we examine the incentives of agents and how principals design institutions to align these incentives with their own interests.

Agency Problems

Central to PA theory is the assumption that agents pursue their own interests, subject to the constraints imposed upon them by their principals (Kiewiet and McCubbins 1991, 5). In other words, agents are opportunistic, which Williamson (1985, 30) famously defines as “self-interest seeking with guile.” Since the preferences of the principals and agents are seldom aligned perfectly (see below), there is a natural and perhaps inevitable conflict of interest between the parties (Kiewiet and McCubbins 1991, 24). Principals try to control the behavior of their agents, but can do so only imperfectly and at some cost to themselves, inevitably suffering agency losses. Agency losses are partly endogenous to the agency relationship and vary in magnitude. The larger the agency losses relative to the available alternatives, the less likely states are to delegate authority to IOs.

Two features of the agency problem are critical. First, for agency slack to arise, there must be some environmental uncertainty that renders it difficult for the principal to assess the agent’s effort.¹¹ If no uncertainty exists, the principal can simply observe the outcome and infer the agent’s actions in bringing about that result. In a world of perfect certainty, however much agents might try to obfuscate, their actions will eventually become known. But if there is uncertainty, the principal can discern only with difficulty whether an outcome arose because of the efforts of the agent or from some exogenous “shock.” If the principal observes an unsatisfactory outcome, it cannot tell for sure whether this was the

¹¹ On the important role of uncertainty, see Furubotn and Richter 2000, Chapter 6. See also Koremenos et al. 2001.

result of slack by the agent, in which case the latter should be sanctioned, or some unfortunate event that disrupted the best efforts of a sincere agent, who should not be punished. Conversely, if the principal receives a satisfactory or even better than expected outcome, it cannot tell if this is the product of the extraordinary efforts of a diligent agent or a “lucky break” for an otherwise slacking agent. It is this inability to distinguish the causes of policy success and failure that prohibits, in part, the principal from writing an optimal contract to control the agent (see below).

Second, agent specialization exacerbates the twin problems for the principal of hidden action and hidden information (Kiewiet and McCubbins 1991, 25). If the principal must learn everything that the agent knows and observe everything the agent does, the gains from specialization diminish accordingly. At the extreme, with perfect knowledge and monitoring, it is almost as if the principal has performed the task itself. Thus, to the extent that specialization is part of the motivation for delegating to an agent, the agent can act opportunistically by failing to disclose actions or information that might be beneficial to the principal. Specialization also typically inhibits the principal’s ability to use the option of contracting with other agents as a disciplining device to control the first agent. The greater the specialization, therefore, the greater the opportunity for agency slack.

The Nature of the Agent

In “hiring” an agent, a principal can create one of its own, thereby constructing from “scratch” an organization of its own design, or choose from among a pool of existing entities willing to serve as its agent. Creating a new agent is, of course, costly, but likely to produce one closer to the preferences and purposes of the principal. Choosing an existing agent avoids the “start-up” costs, but since no pool is infinitely large and diverse, the principal will be unable to find an “ideal” agent that perfectly mirrors its preferences and is optimally designed to perform the appointed task. This problem is compounded when principals must decide whether to re-delegate to an existing agent. Breaking relations with an existing agent imposes costs, but so does renewing a contract with a problematic agent.

Agent characteristics have not received much attention in the IO literature; analysts typically assume that agents are designed by principals, and therefore have no independent

influence, or that adverse agent characteristics are controlled through selection and monitoring mechanisms (discussed below). Given a finite pool of possible agents and positive costs of creating new agents, however, the “exogenous” traits of agents are likely to matter, as Hawkins and Jacoby argue in their chapter (see also Moe 1990). This is not just a problem of delegating to IOs, but a problem inherent to a greater or lesser degree in all delegation. Nonetheless, despite their recent and accelerating growth (Shanks et al. 1996), the relatively limited number of existing IOs brings this constraint into sharp relief. The greater the costs of creating new agents and the larger the divergence between the “ideal” preferences and design of an agent and the traits of existing agents, the more difficult it will be to control the agent, the more costly mechanisms of control will be, and the greater will be the agent’s autonomy. Several chapters below illustrate this argument while highlighting a range of agent characteristics. Cortell and Peterson argue that agents composed of international civil servants are likely to be more autonomous than those with staff seconded from national bureaucracies. Alter argues that courts as agents are likely to exhibit greater autonomy. For Gould, variation in agent tasks provides the main source of agent autonomy. Hawkins and Jacoby argue that agents have a variety of strategies available to make themselves more autonomous.

