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## The governor's dilemma: Competence versus control in indirect governance

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**THE GOVERNOR'S DILEMMA:**  
Competence versus Control in Indirect Governance

**Discussion Paper**

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Abstract

**THE GOVERNOR'S DILEMMA:**

Competence versus Control in Indirect Governance

by Kenneth W. Abbott, Philipp Genschel, Duncan Snidal, and Bernhard Zangl

No governor has sufficient capabilities to govern single-handedly; all governors rely on agents, and thus become principals. The "governor's dilemma" results from the tradeoff between agent competence and principal control. Competent agents are difficult to control because their policy contributions give them leverage over the principal; principal control impedes agent competence by constraining the development and exercise of agent capabilities. If a principal emphasizes control, it limits agent competence and risks policy failure; if it emphasizes competence, it provides opportunistic agents freedom to maneuver and risks control failure. This competence-control tradeoff applies in all governance domains: democratic or autocratic, domestic or international, public or private. We extend principal-agent theory by identifying four modes of indirect governance based on ex ante and ex post control relations: delegation, trusteeship, cooptation and orchestration. We then theorize the principal's choice among these modes as it seeks to balance competence and control. Finally, we analyze how the competence-control tradeoff contributes to dynamic instability within and across the modes of indirect governance.

*Keywords: governance, agent-principle theory, control, competence*

## Zusammenfassung

### **DAS REGIERENDENDILEMMA:**

Kompetenz versus Kontrolle bei indirektem Regieren

von Kenneth W. Abbott, Philipp Genschel, Duncan Snidal und Bernhard Zangl

Kein Regierungschef hat ausreichend Fähigkeiten, um alleine zu regieren zu können. Daher vertrauen alle Regierenden auf Agenten (Beauftragte) und werden so zum Prinzipal (Auftraggeber). Das „Dilemma der Regierenden“ resultiert aus dem Trade-off zwischen der Kompetenz der Agenten und den Kontrollmöglichkeiten des Prinzipals. Kompetente Agenten sind schwierig zu kontrollieren, da sie durch ihre Policy-Expertise eine Hebelwirkung besitzen. Eine Kontrolle durch den Prinzipal verhindert die Entfaltung der Kompetenz des Agenten, indem die Entwicklung sowie die Umsetzung der Fähigkeiten des Agenten eingeschränkt werden. Setzt der Prinzipal also auf Kontrolle, limitiert er die Kompetenz des Agenten und riskiert das Scheitern von Policies. Setzt er hingegen auf die Kompetenz, riskiert der Prinzipal die Kontrolle zu verlieren, da opportunistische Agenten zu viel Bewegungsfreiheit besitzen. Dieser Trade-off zwischen Kompetenz und Kontrolle existiert in allen Regierungsbereichen, egal ob demokratisch oder autokratisch, innen- oder außenpolitisch, öffentlich oder privat. Wir erweitern die Prinzipal-Agenten-Theorie, indem wir vier Modi des indirekten Regierens identifizieren, die auf ex ante- und ex post-Aspekten der Kontrollmöglichkeiten basieren: Delegation, Treuhandschaft, Kooptation und Orchestrierung. Anschließend befassen wir uns mit den daraus entstehenden Möglichkeiten des Prinzipals, Kompetenz und Kontrolle gleichermaßen auszubalancieren. Abschließend analysieren wir, wie der Trade-off zwischen Kompetenz und Kontrolle zu einer dynamischen Instabilität innerhalb und zwischen den Modi des indirekten Regierens beiträgt.

*Schlüsselwörter: Regieren, Prinzipal-Agenten Theorie, Kontrolle, Kompetenz*

*The Merovingian kings were not much good at ruling. They had flowing hair and long beards and they did nothing but sit on the throne and parrot the words their advisors had taught them.... The actual governing was done by an able family [the Carolingians] to which Charles Martel belonged, as did Pepin, the father of Charlemagne. But Pepin wasn't satisfied with being a mere adviser, whispering instructions into his king's ear. He had the power of kingship and he wanted the title as well. So he overthrew the Merovingian king and proclaimed himself king of the Franks. (Gombrich [1936] 2008:124)*

## **I. COMPETENCE AND CONTROL IN INDIRECT GOVERNANCE**

The Merovingian kings faced a tricky problem. They needed the Carolingians because they lacked key governance competencies the latter possessed: policy expertise, administrative skill, local legitimacy, and coercive power. Curtailing Carolingian authority would have endangered their rule, functionally through the loss of competencies and politically through creation of a powerful enemy. Yet by relying on the Carolingians, the Merovingians also risked (and ultimately sacrificed) their rule: their relationship further enhanced the Carolingians' expertise, skill, legitimacy and power, enabling Pepin to topple them.

Over a millennium later, modern rulers and policymakers face similar trade-offs:

- Governments engaged in foreign state building must consider whether to promote competent foreign leaders who enjoy strong local legitimacy, or less legitimate leaders who are loyal to their foreign sponsors' interests and thus more easily controlled (Lake 2016).
- Elected officials must decide between entrusting monetary policy to independent central banks able to win investor trust, or maintaining control over monetary policy so they can stimulate economic expansion in the lead-up to elections (Majone 2001).
- In designing administrative procedures, legislators are torn between giving agencies sufficient independence to develop and apply technical capacity and expertise, and imposing controls to prevent agency drift (Bawn 1995).
- States victorious in war must decide whether to rearm defeated foes, increasing their competence in responding to common threats, or to prevent them from rearm-

ing, allowing the victors to control any resurgent threat they might pose (Large 1996).

These examples all reflect the same dilemma. This “governor’s dilemma” stems from the fact that no policy maker or ruler has the capabilities to govern single-handedly. At all levels of governance, from local and national to global, “governors” must rely on agents, and thus become principals. Ideally, any principal would prefer to govern through agents that are both competent and well-controlled. We define “competence” in this context as the capabilities agents can contribute to achieving the principal’s governance goals; these capabilities include expertise, legitimacy, credibility and material resources. We define “control” as the principal’s ability to shape and constrain agents’ behavior so that they pursue the principal’s goals and cannot subvert them; control encompasses both negative sanctions and positive inducements.

The problem is that competence and control are inversely related. A competent agent is difficult to control, because its ability to produce superior policy outcomes gives it leverage over the principal. And a principal’s efforts to control an agent tend to erode its ability to achieve results, constraining the development and exercise of desired competencies.

The principal thus faces a tradeoff: it can maximize either competence or control, but not both. If it engages less competent agents that are easier to control, or supervises them so closely that they cannot fully exercise their competencies, the likely result is policy failure, with adverse political consequences. But if it engages competent agents and provides them sufficient freedom to exercise their competencies, those very competencies may enable them to subvert the principal’s policies or challenge its authority.

