Chapter 2

Indirect Rule

There are many forms of power.[1] This book is about a particular form, known as indirect rule, or what we might think of as the *how* of modern international hierarchy. Indirect rule is most simply characterized as the exercise of authority by proxy.[2] Critical to this governance structure is the presence of an allied group within the subordinate society with a policy preference closer to that of the dominant state than the domestic opposition. Unable to enact its ideal policy against the wishes of the opposition unilaterally, the group cooperates with the dominant state to adopt a policy they both prefer but which the group could not sustain on its own. In such an alliance, the dominant state transfers resources or otherwise strengthens the allied group in the domestic struggle with its political opponents. The now stronger group then enacts a policy more favorable to itself and the dominant state. Indirect rule contrasts with domestic rule, where policy is made in a strictly autonomous process free from foreign interference, and coercion, in which the dominant state threatens war (or other sanctions) to extract even greater policy concessions than the allied group itself would otherwise make.

This chapter first explores the concept of international hierarchy and then examines when and why it is sometimes pursued by states, focusing on the important variable of specific assets. I then turn to indirect rule as the mechanism of international hierarchy, outlining a simple model and its implications. The final section describes the method of analytical narratives used in the case studies in the remainder of this book.

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[1] On forms of power, see Dahl 1957; Baldwin 2016; Blau 1964; Bachrach and Baratz 1962; Lukes 1977; Barnett and Duvall 2005; Katzenstein and Seybert 2018.
[2] The literature on indirect rule is quite extensive, especially single case studies. For recent general works, see Mamdani 1996; Gerring, John et al. 2011; Naseemullah, Adnan and Staniland, Paul 2016; ibid.Mamdani 1996; Gerring, John et al. 2011; Naseemullah, Adnan and Staniland, Paul 2016. On client states in international relations, see Sylvan and Majeski 2009. On indirect control, see Padro i Miquel and Yared 2012.

Hierarchy in International Relations

Hierarchy is an on-going authority relationship in which a ruler or, in our case, a dominant state sets rules for a subordinate society that chooses to comply (or not) under the threat of legitimate punishment.[3] To rule is to direct members of a subject community to alter their behavior on a continuing basis. Hierarchy is not just an occasional interaction but an enduring relationship of domination and subordination.

To "see" international hierarchy, or the exercise of authority by one state over another, requires that we move outside theories of international politics as traditionally construed and broaden our understanding of the foundations of rule. The concept of anarchy in standard international relations theory is fundamentally based on a formal-legal conception of authority.[4] As all states are assumed to possess equal status under international law, in Kenneth Waltz's well known phrase, it follows that "none is entitled to command; none is required to obey."[5] Though owing much to Weber's bureaucratic-rational conception of authority, law is only one possible foundation of rule, however. As even Weber himself recognized, authority can be based on charisma (some exceptional quality of the leader), tradition (the way it always has been), or religion (divine right).[6] In international relations, some scholars parallel these distinctions in focusing on "soft" power, great power status and the privileges that are assumed to follow, or manifest destiny and other rights countries claim as inspired by providence.[7] These are all ways

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[3] This is a "narrow" definition of hierarchy that focuses on the actions of a ruler. "Broader" definitions of hierarchy include status rankings that modify the behavior of subordinates without explicit actions by more highly ranked actors. The latter includes racial and gendered orderings. While these status hierarchies are important, they are not the subject of this book. See Bially Mattern and Zarakol 2016; Zarakol 2017.
[4] For a history of the concept, see Schmidt 1998. On anarchy as a concept, see Milner 1991; Onuf and Klink 1989; Wendt 1992.
[5] Waltz 1979, 88.
[6] Weber 1978 Chapter III.
[7] On soft power, see Nye 2004. On status, see Paul, Larson, and Wohlforth 2014; Renshon 2017; Simpson 2004.

of attempting to capture the essence of international hierarchy without violating the widely accepted assumption that relations between states are "anarchic."