Principals of course anticipate these problems, which raise the costs of delegation. Hence, principals should carefully examine agent preferences and not delegate where they cannot find a suitable agent. In support of this argument, Hawkins and Jacoby argue that principals often delayed delegation to the ECHR while they tried to infer the Court’s preferences. Thompson argues that states delegated to the Security Council due to its heterogeneous preferences and the Council, in turn, failed to delegate enforcement to the United States due to concerns about US intentions. Martin finds evidence that states delegated more to the IMF when the staff’s preferences reflected those of the principals.

Mechanisms of Control

Principals have five major mechanisms for controlling their agents. Broadly, principals attempt to structure the incentives of agents ex ante so that it is in the interests of those agents to carry out their principals’ desires faithfully ex post. The form of delegated

authority, then, is not given or fixed, but rather is endogenous to the agency relationship and largely designed by the principal to minimize the opportunistic behavior of the agent. However, principals cannot anticipate every contingency – particularly where agents are granted broad discretion or when the interests of the principals themselves shift over time. The mechanisms that principals use to control agents have been the subject of extensive research in the domestic politics literature. As we do not find significant differences between domestic and international mechanisms of control, this survey is intentionally brief.

Rules versus Discretion. The contract between the principal and the agent specifies the scope of the authority delegated to the latter, the instruments by which the agent is permitted to carry out its task, and the procedures that the agent should follow in employing those instruments (McCubbins and Page 1987: 412). The precise nature of the contract will reflect many considerations, but contracts are often described as varying along a single dimension of rules versus discretion.

On the one hand, the principal can write detailed rules to the agent for carrying out its responsibilities. Under rule-based delegation, the principal instructs the agent on exactly how the agent is supposed to do its job. The use of rules may be partly a function of the purposes of delegation (discussed above) but it is, more often, a mechanism for constraining the agent. Rule-based delegation generally reduces the gains from specialization – as the principal must spend time and effort learning about the task and writing the rules – and reduces flexibility, as the tightly bound agent cannot respond as effectively to unpredictable changes in the environment. For this reason, rule-based delegation is relatively inefficient and will be used only when agents are difficult to control through other means. The World Bank provides an example. Member states allowed the Bank broad discretion until the mid-1980s when a fundamental change occurred in the preferences of a winning coalition on the Bank’s executive board in favor of greater environmental protection. For several years, the coalition, led by the United States, tried ad-hoc threats and ex-post sanctions on the Bank but failed to establish a new equilibrium for their agent. Finally, the executive board designed new rules and institutions that now more tightly constrain the agent. These changes to the IO contract, entailing rule-based delegation, proved very expensive (Nielson and Tierney 2003)

On the other hand, the principal can articulate its goals and leave the agent to figure out how best to fulfill its assigned mission. Under discretion-based delegation, the policy-making role of the agent is greatly enhanced. Discretion is most useful where uncertainty is high, and thus flexibility is necessary and valued (Cooter 2000: 94), or when the task requires highly specialized knowledge possessed only by the agent. Discretion may also be useful when principals have heterogeneous preferences but not so extreme as to vitiate the gains from delegation. Rather than negotiating to a final policy, and incurring potentially large transactions costs in doing so, diverse principals may let the agent figure out where to set policy so that it cannot be overturned by a group of unhappy principals (McCubbins and Page 1987: 418). But for all these same reasons, discretion creates greater opportunities for opportunistic behavior by the agent. In this volume, Alter and Hawkins and Jacoby find that judicial agents capitalize on their high discretion to gain autonomy and exercise slack.

Monitoring and Reporting Requirements. Principals use ex post monitoring and reporting requirements, typically specified in the delegation contract, to reveal information about the agent's actions. The most important distinction is between "police patrols," which refer to direct monitoring of agents by principals to identify malfeasance, and "fire alarms," which rely upon affected parties outside the agency relationship to bring evidence of slack to the attention of the principals (McCubbins and Schwartz 1984). Fire alarms are typically more efficient, as the principal does not need to expend resources searching for slack where it may not exist, and potentially more effective, as parties harmed by the agent typically have strong incentives to publicize shirking and slippage. We see examples of both police patrol and fire alarm mechanisms at work in the European Union. Police patrols feature prominently in the EU's "comitology," where the Single European Act specifies various advisory, management and regulatory committees that oversee actions in all realms where the European Commission operates. As an effective fire alarm, aggrieved individuals can bring complaints before the European Court of Justice against any Commission action they can demonstrate affects them directly (Pollack 1997).