The competence-control tradeoff lies at the heart of the governor’s dilemma. The dilemma varies in intensity across governance settings and relationships, but is fundamentally inescapable. Principals face it regardless of status (public or private), character (democracy or autocracy), scope (national or international), time (present or past), or policy field (economic, social or security). Principals do, however, have different ways to manage the dilemma: different means to enlist, develop, and maintain agent competencies and to control agents. The means they choose shape (wittingly or unwittingly) the outcomes of their actions: from promoting legitimate or controllable foreign leaders, to creating or not creating independ-

ent central banks, imposing stricter or looser controls on the executive, and rearming or not rearming former foes.

This paper theorizes how the competence-control tradeoff affects a principal's initial choice of an indirect governance arrangement and the subsequent dynamics of those arrangements. Section 2 distinguishes four general modes of indirect governance: delegation, trusteeship, cooptation, and orchestration. These modes differ in the means by which the principal gains access to agent competencies and by which it controls agent behavior. Distinct literatures have explored these modes. The extensive literature on principal-agent (P-A) theory focuses on diverse forms of delegation (e.g., Bendor et al. 2001; Tallberg 2002; Pollack 2003; Miller 2005; Hawkins et al. 2006). Smaller literatures address trusteeship (e.g., Majone 2001; Alter 2006, 2008; Stone Sweet and Brunell 2013); cooptation (e.g., Selznick 1949; Dickson 2000; Gandhi and Przeworski 2006); and orchestration (Abbott et al. 2015, 2016). Our typology extends P-A by integrating these diverse literatures. It allows for systematic comparisons across modes, analysis of principals' choices between modes, and investigation of dynamic shifts within and among modes.

Sections 3 and 4 investigate the principal's choice of mode in a comparative statics framework.<sup>1</sup> Section 3 asks why a principal would ever forego the control advantages of delegation by choosing a mode that offers less control. The answer is to reap the competence benefits of trusteeship, cooptation or orchestration. Section 4 asks why a principal would ever select less competent agents or prevent agents from fully exercising their competencies (as many principals do). The answer is to increase control. These sections analyze a variety of factors that influence the intensity of the competence-control tradeoff; we end each section with an extended example showing the operation of those factors in an unlikely case.

Section 5 explores the dynamic implications of the tradeoff. All modes of indirect governance are susceptible to endogenous changes that can undermine the initial balance between competence and control; we again provide an extended example. Section 6 concludes, highlighting how competence-control theory unifies diverse analyses of indirect governance.

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<sup>1</sup> For simplicity, we make a nonessential assumption of a single unitary principal, whether an individual or an organization, and unitary agents.



## II. VARIETIES OF INDIRECT GOVERNANCE

Most governance is indirect. Principals rarely govern targets directly, but bring in agents to increase effectiveness, efficiency or legitimacy. Structurally, agents may be internal to the principal, as government bureaucracies are, but often they are external: governments rely on professional associations and private inspectors for environmental, health and safety regulation; engage private contractors to provide public utilities, education and security; create independent constitutional courts and central banks; and conduct foreign policy through international organizations (IGOs). IGOs engage non-governmental organizations (NGOs) to implement development projects and monitor state compliance with commitments. Transnational non-state standards schemes such as the Forest Stewardship Council outsource verification to independent auditors.

The dominant strand of thinking about indirect governance is P-A theory. P-A includes diverse strands (e.g., Bendor et al. 2001; Eisenhardt 1989; Hawkins et al. 2006; Miller 2005; Pollack 2003; Weingast and Moran 1983; McCubbins 1985), but one unifying theme is that principals need agents to achieve their goals: “Even ‘solo’ street performers have their skills” (Pratt and Zeckhauser 1985: 2). However, agent competence attracts comparatively little attention in P-A. Most P-A literature takes for granted that the principal will pick the most competent agent (Bendor et al. 2001: 237), and focuses solely on how to control it effectively. The implicit assumption is that hard control does not affect the agent’s competencies (and that those competencies do not undermine principal control); in short, there is no competence–control tradeoff.<sup>2</sup> The key obstacle to effective control in P-A theory is limited information about the agent’s performance, which the principal often cannot observe or assess. The “informationally disadvantaged principal” must “impose incentives on the agent” to align its self-interest with the principal’s goals (Miller 2005:204–206). Once the principal imposes appropriate incentives, it can draw fully on the agent’s competencies with little risk of control loss.

P-A’s assumptions can be misleading, however: competence is as important as control, and not all control problems are informational. Even with complete information, the Merovingians could not have kept the Carolingians in check, because the Carolingians had key competencies neither the Merovingians nor any alternative agent possessed. Dependence on these

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<sup>2</sup> We discuss P-A literature that deviates from this assumption in section 3A below.

competencies created a power asymmetry that undermined the Merovingians' control: formally they could threaten to rescind Carolingian authority; factually the threat was empty. Competent agents are difficult to bind because competence and control are inversely related; unlike information asymmetry, the competence-control tradeoff is a matter of political power, not of contract design. We extend P-A theory to incorporate these features of indirect governance.

Canonical P-A theory's focus on control is reflected in its preoccupation with one particular mode of indirect governance: (a narrow version of) delegation (Hawkins et al. 2006: 7), in which the principal grants authority to the agent ex ante and exercises hierarchical control over it ex post, maximizing its control over the agent's hidden behavior. In fact, however, as the literatures on cooptation and orchestration highlight, not all indirect governance begins with a grant of authority; similarly, as the literatures on trusteeship and orchestration demonstrate, not all indirect governance involves hard hierarchical controls. We extend P-A theory to incorporate this broad range of indirect governance arrangements.

First, a principal can initiate an indirect governance relationship in two general ways: by granting or enlisting authority.<sup>3</sup>

- A principal grants authority by devolving some of its own authority to an agent, empowering the agent to perform specified governance tasks on its behalf (Thatcher and Stone Sweet 2002:3-4). The grant (e.g., a contract or legislative act) specifies the extent of the agent's authority and defines its tasks, terms of reference and remuneration. Granting authority gives the principal a measure of hard ex ante control. It can shape the agent's goals through incentive-compatible terms and its competencies through the authority and resources it provides. It may even shape the agent's identity by structuring its mission, organization, funding, sources of information, decision procedures and personnel selection (McCubbins, Noll and Weingast 1987). Yet granting authority limits the agent's remit to the scope of the principal's authority: the principal cannot grant authority it does not have.

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<sup>3</sup> "Authority" refers to a recognized claim to govern combined with some capacity to govern. A claim to govern is recognized if there is a generalized expectation of compliance with rules and policies. Capacity to govern encompasses the ability to make rules and policies and promote compliance. Both elements are necessary; neither is alone sufficient.

- A principal enlists authority by gaining an agent's agreement to use its pre-existing authority to perform mutually beneficial governance tasks (Abbott et al. 2015:4). Here the agent does not owe its authority to the principal, but derives it from independent sources. Enlisting authority thus allows the principal to tap into capabilities it does not possess: the agent's remit can extend beyond the territorial, sectoral, legal or social scope of the principal's authority. But the principal's ability to shape agent goals, capabilities and identity is constrained. While it can exert limited ex ante control through promises of conditional support, it must rely primarily on the authority of the available actors, on terms acceptable to them.