Without minimizing these alternative foundations, I ground my understanding of international hierarchy in a relational conception of authority drawn from social contract theory. As a social contract, rule is a bargain between the ruler and ruled, negotiated and re-negotiated under the shadow of power. The ruler provides a social order of some benefit to the subordinate society and that society follows the rules of the order. In short, order is exchanged for compliance. Social contract theories, including my prior versions of the theory of international hierarchy, have been criticized for relying on consent by a society to its own subordination.[8] The criticism is not entirely wrong. Yet, hierarchy as I conceive it does not require consent or positive affirmation, but is understood better as an equilibrium. Given circumstances, the dominant state has incentives to rule and the subordinate society has incentives to comply, and a stable relationship exists when neither has cause to deviate from this set of actions. An equilibrium does not mean that, in some ideal world, the subordinate would actually desire a hierarchy or that it "wants" to comply with the rules imposed by the dominant state. Rather, it merely implies that, given the position in which the two parties find themselves, neither the dominant state nor the subordinate society has an incentive to alter its behavior and, thus, their relationship. They accept hierarchy as a structure – a social fact, if you will – even if they would never choose that relationship entirely of their own volition. As analysts, our task is to explain when, how, and why this equilibrium is reached.

Glossed over in many social contract theories, again including my own, is that the bargain at the heart of any social contract often has strong distributional implications for

[8] Lake 1999; Lake 2009a.

members of the subordinate society.[9] The critique of the voluntarism implicit in social contract theories is (or should be) directed at this oversight. Perhaps escaping from a Hobbesian state of nature -- a war of all against all -- might benefit everyone, but beyond this rudimentary level the bargains that sustain rule typically benefit some groups in society more than others and may, indeed, actually harm the welfare of some.[10] Rules are always written by someone for some purpose, most often by and for the ruler's supporters. Thus, rule creates winners and losers, with the former using their political power to support the system from which they benefit and the latter using their (often limited) power to resist, ensuring that rule is always contested and evolving. Although I minimized these distributional implications in my past work on international hierarchy, they form the core of the theory of indirect rule elaborated below. It is precisely by cooperating with the group whose interests are most closely aligned with its own that the dominant state governs the subordinate indirectly and obtains the policy or policies it prefers.

Indirect rule can be contrasted with strictly domestic rule and coercion. In domestic rule, groups within society negotiate policies that reflect their different interests as well as their political power, and then negotiate with other states on the basis of that compromise. This is the image of "anarchy" that often animates international relations theory in which states interact on the basis of their autonomously defined interests. With indirect rule, the dominant state is intimately involved in the formulation of the interests of the "state." Seen through this lens, much of what is traditionally described as anarchic relations in world politics is actually better understood as indirect rule. Under coercion, on the other hand, the dominant state demands

[9] The bargain may also have distributive implications for members of the dominant society as well, though this is not the focus of the inquiry and theory here.
[10] Hobbes 1651.

policy concessions under the threat of war (or sanctions) broadly opposed by all groups within the subordinate society, including the proxy. This is the traditional model of power in international relations theory and remains an alternative to indirect rule. In past work, I have focused on explaining the extent and consequences of international hierarchy, and I synthesize these ideas in the next section. I then outline a theory of when and how the dominant state rules the subordinate state.

Why International Hierarchy?

Rule is necessary under two conditions. There must exist a conflict of interest between the dominant and subordinate states and the dominant state must have or want to acquire assets that are specific to that subordinate. While conflicts of interest can sometimes be managed between formally equal states, it is the existence or desire to obtain assets that are specific to a particular relationship that requires at least some degree of international hierarchy.