Screening and Selection Procedures. Principals also seek to reduce slack by selecting agents with preferences similar to their own. In doing so, principals seek agents who are

likely to do what they themselves would do if they carried out the task directly. Screening and selection occurs at both the leadership and agency levels. In domestic political systems, majorities typically select cabinet ministers and agency heads that reflect their views. In IOs a similar process of leadership selection unfolds (See Kahler 2001; Wade 2002). Principals can select between institutional agents with known biases or, at some cost, create a new agent with a defined policy preference. Either way, the principal attempts to select an agent naturally inclined to act as the principal would if implementing policy itself. By selecting a sympathetic agent, the principal can grant the agent greater discretion and employ less costly monitoring mechanisms while still minimizing agency slack.

The problem, of course, is that agents have incentives to misrepresent their true preferences. This is known as the problem of adverse selection. In international relations, screening and selection mechanisms may be rather weak. As noted above, the number of IOs, although growing rapidly, is still relatively small compared to the domestic arena. States can be expected to delegate authority to the most favorable IO, a practice sometimes known as “forum shopping,” but the range of possible agents is still limited. At the same time, creating IOs with sympathetic preferences *de novo* is often costly. As Hawkins and Jacoby argue in this volume, these limited pool problems can create disincentives for delegation and greater scope for agent autonomy.

In addition, leaders of international organizations tend to be selected in less than fully competitive ways and are often difficult to remove, limiting the choice available to principals at any moment in time. By agreement of the founding parties, for instance, the director of the IMF is always a European and the president of the World Bank is always an American. The Secretary General of the United Nations is selected from a list of regional candidates on a rotating basis. Such rules limit competition for office, deprive principals of a full range of candidates from which to choose, and may produce agents who do not represent the median member of the organization.

Institutional Checks and Balances. Principals can also structure agency relationships so that they contain institutional checks and balances that limit opportunistic behavior by agents. Within single organizations, checks are created by empowering bureaus with at least partially opposing mandates (e.g., in firms, production managers charged with

maximizing output and controllers charged with minimizing production costs). In response to fears of a runaway international court, states carefully designed a series of safeguards in the International Criminal Court. The prosecutor can be checked by judges, initial court rulings can be checked by a more complete set of judges, the Security Council can check both prosecutors and judges, and individual states can check the court by seriously investigating cases themselves.

Checks are also created by empowering more than one agent or hiring agents with overlapping mandates. Competition between the agents will help reveal to principals the true costs of performing the task, the preferences of the agents, and so on. Although redundancy reduces the benefits of specialization, it may also reveal more and better information to the principal. The purview of the regional development banks overlaps extensively with the World Bank's, and the banks often compete over projects and country portfolios. And in adjustment lending, the World Bank and the IMF are effectively competitors in some instances.

Sanctions. Finally, principals can punish agents for undesired actions and reward agents for desired actions. This carrot and stick approach by principals can be applied to both individuals and bureaus to induce desired behavior.

Principals typically sanction agents through budgetary expansions and contractions. Agents that succeed in their missions are rewarded with larger budgets, allowing individuals to perform their jobs more easily or supervise larger staffs with compensatory benefits. Agents that fail are punished with smaller budgets, and may even be eliminated entirely. Broz and Hawes in this volume argue that the size of US funding creates incentives for the IMF to protect US money center banks in their loans to developing countries. In this case, the IMF appears responsive to the need for expanded budgets from its most important principal.

Principals employ these mechanisms of control in varying combinations to achieve their aims. In some cases, the mix is determined by the availability of agents. In cases where agent preferences are especially hard to discern, principals are likely to write more extensive rules, employ tighter monitoring arrangements, create multiple agents, or use

higher-powered sanctions. The mix is also likely to be affected by the purpose of delegation. When delegation is used to enhance the credibility of a principal's policy, for instance, considerable discretion must be given to the agent and visible sanctions will be counter-productive. Similarly, dispute resolution requires controlling the agent with a "light hand." Too much control, in these instances, undermines the effectiveness of the delegation. But in all cases, theory suggests mechanisms of control are intentionally designed and used to minimize agency slack.