The initiation of indirect governance, then, concerns the primary *source of the agent's authority*. The principal is the primary source to the extent it grants authority; the grant creates a bespoke indirect governance arrangement limited to the delegated tasks. This is the domain of P-A theory and its extensions to trusteeship. The agent is the primary source in enlistment settings; the principal enrolls an independent collaborator. This is the domain of co-optation and orchestration theories. Many governance arrangements include elements of both relationships, e.g., where a principal grants additional authority to an agent with some pre-existing authority.<sup>4</sup>

Second, a principal can manage an agent's behavior over time in two general ways, with and without hierarchical controls.

- A principal exercises hierarchical control when it can (threaten to) remove the agent's authority should it fail to perform as expected (Hawkins et al. 2006:7). The power to remove encompasses a spectrum of lesser controls: for example, the principal may "revise or nullify policy choices the [agent] makes..., make threats of costly ... budget reductions or withering contumely in [public] hearings..." (Gailmard and Patty 2013:5). If the threat of hierarchical intervention is credible, the "shadow of hierarchy" (Miller 2005:210; Scharpf 1997) may be sufficient to keep the agent in line.

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<sup>4</sup> Granting and enlisting can each be exercised vis-à-vis either purpose-built or pre-existing agents. Euro area states transferred monetary authority to the newly-created ECB in 1999; they granted it additional authority for banking supervision in 2013 (Schelkle 2017). British colonial authorities often enlisted incumbent local rulers, but sometimes installed new ones; the contrast is nicely described as "British assiduity in trying to discover chiefs, or invent them" (Crowder 1964: 199).

- Where a principal lacks hierarchical controls, it can deploy inducements to nudge the agent towards using its authority and competencies as the principal desires. Inducements include persuasion, to shape agent goals; negotiation, to reconcile divergent goals; lenience, to increase agent trust; and material and ideational support, to increase agent loyalty and competencies (Abbott et al. 2015). Unlike hierarchical control, inducements do not threaten the authority of the agent, but encourage it to use its authority in desired ways.<sup>5</sup>

Management of indirect governance, then, concerns the *ultimate site of authority*. In hierarchical relationships, authority ultimately rests with the principal, allowing it to remove the agent's authority and thus impose lesser controls. This is the focus of theories of P-A and, to a lesser extent, co-optation. In non-hierarchical settings, authority ultimately rests with the agent; the principal can only influence its exercise through positive or negative inducements. This is the focus of trusteeship and orchestration theories. Again, governance arrangements frequently combine both approaches.

Importantly, the initiation and management of indirect governance relationships are logically independent. Simply because a relationship was initiated in a particular way, e.g., by granting authority, it need not be managed in a particular way, e.g., by hierarchical control. Cross-tabulating the approaches just discussed, we derive a typology of four pure modes of indirect governance (Figure 1).<sup>6</sup>

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<sup>5</sup> Inducements are also used within hierarchies, as P-A recognizes. Yet there inducements complement hard controls; in non-hierarchical settings they are the only control instruments available.

<sup>6</sup> While our typology identifies four pure modes, both axes of Figure 1 are gradual scales, allowing for diverse hybrid forms. In addition, governance arrangements often link similar or disparate modes in chains of indirect governance.

		<b>MANAGEMENT (EX POST)</b>	
<b>INITIATION (EX ANTE)</b>		Hierarchical	Non-hierarchical
Granting authority		<i>Delegation</i>	<i>Trusteeship</i>
Enlisting authority		<i>Cooptation</i>	<i>Orchestration</i>

**Figure 1: Four modes of indirect governance**

- **Delegation:** This mode is central to P-A: a principal conditionally grants authority to an agent to carry out defined governance tasks on its behalf, according to its instructions, and subject to its hierarchical control. The agent’s authority derives from the principal and is bounded by it; the principal can withdraw or regulate the agent’s authority. Thus, the principal can exercise hard controls both ex ante and ex post. Ideal-typical examples include a legislature’s delegation of authority for policy implementation to a state bureaucracy, and in turn by the head of the bureau to its line staff (Moe 1997); assigning policy tasks to IGOs (Hawkins et al. 2006); and contracting-out public services to private entities (Robinson and White 1997).
- **Trusteeship:** In this mode, a trustor (principal) grants authority to a trustee (agent); the trustee must exercise that authority according to the terms of the grant, but has considerable autonomy in interpreting those terms. The trustor may steer the trustee’s behavior through inducements, but it cannot intervene hierarchically so long as the trustee’s actions remain within the terms of the grant. Trusteeships may thus invert authority: the trustor is hierarchically superior ex ante, but may be subject to the trustee’s authority ex post (Majone 2001; North and Weingast 1989). Ideal-typical trustees include independent central banks (Goodman 1991), constitutional courts (Stone Sweet and Brunell 2013), independent regulatory agencies (Bawn 1995), and government auditors (Blume and Voigt 2011). A less formal example is national armed forces: while subject to de jure civilian control, in practice governments can

only trust that armed forces will not meddle in domestic politics, as they could not stop them by force if they did.

- **Cooptation:** Here a co-optor (principal) enlists a co-optee (agent) with pre-existing authority over particular targets; once enlisted, however, the co-optee is subject to the co-optor's hierarchical control. Cooptation is based on a "clientelist exchange" (Hicken 2011): the co-optor enlists the co-optee's authority by providing support. This bargain may increase the co-optee's wealth and standing, but also increases its dependence on the co-optor. Although the co-optor cannot rescind the co-optee's authority, which it did not grant, it can (threaten to) remove that authority: overthrowing the co-optee by force or threatening its survival by shifting support to rivals. Like trusteeship, co-optation inverts authority over time, but in reverse: *ex ante* the co-optee is superior, as the co-optor must bid for its favor; *ex post* the co-optor is superior, as the co-optee must comply with its directives. Ideal-typical examples include the cooptation of local chiefs into systems of colonial rule (Crowder 1964); the inclusion of trade unions and employers' associations in neo-corporatist concertation systems (Schmitter 1974); the absorption of professional self-regulatory bodies into public regulatory systems (Kaye 2006); and the cooptation of churches to provide social services (Robinson and White 1997).
- **Orchestration:** Here an orchestrator (principal) mobilizes an intermediary (agent), on a voluntary basis, in pursuit of shared governance goals. In contrast to all other modes, orchestration is wholly non-hierarchical: the intermediary neither owes its authority nor risks losing it to the orchestrator. The orchestrator therefore can exert influence only through inducements, including persuasion, negotiation, and material or ideational support. Any primacy the orchestrator possesses results from the intermediary's voluntary acceptance, based on shared policy goals or "instrumental friendship" (Hicken 2011). Ideal-typical examples include IGOs orchestrating NGOs to monitor state compliance (Tallberg 2015); international courts orchestrating NGOs to pressure states to support judicial processes (De Silva 2017); governments orchestrating foreign rebel groups to destabilize foreign governments (Byman et al. 2001; Tamm 2016); and efforts to connect NGOs to prospective donors and clients (Abbott and Snidal 2010).

The four modes are conceptually distinct. Recognizing their similarities and differences is essential for extending P-A theory to integrate diverse modes of indirect governance within a unified framework.

### **III. TRADING CONTROL FOR COMPETENCE**

Canonical P-A theory offers persuasive explanations for why principals delegate (Gilligan and Krehbiel 1987; Kiewiet and McCubbins 1991; McCubbins 1985). But why would a principal ever select a mode of indirect governance that offers fewer hierarchical controls than delegation? Why orchestrate, entrust or coopt, rather than delegate? This question reflects the first horn of the governor's dilemma. We identify three reasons why principals may compromise on control:

- *Agent competence*: hard controls would interfere with the agent's ability to perform desired governance functions.
- *Authority deficits*: principals are unable to grant sufficient authority to an agent or to exercise hard controls.
- *Budget constraints*: softer modes require smaller expenditures of time, effort, money or expertise.

The common denominator of these rationales is the competence-control tradeoff: principals willing to sacrifice some control can expand their policy options by mobilizing greater agent competence.<sup>7</sup> Each rationale conditions the principal's ex ante choice between granting and enlisting authority (the top and bottom rows of Figure 1), and its ex post choice between hierarchical and non-hierarchical controls (the left and right columns).

#### **A. Agent competence**

The P-A literature observes that principals may relax ex post controls to enable agents to serve as commitment devices (Majone 2001; Miller 2005:219-223; Bendor et al. 2001:259-265; Hawkins 2006; Pollack 2003; Thatcher and Stone Sweet 2001). While we agree, there are also other competence-related reasons why principals give up (or lose) hard controls, ex ante or ex post.

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<sup>7</sup> It does not follow, however, that loose controls always produce more effective governance: loose controls risk shirking, drift and other results of control loss.

*Ex ante*, principals may eschew hard controls to protect or enhance an agent's legitimacy. Target groups often care not only *how* they are governed, but *by whom* (Hooghe and Marks 2009). If targets trust their union leader more than their labor minister, their emir more than their colonial ruler, or their religious leaders more than government officials, principals can increase the legitimacy of their rule by enlisting unions, local chiefs or religious associations for implementation and enforcement. For example, corporatist arrangements allow governments to tap into the legitimacy of union leaders, who can persuade union members to support government policies. Agents accepted by target communities may also enhance policy efficacy by offering superior access to "local populations, terrain and targets" (Salehyan 2010:509). These benefits require principals to keep agent authority intact, rather than supplanting it *ex ante* with their own, less legitimate and more remote, authority.

*Ex post*, hierarchical controls may undermine agent competencies for particular governance tasks. Freedom from principal control is essential for agents to serve as commitment devices, preventing policy reversals (by the current principal or its successors) in the face of time-inconsistency (Kydlund and Prescott 1977) or political uncertainty (Moe 1990). Eurozone states delegate monetary authority to the independent ECB to commit to monetary stability and fiscal rectitude (Schelkle 2017); governments invite IGOs and NGOs to monitor elections to communicate commitment to democracy (Kelley 2008); governments establish constitutional courts (Levinson 2011) – and international courts (Simmons and Danner 2010) – to demonstrate their commitment to constitutional or human rights (Stone Sweet and Palmer 2017).

Freedom from hierarchical controls can enhance agent expertise and innovativeness. Principals assign technical policy decisions to expert bodies to improve decision quality. To decide properly, experts need freedom to develop and apply their expertise, even if this leads in unanticipated directions. By granting this freedom, however, the principal limits its ability to control political drift (Bawn 1995); it becomes a "dilettante" trying to control an "expert" (Weber [1921] 1958:89). The ECB's "unconventional" monetary policies illustrate both points: its actions helped end the Eurozone crisis, but had unanticipated and highly contested distributive consequences for member states (Schelkle 2017). Experimentalist governance theory also calls for principal self-restraint: to stimulate policy innovation under un-



certainty, principals should set broad goals and allow local authorities discretion to pursue them based on local knowledge (Sabel and Zeitlin 2010).

Independent agents may also have superior access to relevant information. “[I]n many cases the key purpose of bureaucracies to Congress is to elicit information from ... political actors besides Congress itself, such as interest groups and the president... The administrative structures that best serve the interests of Congress, therefore, may be ones that undermine its own political control....” (Gailmard 2015:476). On-site inspections by International Atomic Energy Agency staff are more acceptable to host countries if the IAEA is not perceived as controlled by any particular state (Abbott and Snidal 1998). Independent agents are also more likely to share unpleasant truths with principals because they do not have to fear undue consequences.

Finally, principals that rely on agents with extensive material competencies must accept reduced control. A dictator who relies on a strong military to repress mass protests runs the risk that the military will (threaten to) turn its guns on him, exploiting its coercive power to demand autonomy, shape national policies or even topple the dictator Carolingian-style (Svolik 2012). In another example, the United States supplied Stinger missiles to Afghan insurgents in the 1980s, enabling them to shoot down Soviet aircraft. After the Soviet withdrawal, however, the insurgents used the missiles against US aircraft. Governments are aware of this risk, and often try to “give insurgents just enough resources to be viable but not enough to prevail” (Salehyan 2010, 506). The same control loss arises where agents possess extensive financial resources: the World Health Organization (WHO) can exert little influence over the Gates Foundation, the world’s richest NGO in the health field.

## **B. Authority deficits**

*Ex ante*, where principals lack sufficient authority to achieve particular goals, delegating that authority is not feasible. Principals must then decide between enlisting agents that possess the required authority – through cooptation or orchestration – or abandoning those goals. Enlisting authority thus enables principals to govern (indirectly) in areas beyond their territorial jurisdiction or sectoral competence. The United States can support local rebel groups in the Syrian civil war, and can help the government of El Salvador counter a domestic insurgency, even though it lacks (and does not claim) authority to govern those

countries directly through its own emissaries and troops (Ladwig 2017). The United Nations Environmental Programme (UNEP) can help create the Principles for Responsible Investment to develop environmental standards for institutional investors, even though it lacks authority to govern investors (van der Lugt and Dingwerth 2015).

*Ex post*, principals may lack the authority or power to apply hierarchical controls, and so must operate (de jure or de facto) through trusteeship or orchestration. Principals may be constrained by constitutional rules from overriding court decisions or central bank policies. They may be practically unable to terminate contracts with underperforming defense contractors because they lack viable alternative suppliers. And they may possess neither formal authority nor factual power. For example, under the 2016 EU-Turkey agreement to reduce irregular immigration, the EU relies on Turkish competence to regulate migration flows, but lacks effective controls over Turkish policy. It can only attempt to shape Turkey's decisions through payments, political promises and deference (Genschel and Jachtenfuchs 2018).