Control mechanisms are costly and imperfect. Since resources are scarce (in the economic sense), principals never devote sufficient time or effort to control agents completely. Agents always possess some autonomy. As Gould shows in her chapter, principals find it more difficult to design control mechanisms for some IMF tasks than for others and, not surprisingly, the IMF has more autonomy in the areas that are more difficult to monitor. Alter argues that many of the control mechanisms designed by principals are inapplicable to international courts and that states have to find other ways to check courts. Despite the best efforts of principals, agents can turn autonomy into slack, depending on agent preferences and strategies.

Traditionally, PA approaches have focused on agent slack as the outcome of imperfect control, yet the presence of slack does not mean that delegation has failed or that it is not the best course of action available to states (Gould 2003). Slack is only meaningful relative to the gains from delegation and relative to the next best alternative available to states. Indeed, the greater the gains from delegation, the greater the agency slack states will tolerate. As a result, if slack is observed, one possibility is that off-setting benefits from delegation are being reaped by the principal. The principals can always reduce slack by tightening oversight, but this requires time, attention, and expertise. States choose the degree of delegation and control mechanisms to maximize their overall return, not just to minimize agency slack.

Agents as Actors

While slack is one possible outcome of agent autonomy, we wish to draw attention to the possibility that agents may use their autonomy to influence future decisions by principals,

an outcome that the term “slack” does not fully capture. When the agent pool is small or agents possess significant expertise, agents can lobby principals for more authority and resources, negotiate with principals the terms of their contracts, and even utilize their resources and knowledge to influence principals’ preferences or strategies. In this volume, Thompson argues that the Security Council, acting as an agent of states, helped those states by providing valuable information about US intentions in the recent Iraq War. Hawkins and Jacoby argue that the ECHR has influenced state human rights policies and preferences. Moreover, when agents face complex principals they may play one member against another, thus increasing their range of possible action or decreasing their principals’ choice set (See Lyne et al., this volume). This is often the case with administrative agencies in the United States, and we find international analogs in the European Union and the International Monetary Fund (See McNollGast 1987; Pollack 1997; and Martin in this volume, respectively).

Agents may also seek to increase the degree of autonomy that they possess, convincing states to delegate more authority to them or exercise less control. Agents can demonstrate to states through past successes – or use their resources to lobby member government officials – that they can be trusted with new tasks that obviate the need for a new IO. In this way agents can convince states to delegate new authority and resources to them rather than act unilaterally, cooperate without delegating, or delegate to an IO. The unit cost of delegating thus may decrease as the number of tasks delegated to an apparently competent IO increases. In this volume, Thompson and Hawkins and Jacoby both examine agents who sought delegation and autonomy from principals, with contrasting outcomes. In Thompson’s chapter, the United States was unsuccessful at trying to persuade the Security Council to delegate to it, while the ECHR was quite successful over time at encouraging further delegation and at gaining much greater autonomy.

This process of agents using their autonomy to influence principals is the central insight of neofunctionalism. In this literature, agents use autonomy to expand their influence through functional spillover, political spillover, and upgrading common interests (Burley and Mattli 1993). As Pierson (1996) and others have recognized, however, much more than agent discretion is typically necessary for agents to influence principals. In particular, agents can gain more autonomy in a gradual process driven by member-state

preoccupation with short-term concerns, the ubiquity of unintended consequences, and the instability of member-state policy preferences. Once agents have gained enough autonomy, principals may find it difficult to rescind authority due to institutional obstacles, such as the need for unanimous or supermajority votes to change the status quo. If we examine the prior link in the delegation chain, the logic for this institutional stasis becomes clearer. Societal groups may possess interests that coincide with the delegation of greater authority to the agent, and may lobby political leaders to preserve or cede more clout to the agent. The European Union, for example, helps serve the interests of powerful industrialists and investors, while the World Health Organizations serves few social group interests in developed democracies. Hence, we should not be surprised to find that the European Commission has been more successful at turning autonomy into greater delegation than the WHO (see Cortell and Peterson, this volume).

In all, this dynamic of agent autonomy, slack, and influence has a substantial impact on the willingness of states to delegate in the first place, on the mechanisms and form of delegation, and on the restructuring that occurs to existing delegation contracts. Analysts should pay greater attention to these dynamic effects on delegation outcomes.