### **C. Budget constraints**

*Ex ante*, a principal may forego hard controls to save the costs of granting authority. In delegation and trusteeship, agents expect to be compensated for their efforts: voters pay for national governments, governments pay for bureaucracies and IGOs, bureaucracies and IGOs pay for private contractors, and so on. Enlisting authority through cooptation or orchestration is often less costly, because agents in these modes are independently motivated to act (more or less) as the principal wishes. While certainly susceptible to bribes and rent-sharing, many co-optees and orchestration intermediaries are also eager to retain financial independence, to avoid appearing as paid agents of the principal and maintain their claims to independent authority.

By enlisting agents, the principal foregoes hard *ex ante* control, but economizes on investments in competence. For example, even where a government could deploy its own forces abroad, it may prefer to coopt or orchestrate foreign rebel groups or counterinsurgency forces, relying on their competencies to reduce its own material, ideational, and political costs. In Libya, while NATO employed its own air forces against Muammar al-Gaddafi, it mobilized local groups to provide ground forces (Byman et al. 2001; Salehyan 2010; Salehyan, Cunningham and Gleditsch 2011). Likewise, ancient Rome preferred tax farming (enlisting

local entrepreneurs to collect taxes) to centralized tax administration in faraway provinces, as tax farming “required no new or heavy investment in learning about local conditions” (Levi 1988: 82). The cost-effectiveness of enlisting authority is especially attractive for principals operating under tight budget constraints and facing burdensome policy demands.

*Ex post* hierarchical controls also entail costs: principals must invest in monitoring and enforcement, and must maintain the credibility of threats to remove agent authority. Credibility frequently requires redundancy: principals must maintain alternative prospective agents to credibly threaten existing agents with dismissal, as the US government has done with defense contractors (Gansler, Lucyshyn and Arendt 2009).

In conclusion, the competence-control tradeoff is crucial to understanding principals’ choices among indirect governance modes. While delegation maximizes control options, trusteeship, cooptation and orchestration all provide policy benefits delegation cannot offer. Where the value of policy benefits is high, as where an issue is politically salient, a principal may accept substantial control loss to obtain them – even in fields where principals are generally expected to prefer strong control, as in the following example.

#### **D. Competent local agents in international state-building**

It is widely understood that international state-builders – whether other nation-states or IGOs – need to enlist local agents, such as Hamid Karzai in Afghanistan or Nouri al-Maliki in Iraq. Their local legitimacy is a crucial state-building competence. However, it is also assumed that state-builders will insist on hierarchical controls over agents (Lake 2016): state-builders must provide sufficient military and economic support to enable their agents to prevail over local rivals; hard controls are necessary to ensure this costly support is used as intended. The controls the United States initially wielded over both Karzai and al-Maliki reflect this model (Maley 2013; Allawi 2007; Suhrke 2013).

Coopting local leaders allows international state-builders to tap into local authority and legitimacy. By subjecting coopted agents to hierarchical controls, however, state-builders undercut the very competence for which they enlisted them: local legitimacy. Lake (2016) concludes that international state building is bound to fail as a result of this “state builder’s dilemma.” Yet international state-builders frequently soften hard controls precisely to pre-

serve their agents' local legitimacy. The US incrementally increased the independence of both Karzai and al-Maliki for this reason (Lake 2016), setting in motion a process that led to a sharp decline in US influence (Ladwig 2017). Increasing independence was essential to prop up the fragile legitimacy of these notionally local leaders. It also helped the US to deal with an authority deficit and a budget constraint: its authority in Afghanistan and Iraq was contested, and its ability to maintain a large military presence was limited.

Indeed, state-builders often eschew hard controls from the outset to maintain local agent legitimacy. Consider US support for Kurdish state-building in Iraq, which dates to the early 1990s, when the US established a no-fly zone over Kurdish territory. This action allowed the two main Kurdish factions – the Kurdistan Democratic Party (KDP) and Patriotic Union of Kurdistan (PUK) – to push Saddam Hussein's troops out of Kurdistan (Jüde 2017). With US support, these groups gave birth to the Kurdish Regional Government (KRG) (Ahmed 2012). To maintain KRG legitimacy, the US never tried to wield hard controls, but limited itself to orchestrating the KDP and PUK. Given its authority deficit and budget constraint, orchestration was the most attractive way to enlist Kurdish assistance in containing the influence of Iran as well as Saddam Hussein in Iraq. In short, in its relations with the Kurds, the US was willing to forego hard controls to gain agent competence.

#### **IV. TRADING COMPETENCE FOR CONTROL**

If principals depend on competent agents to achieve their goals, why would a principal ever select less competent agents, or limit an agent's development or exercise of its competencies? This question reflects the second horn of the governor's dilemma. We identify three reasons why principals may compromise on competence:

- *Facilitating control*: a less competent agent is easier to control than a competent one.
- *Goal divergence*: the goals of competent agents diverge from those of the principal.
- *Agent supply*: a large pool of agents facilitates control, but may undermine agent competence.

Here too the common denominator is the competence-control tradeoff: principals can exert greater control over agents by sacrificing some degree of agent competence.

## **A. Facilitating control**

Authoritarian rulers regularly appoint incompetent cronies or relatives to important portfolios. Saddam Hussein, for example, continued to place inept loyalists in crucial military positions even as threats to his reign mounted (Egorov and Sonin 2011:904). The reason for this seemingly self-defeating behavior is clear: while competent agents can produce greater policy benefits for the principal, they are more difficult to control, and may even threaten the principal's authority.

An agent with limited competence is at the principal's mercy. Because it delivers only modest policy benefits (if any), the principal can dismiss it at low cost in terms of benefits foregone. *Ex ante*, then, the low-competence agent must accept almost any terms the principal offers. *Ex post*, it must anticipate sanctions for deviant behavior, and may invest in demonstrating its loyalty – as by publicly lying on the principal's behalf.<sup>8</sup>

A highly competent agent, in contrast, is difficult to control. The principal cannot impose strict conditions *ex ante* because it needs the agent's competencies; it cannot remove the agent's authority *ex post* without forgoing substantial policy benefits. In short, greater agent competence increases the principal's control problem, shifting indirect governance arrangements towards the southeast of Figure 1. Control problems stem not only from the information asymmetry emphasized by P-A, but more fundamentally from the power asymmetry the agent's competence creates (Mayntz 1997: 66–67). The problem is not that the principal cannot observe the agent slacking; it is that the principal has few options for sanctioning the agent even if it knows it is slacking. The Merovingians may have recognized Pepin's intentions; they simply could do little to keep him in line.

Anticipating these problems, or reacting to them, principals often ratchet up controls. They choose delegation over cooptation, orchestration or trusteeship; they tighten controls within delegation, introducing regulations and reporting requirements or imposing compliance-based rather than outcome-based enforcement mechanisms, sacrificing competence to increase control (Lewis 2008:202). At the extreme, principals may completely disable their agents, asserting full control. Stalin – afraid of the Red Army's power – liquidated most of its commanders and strategic thinkers in the 1930s. The result was a politically controllable

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<sup>8</sup> See Tyler Cowen, "Why Trump's Staff Is Lying." NY Times, Jan. 23, 2017; Xavier Marquez, "This is Why Authoritarian Leaders Use the 'Big Lie'." Monkey Cage, Washington Post, Jan. 26, 2017.

but militarily inept army. Efforts to restrict agent conduct may reduce the risk of disloyalty and rebellion, but at the cost of reduced agent competence: principals sacrifice competence to facilitate control.

### **B. Goal divergence**

Agents are not passive instruments manipulated by the principal, but actors with agency pursuing their own policy and institutional goals, including survival and independence (Miller 2005:205). If the agent's and principal's goals are correlated, this poses little problem. If their goals diverge, however, there is potential for control loss, as the United States discovered in the Stinger missile case. Control loss takes different forms: the agent may exert insufficient effort (shirking); shift its activities toward its own preferences (slippage or drift); appropriate the principal's authority (shifting the relationship toward the bottom row in Figure 1); escape from the principal's shadow of hierarchy (shifting it toward the right column); or even overthrow the principal. Naturally, then, principals prefer agents with aligned goals – the “ally principle” (Bendor et al. 2001). Where competent agents have (or may develop) conflicting goals, the principal may prefer to select a less competent agent with more closely aligned goals.

### **C. Supply of agents**

A large supply of qualified (potential) agents facilitates principal control (Mattli and Seddon 2015). Ex ante, a large pool may include more agents whose goals are aligned with those of the principal. Screening and selection are more effective control mechanisms (Hawkins and Jacoby 2006). Competition among agents also drives down their “inducement price.” Ex post, the availability of qualified substitutes reduces the policy costs of dismissing a runaway agent, increasing the credibility of the principal's threat to dismiss and controls built upon that threat.

These considerations may motivate principals to maintain or increase the supply of agents, e.g., by subsidizing market entry. For example, Danish law requires the military to submit a bid whenever the government outsources a security task to private companies (van Megdenburg 2018). Principals may also stimulate competition among agents by lowering competence requirements.

The effect of supply and competition on agent competence, however, is ambiguous. An abundance of agents – especially where heterogeneous – increases opportunities for principals to select appropriately skilled ones. Yet by increasing the risk of dismissal, competition reduces the incentive for agents to invest in relationship-specific skills, undermining their competence. A competition-induced reduction in “job security” may trigger a vicious cycle: high agent turnover discourages investment in relationship-specific competencies; agents lacking relationship-specific competencies are less committed, heightening goal divergence; and goal divergence induces principals to further increase control (cf. Gailmard and Patty 2007:874; Hall and Soskice 2001:25, 30). Indirect governance descends into a “regime of clerkship” (Carpenter 2001:38), where no agents acquire relationship-specific assets and skills or seek long-term relationships.

A monopolistic supply of agents, in contrast, constrains the principal's choice, increases the inducement price and limits the principal's ex ante controls, but creates incentives for relationship-specific investments and opportunities for learning by doing. It may even be a precondition for certain competencies. To deliver the loyalty of a target group, for example, a co-optee needs legitimacy within that group. Legitimacy is more likely where the principal selects the single focal leader as co-optee, rather than selecting one from among multiple actors competing for leadership. The latter makes transparent that the co-optee represents the principal, undermining its local legitimacy.

In conclusion, a principal's choice of indirect governance mode is not driven solely by its need for competence (given its goals), but also by its need for control (given the nature and supply of available agents). Goal divergence with competent agents implies conflict and control failure. The principal may then select less competent agents or strengthen its hierarchical controls, although doing so will sacrifice some of the policy benefits of orchestration, cooptation and trusteeship. This may occur even in fields where principals are expected to have a strong preference for competent agents, as in the following case.

#### **D. Controlling central banks**

It is now widely accepted that central banks are, and should be, trustees. The absence of government control is seen as essential for central banks' ability to solve governments' time inconsistency problem in monetary policy. In principle, governments want to commit

to low inflation; in practice, their commitment lacks credibility, because they are constantly tempted to create “surprise” inflation to give the economy a short-term boost. Markets anticipate these actions, and governments end up with higher-than-desired inflation without the economic benefits of surprise. Central bank independence solves the problem: hiving off monetary policy to conservative financial technocrats creates anti-inflationary credibility (e.g. Majone 2001:110). As empirical studies confirm, central bank independence “has a strong, stand-alone, negative effect on inflation” (Bodea and Hicks 2015:37). The IMF promotes it as “best-practice in monetary policy” (Rodrik 2008:9), fueling a global trend towards independence since the 1980s.

Yet there is nothing inevitable about central bank independence. Governments do not always prefer anti-inflationary competence over political control, and central bank independence varies widely, from trusteeship to ordinary delegation (Goodman 1991). In large part, governments’ willingness to cede control varies with perceptions of the attendant risks of control loss.<sup>9</sup> Germany’s “inflationary trauma of the 1920s” induced a relaxed view of these risks, facilitating creation of the highly autonomous Bundesbank. Norway’s “deflationary trauma” of the interwar years, by contrast, highlighted the risks of ceding control, contributing to Norway’s half-hearted embrace of central bank independence (Elster 2000: 164).

Goal divergence also induces tightened controls. In Hungary, the Fidesz party won the 2010 national elections on a platform of economic nationalism (Johnson and Barnes 2015). The Hungarian central bank (MNB) was a potential roadblock for their program, because its monetary conservatism hindered reflation and its internationalism put suspect “outsiders” in charge. From the beginning, therefore, the Fidesz government moved to assert control over the MNB. It cut staff salaries (by 75 percent in the case of the MNB Governor), harassed the bank through audits and criminal prosecutions, and revised its governing law to increase its influence over personnel selection.

When the incumbent Governor’s tenure ended, he was replaced by a trusted Fidesz politician. The new Governor cleaned out the MNB – allegedly, 90 percent of its staff left, voluntarily or involuntarily, sometimes replaced by political appointees with little expertise (Bowker 2013). He brought monetary policy swiftly into line with government priorities,

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<sup>9</sup> Government preferences also vary with the salience of inflation threats. High inflation in the 1970-80s increased salience, contributing to the spread of independence. Recent low inflation has decreased salience, triggering new debates about the desirability of control (e.g., Reichlin 2017).



cutting interest rates and launching monetary stimulus, to drive out foreign lending and channel resources to insiders. He called on the IMF to close its Budapest liaison office. And he established foundations to subsidize pro-government journalists (Economist 2016). In short, Fidesz squandered the technical competence and credibility of the MNB to reassert political control.

## **V. ENDOGENOUS INSTABILITY**

The competence-control tradeoff renders indirect governance arrangements susceptible to endogenous change. In P-A theory, a control-minded principal can design a contract that maintains an agency relationship as a stable equilibrium. If unforeseen contingencies intervene, re-contracting can restore equilibrium (Laffont and Martimort 2002). The competence-control tradeoff, in contrast, can destabilize an equilibrium from within. To be sure, many indirect governance arrangements remain relatively stable for extended periods. Yet strategies aimed at one horn of the governor's dilemma often produce problems in the other, triggering self-reinforcing dynamics that can undermine the initial political balance. Some dynamics erode principal control, others agent competence. Either can lead to tinkering within modes, shifts between modes, or the breakdown of indirect governance.