Plan of the Book

To summarize, we have provided a narrow definition of principal-agent relationships that distinguishes delegation relationships from lateral strategic interactions. This narrower definition facilitates the development of falsifiable hypotheses in the short run and a viable research program in the long run. In addition, we have distinguished delegation to IOs from unilateralism and cooperation alone. It is vital to keep these alternatives in mind when formulating hypotheses about when delegation will occur and what form it will take.

We have also derived initial conjectures that have observable implications both for original decisions to delegate and for the restructuring of existing delegation contracts and have provided an array of examples that illustrate the arguments.. These initial propositions try to examine delegation from the viewpoints of principals contemplating or renegotiating contingent grants of authority and agents accepting delegation contracts. The remaining

contributions to this volume follow up on these insights, challenging and extending them theoretically, as well as grounding them empirically.

Each chapter in this volume assesses PA theories through one of two conceptual experiments – though some also interact the two. The first conceptual experiment examines exogenous variation (across cases or time) in some characteristic of the principal that is predicted to lead to some observable variation in the agent’s behavior, authority or task, or in the mechanisms of control employed to guide the agent. Authors in this volume explore four important characteristics of principals (key independent variables) that are hypothesized to have an impact on agent behavior, authority, or the mechanisms of control.

Preferences of the Principals. A number of chapters argue that the preferences of the principal determine the design of the contract, its mechanisms of control, and the subsequent behavior of the agent. At the same time, important disagreements exist among them about which principals and which preferences matter. Lyne, Nielson and Tierney argue that alterations in principal’s preferences ought to induce change in agent behavior even if the principal does not re-contract or ratchet up control mechanisms. A faithful agent should anticipate the principal’s interests and adjust behavior accordingly. They find that as the preferences of the member states evolved toward a greater emphasis on social protection, multilateral development bank agents responded by making more social loans IS THIS STILL TRUE?—but only when a large coalition favoring that preference emerged within the collective principal. Broz and Hawes agree that principal preferences influence agent actions. Yet while Lyne, Nielson and Tierney insist that scholars should avoid the temptation to focus on just one member state or even a small sub-group of member states, Broz and Hawes provide powerful evidence that the preferences of a single member of a collective principal can indeed influence agent actions. They find that the IMF responds to the influence of the US Congress by providing more loans for countries where US banks are exposed. For Broz and Hawes, the preferences of the US Congress as a principal of the IMF are fundamentally shaped by money center banks, outside actors in the PA relationship.

Milner agrees that principal preferences strongly influence agent actions, even in the unlikely case of US voters and the question of whether Congress allocates development aid

bilaterally or multilaterally. Like Lyne, Nielson and Tierney, Milner focuses on the substantive preferences of principals, in this case voter preferences for relatively altruistic development aid. She finds that as voter skepticism of foreign aid increases, Congress responds by distributing comparatively more multilateral aid.

The Need for Information. Martin, Pollack, and Thompson all argue that state demands for more and better information influence their relations with IOs. For Martin, crisis situations produce a stronger need for information and states react by allowing IOs greater autonomy. She finds that IMF staff autonomy varies over time in response to the information needs of states. Pollack argues that states delegate to agents to gain better information but also to create more credible commitments. Like Martin, he hypothesizes that the greater the principals' need for information and credibility, the larger the agent's autonomy. Unlike Martin, he finds that in the European Commission, autonomy has little to do with the need for information and much more to do with the need for credibility and for speedy, efficient policymaking. Thompson argues that states' needs for information about the desirability of intervention has led them to delegate that authority to the Security Council.

Structure of the Principal. Lyne, Nielson and Tierney also argue that the nature of the contract between the principal(s) and agent ought to influence agent actions. When multiple principals hold independent contracts with the same agent, the outcome is likely to be less determinate than when agents face a collective principal composed of numerous member states acting in concert under a single contract. Of course, this implies that the collective principal possesses institutions that can effectively aggregate preferences and induce stable coalition formation among the members of the collective.

Decision-making Rules within a Collective Principal. Relatedly, Cortell and Peterson, and Alter maintain that unanimous decision rules within a collective principal provide greater room for agency slack than majoritarian rules (or rules that grant authority to a subset of great powers). Unanimous decision rules – allowing each state an effective veto –

should increase the number of options that agents confront, and should allow agents to select a policy closer to the agent's own ideal point. On the other hand, majoritarian decision rules should constrain the agent more closely because such rules more effectively aggregate member preferences and concentrate authority.