### **A. Erosion of principal's control**

A principal's dependence on its agent tends to increase over time. The agent learns through experience, and often has incentives to invest in learning, becoming more competent and valuable to the principal. At the same time, the principal's competence tends to atrophy, as it relies on the agent to perform the assigned tasks. The competence of potential agents likewise declines without on-going experience. These effects are accentuated if the agent's assignments are task-specific or evolving, such that it becomes ever more effectively specialized, while the expertise of the principal and other potential agents becomes increasingly outdated.

This increasing asymmetry places a highly competent agent in a monopoly position, allowing it to pursue its own goals or slack. As with Pepin, this position may also stimulate its ambition to gain greater control. At the same time, as for the Merovingians, the opportunity cost of removing the agent's authority increases. The principal's threats to remove become

hollow; it loses its grip on the agent. In short, policy success through competent agents breeds the risk of control failure.

The self-reinforcing erosion of control is most prominent in delegation, defined by hard controls. Here the agent may become so proficient at its delegated tasks that the principal becomes beholden to it, effectively losing authoritative control. For example, many governments have become so dependent on private credit rating agencies and providers of privatized public services that they cannot withdraw their authority (Crouch 2015; Kruck 2017). In addition, relevant audiences may come to view the agent as exercising its own authority, not the principal's delegated authority, limiting the principal's normative warrant to rescind a runaway agent's authority. The governance relationship shifts toward the southeast of Figure 1.

Endogenous control erosion takes different forms in modes less dependent on hard controls. In trusteeship, which rests on the agent's freedom from *ex post* control, erosion arises where the trustee expands its remit beyond the trustor's intention, as the European Court of Justice has done (Weiler 1991). As the trustee develops greater competence, its ambition to expand its authority may also increase, even as it becomes increasingly costly for the principal to limit its authority. In cooptation, enlistment by the principal can further empower the co-optee, enabling and encouraging it to break free of the principal's control. For example, the Karzai government in Afghanistan used US support to increase its authority *vis-à-vis* local constituencies, increasing US dependence and expanding its own freedom of action: "never in history has any superpower spent so much money, sent so many troops to a country, and had so little influence over what its president says and does" (Ladwig 2017:2).

Even in orchestration, the principal may lose its limited influence as the agent gains competence – through its experience and the principal's support – and becomes less willing to be orchestrated. As already noted, the World Health Organization was designed to coordinate global health governance, but has little influence over new, highly competent actors such as the Gates Foundation (Hanrieder 2015). Control erosion is only a modest problem if goal alignment remains high. If increasing competence induces the agent to reassess its goals, however, the principal can do little to keep it in line.

A principal may be able to limit control erosion, but only by sacrificing some competence. For example, the principal may conceal its true dependence on the agent,<sup>10</sup> e.g., publicly belittling advisors to show them (and others) how expendable they are. But agents who feel unappreciated are likely to work less diligently. It can apply procedural controls such as periodically rotating agents. But these techniques constrain agents' opportunities and incentives to learn, or even to perform well. It can split governance tasks among multiple agents, limiting the competence each can develop. But this encourages agents to take narrow views of their responsibilities. It may support competing agents to maintain a switching option. But redundancy is costly, inefficient where agent activities entail scale economies (e.g., defense contractors), and infeasible where a task demands a single agent (e.g., for legitimacy). In short, the principal can tighten ex ante and ex post controls, at the cost of reducing the agent's competence.

### **B. Erosion of agent's competence**

An agent can also become dependent on the principal's mandate, endorsement and material support, and modify its behavior to retain them. As it specializes in pleasing the principal, the agent sacrifices its independence and competence. Its attractiveness to other principals declines; its ability to work on its own erodes; its outside options shrink – further increasing its dependence.

For the principal, agent dependence is a mixed blessing. On one hand, the principal gains control as the agent becomes increasingly responsive to its threats and inducements. On the other hand, the principal loses policy benefits as the agent's independence-based competencies erode: self-supporting agents become addicted to the principal's assistance; independent experts become yes-men; policy innovators lose their creativity; autochthonous agents lose touch with their communities, becoming unable to gather information or ideas from them or to tap into their capabilities. In sum, increasing agent dependence enhances control, but carries the risk of policy failure.

These problems may be most severe in orchestration. Principals choose orchestration to extend their authority, limit their costs, and gain other benefits of agent independence.

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<sup>10</sup> P-A theory highlights the agent's informational advantages (Miller 2005). But information asymmetry can also work in reverse. If an agent is unsure how valuable it is to the principal, the principal can exploit this asymmetry to its advantage.

However, a principal's support may induce agents to shift their focus from independently pursuing (aligned) policy goals to winning contracts, grants and endorsements (Cooley and Ron 2002): NGOs focus on international donors rather than development work; rebel groups focus on foreign sponsors rather than military preparations. In short, agents lose the relationships, skills, nimbleness and policy commitment that originally made them attractive.

Similar problems arise in other modes. A trustee that focuses on eliciting support from the principal – like the Hungarian central bank post-2010 – becomes unable to render the principal's commitments credible. A co-optee that becomes dependent on principal support can no longer legitimate the principal's policies vis-à-vis targets: the local community no longer views its chief as an authority in its own right, but as a puppet of the colonial power (Crowder 1964); workers no longer view their union leader as “one of us,” but as part of a distant elite (Offe and Wiesenthal 1980).

Even in delegation, where principal control is at its highest, dependence may lead agents to over-comply. To defend their offices, elected politicians adopt popular but harmful policies (Fox and Shotts 2009). To maintain their positions, bureaucrats become overly cautious: they focus on reading their bosses' minds and signaling loyalty rather than on solving policy problems (Prendergast 1993), becoming “petty, narrow, rigid” (Michels 1952, 143). They shun innovation, ignore problems outside their briefs, suppress unwelcome information, and refuse responsibility for policy outcomes (Weber 1910). A graphic example is the conduct of intelligence services in autocratic regimes (Wintrobe 1998). Autocracies are dependent on secret services, but these services are often too fearful to provide accurate intelligence; few dare to speak truth to the dictator because they fear the consequences of bearing bad news.

The specter of policy failure may tempt the principal to ramp up controls even further. It may try to break the agent's self-imposed dependence by introducing performance-based remuneration, limiting subsidies, keeping co-opted elites at a distance, or courting alternative agents. But these strategies may perversely induce the agent to stick even more closely to “safe” policies. Alternatively, it may micromanage the agent's behavior through a strait-jacket of procedures, from earmarked contributions to reporting and personnel requirements. Yet these actions prevent the agent from fully exercising its competencies: its problem-solving capacity erodes, replaced by “trained incapacity” (Veblen 1914). Either way, the

principal accelerates the very erosion of competence it aims to alleviate, in a self-reinforcing spiral.