The second conceptual experiment looks at exogenous variation in some characteristic of the agent, predicting observable variation in the principal's behavior or in the mechanisms of control adopted by the principal. As noted above, in many areas in which PA theory is applied, there are a large number of potential agents or it is not too costly to create a new agent. As a result, it often appears that principals select or design an "ideal" agent that corresponds to their preferences and is well suited to carry out its assigned tasks. In such cases, the attributes of the agents themselves appear to be relatively unimportant. As a consequence, this second conceptual experiment does not feature prominently in the existing PA literature. In international relations, however, neither the large-number nor low-cost conditions are consistently satisfied; hence, we have some reason to expect that varying characteristics of the agents may play an important role in delegation and its consequences. In this conceptual experiment, then, agent characteristics constitute the independent variables that should produce observable outcomes in the principal-agent relationship. The substantive chapters identify four important sets of variables.

Agent Preferences. As with principal preferences, a variety of authors argue that agent preferences affect PA relationships. Hawkins and Jacoby and Martin both argue that states are more likely to delegate when they identify agents with preferences similar to their own. This argument suggests that state decisions to delegate can be influenced by the nature of the available IOs. Where IOs with similar preferences are in short supply, states are more likely to undertake tasks on their own rather than to delegate to an IO.

Drawing on the literature on delegation to committees in domestic legislatures, Thompson models the United Nations Security Council as an agent, hired by the membership or international community more generally, to screen proposals by others agents (the United States in his case) to use force for collective purposes. As in domestic

legislative committees, it is the median and the distribution of preferences in the UNSC that determines whether it can provide a useful signal about the proposal of other agent. The fact that the Security Council has heterogeneous preferences makes it an attractive agent for all states seeking information. Milner also varies agent preferences, arguing that aid is delegated to a multilateral organization with more altruistic preferences when principals become suspicious of Congress, with its preferences for politicized aid.

Agent Tasks or Functions. The function or task assigned to the agent may alter the terms of the contract and the ability of the principal to monitor and sanction that agent. Alter argues that international courts often undertake judicial review tasks that require large discretion and make the agent extraordinarily difficult for the principal to control. Gould argues that certain tasks within the IMF, especially negotiating agreements with borrowers, are simply harder for state principals to monitor effectively, and therefore the staff will have greater autonomy in these areas than in areas where tasks are more easily monitored. Cortell and Peterson argue that staffing arrangements influence agent autonomy. In an interesting twist, Thompson suggests that powerful states like the United States can sometimes be agents, as when the United States sought the blessing of the Security Council for invading Iraq. The US sought this approval to demonstrate its relatively benign intent in a case of preventive war.

Agent Strategies and Permeability. Hawkins and Jacoby further argue that the permeability of agents to third parties can also increase agency autonomy and induce counter-reactions on the part of principals. When outside actors have broad or privileged access to agents, as Gould (this volume) suggests, they can pull the agents' actions toward their particular policy bias. Often principals design contracts for the purpose of giving this privileged access to specific outside actors. However, the influence of outside actors can also damage the interests of principals, and in such cases should induce principals to attempt to restrict third-party access or otherwise alter contract terms to bring outcomes back into line with their interests. At the same time, agents have a variety of strategies available to them—a counterpart to principal control mechanisms—through which they can pursue autonomy. Hawkins and Jacoby (this volume) argue the most important of these are

interpretation (identifying new meanings for rules) and buffering (creating barriers between principals and agents)

The following chapters, of course, represent the beginning rather than the end of a research program on delegation to international organizations. The individual papers develop one or more of the above conceptual experiments and arguments but do not individually or collectively provide a conclusive test of PA theory in international relations.

The final essay in this volume looks toward the future research agenda of delegation to IOs. Lake and McCubbins focus on how principals can learn about the behavior of their agents. Drawing upon recent work in domestic politics, they highlight the important role of third party informants, or “external” sources of information. Pointing to the growth and importance of NGOs in world affairs, they suggest that these organizations may play a central role in facilitating monitoring and promoting delegation to IOs. Hence, their contribution may serve as an analytic bridge between the chapters in this volume, which focus on formal inter-governmental organizations and their member states, and the burgeoning literature on the role of NGOs and transnational politics in international relations.

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