Social psychology similarly suggests that tight hierarchical controls produce “motivation crowding,” eroding intrinsic motivations: “self-determination and self-esteem suffer, and the individuals react by reducing their intrinsic motivation in the activity controlled” (Frey and Jegen 2001:594-595). Individuals lose their sense of self-efficacy, becoming resigned and conformist (Milgrom and Roberts 1990). Even for organizations, strict controls increase ritualistic conformance, but decrease attention to policy efficacy (Cooley and Spruyt 2001). Hence, if principals depend on agents’ intrinsic motivations, they must sacrifice some behavioral control: for example, legislatures must provide bureaucrats “policy rents” in the form of policy discretion to induce them to be good public servants (Gailmard and Patty 2013).

In sum, the erosion of either control or competence can shift the balance of power between principal and agent in ways that upset and transform their governance arrangement. To be sure, countervailing forces may arrest processes of erosion short of complete collapse, or even reverse them. But in all modes of indirect governance, pushing and pulling between principal and agent, between control and competence, opens the door to dynamic instability: there can be no presumption that the principal’s initial choice of mode will prevail indefinitely. The consequence may be chronic instability and discontent (see Bernhard 2015): rather than locking-in to stable equilibria, principals and agents constantly tinker with the competence-control balance in their relationships, as in the following case.

### **C. Erosion and assertion of control over war-making**

The US Congress’ declining control over the president’s ability to initiate war illustrates both control erosion and dynamic instability. The US founders established an indirect governance relationship, allocating war powers so that only Congress (as principal) could declare war, thereby delegating authority to the president (as agent) to wage war. This arrangement was reasonably stable up to World War II, when congressional control began to erode dramatically. The wars in Korea, Vietnam, the Gulf and Afghanistan were fought without congressional authority; so too were smaller military interventions, including Lebanon,

Grenada and Bosnia, and covert support for interventions including the Congo, Cuba and Yemen.

Exogenous changes, including expansion of the US global role, technological developments (e.g., nuclear weapons) and emerging security issues (e.g., terrorism), all enabled erosion of legislative control. But successive presidents used these circumstances to massively increase the material and informational competencies of the executive security apparatus, as reflected in creation of the National Security Council (1947), Central Intelligence Agency (1947), National Security Agency (1952), Defense Intelligence Agency (1961), Cyber Command (2009) and numerous lesser agencies.<sup>11</sup> Although Congress approved most of these agencies, and must fund them, steady expansion of the executive's technical, task-specific competencies makes legislative control increasingly difficult – especially where the executive acts in secret or before Congress can respond. As a result, the president, not Congress, now has de facto control over war-making.<sup>12</sup>

The executive's growing competency also allows it to choose and shape interventions, creating facts on the ground that undermines congressional control. An early example was Roosevelt's "undeclared war" in the Atlantic, arguably intended to provoke an incident that would ensure US participation in World War II (Schuessler 2010). More recently, the Obama administration successfully argued that congressional approval of the 2011 Libya intervention was not required because the anticipated operations "fell short of a 'war' in the constitutional sense."<sup>13</sup> President Trump based the 2017 Syrian intervention on the September 14, 2001 Authorization for the Use of Military Force, which was intended specifically for al-Qaeda but is now used against groups such as ISIS that did not even exist in 2001.

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<sup>11</sup> This trend has accelerated post-9/11: "some 1,271 government organizations and 1,931 private companies work on programs related to counterterrorism, homeland security and intelligence in about 10,000 locations." Dana Priest and William Arkin, "A hidden world, growing beyond control," in *Top Secret America*, *Washington Post*, July 19-21, 2010.

<sup>12</sup> Canes-Wrone et al. 2008 describe the president's increasing influence over foreign policy. Our stylized depiction considers only executive-legislative relations on "declaring war," not how war affects relations on other issues, or additional control mechanisms such as public opinion. Howell and Johnson (2009) analyze such issues.

<sup>13</sup> Charlie Savage and Mark Landler, "White House Defends Continuing U.S. Role in Libya Operation" *New York Times*, June 15, 2011.

Congress has periodically sought to reassert control, but doing so is difficult without undermining executive competence. The War Powers Resolution (WPR) provides a vivid example. Adopted in the wake of President Johnson's misuse of the Gulf of Tonkin Resolution to expand the Vietnam War, the WPR requires the president to notify Congress within forty-eight hours of the use of force and limits intervention to sixty days unless authorized. Yet Congress finds it politically infeasible to enforce the WPR (and the courts have been reluctant to intervene), for fear of undermining on-going operations and putting national security and American troops at risk. Recent efforts to rein in presidential authority through the proposed War Powers Consultation Act would face similar problems, as the proposal would exempt covert and humanitarian action, providing broad loopholes for preemptive presidential action. To be sure, Congress can constrain long-term conventional operations through fiscal and other constraints, as the 1978 Church-Cooper amendment limited military action in Cambodia. More often than not, however, Congress has been on the losing side of the on-going contestation between legislative control and executive competence.

## **VI. COMPETENCE-CONTROL THEORY**

The governor's dilemma is a pervasive consequence of the need for indirect governance. When governors use agents, as they often must, they give up some control – and the dilemma begins. We identify four general modes of indirect governance – delegation, trusteeship, cooptation and orchestration. The competence-control tradeoff conditions the principal's choice among these modes. Principal-agent interactions along the tradeoff frequently unsettle the initial choice, leading to endogenous adjustments and shifts within and between modes. Efforts to increase control undermine agent competence; efforts to enhance agent competence undermine control.

Competence-control theory enriches the P-A framework in two important ways. First, it extends this framework by moving the competence-control tradeoff center stage. While the need for agent competence is constitutive of the P-A relationship (no principal would incur agency costs without it), P-A largely brackets the problems of securing, developing and maintaining agent competencies: it emphasizes the control problems created by information asymmetry, yet ignores the control problems created by agent competence, as well as the competence problems implied by principal control.

Second, competence-control theory integrates into the P-A framework a range of modes of indirect governance previously theorized separately (delegation, trusteeship, co-optation, and orchestration). It highlights similarities (i.e., the competence-control tradeoff) and differences (i.e., alternative ways to balance competence and control) among the modes, and demarcates their areas of application. In doing so, it limits concept stretching: for example, while the privatization of public utilities and the mobilization of foreign rebels have both been analyzed in terms of delegation (Hefetz and Warner 2004; Saleyhan 2010), the stark differences between these relationships in terms of initiation (granting or enlisting) and management (hierarchical or not) make this equivalence more misleading than revealing.

At the same time, competence-control theory helps reveal unexpected resemblances among governance arrangements. While corporatism (Offe and Wiesenthal 1980) and international state-building (Lake 2016) are rarely if ever analyzed together, our theory demonstrates that both are based on the same indirect governance mode (co-optation), breeding similar problems. In short, competence-control theory greatly extends P-A's capacity to analyze the modes and dynamics of indirect governance across very different settings.



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