Conflicts of Interest

Rule is required only when there is a divergence of interests between the dominant and subordinate states. If the interests of the two states are perfectly aligned – or even closely aligned – "cooperation under anarchy" may be possible, enforced by reciprocity or institutions in which members are formally equal and benefit from better information or lower transactions costs.[11] If two people want to go to the same destination, neither needs to lead nor follow. The same for states. If they agree on objectives and have no or few incentives to "defect" or deviate from cooperation – as in a situation of harmony or coordination -- cooperation is relatively easy and does not require rule.[12] But when interests differ significantly, power necessarily comes into play. If an employer wants tasks done in a particular order and as efficiently as possible, but an

[11] Oye 1985. Axelrod 1984; Keohane 1984.
[12] See also Oye 1985; Stein 1990.

employee prefers another process or a more leisurely pace, some degree of hierarchy is required. This is the standard explanation for integrated firms as opposed to independent contractors.[13] Likewise, if one state wants another to assist in a war or adopt freer trade, and the second does not, some degree of hierarchy may be efficient. As interests diverge, rule is increasingly necessary. Interest divergence is modeled in the following section as the spatial distance in the ideal points of the dominant state and groups within the subordinate society. The greater the distance, the greater the divergence in preferences.

In international politics, interests diverge in two types of strategic situations. First, one state (the subordinate) imposes through its actions a cost on a second (dominant) state.[14] Such costs might be produced by "rogue" states that disrupt regional peace, and thereby undermine opportunities for international trade and investment, fragile states that cannot govern their territories and thereby create migrant outflows or safe havens for illicit activities, or simply states that spew pollutants into the earth's atmosphere. The politics of negative externalities are relatively well understood.[15] Not all costs generated by possible subordinates are large enough to justify the costs of rule, discussed below. Nonetheless, as but one example, such costs were deemed by the administration of President George W. Bush to be sufficiently large to warrant the invasion and subsequent attempt to establish indirect rule in Iraq in 2003.

Second, a state could produce benefits for another but such "cooperation" would not otherwise be chosen voluntarily – that is, cooperation is not an equilibrium. If the first state were to change its policy it might benefit the second, but it has no incentive to do so or, even if

[13] Coase 1937; Williamson 1975; Williamson 1985.
[14] On externalities and cooperation, see Milner 1997, 43–44.
[15] Cornes and Sandler 1986.

induced to cooperate, it has continuing incentives to defect. The problem of cooperation is traditionally illustrated by the metaphor of the Prisoner's Dilemma.[16]

Benefits from cooperation arise in two ways. States may gain from aggregating resources or combining efforts to confront some challenge.[17] An analogy is lifting a heavy object. Although difficult or perhaps impossible for a single individual, two or three people might lift a large stone with ease; thousands can build pyramids. Aggregation benefits one or more parties when the probability of success in accomplishing some task is a function of the total effort and resources devoted to that activity.[18] Aggregation is especially important in bargaining with opponents, for instance. By pooling resources and efforts, two states can increase their probability of victory in a war with a third state. This allows the states, if they so desire, to demand larger concessions by the third to avoid war than either could alone; alternatively, by aggregating capabilities the states can resist greater demands by the third state. Where Europe might have been forced to yield to demands by the Soviet Union after 1945, for instance, Europe and the United States together were able to deter Soviet expansionism and resist its calls for even a neutral (unified) Germany. Aggregation also matters in producing public goods and managing common pool resources. In climate change, for instance, it is the total quantity of greenhouse gas emissions that is important, and all states benefit from any one state restricting output. The same is true for suppressing transnational terrorism, drug trafficking, or other illicit activities that depend on safe havens in poorly governed spaces. The problem in aggregation is that one or the other party may choose not to cooperate despite the possibility of Pareto-improving gains; they

[16] Axelrod 1984; Jervis 1978; Oye 1985.
[17] For an overview (and alternative) to the capability aggregation model of international politics, see Morrow 1991.
[18] Hirshleifer 1987, Chap. 5.

may not want to lift the heavy object or may decide to stay home on the day of the battle. Aggregation is often subject to the free rider problem, which rule is intended to offset.

Though the capability aggregation model as applied in international relations theory often assumes both (or many) parties to the effort benefit, this need not be the case. Indeed, one party may demand that the other contribute even when the second does not receive any benefit or a benefit larger than the costs entailed. We have all likely imposed on friends to help us move at one time or another in exchange for a beer or, at most, a pizza, straining the limits of friendly obligation. Similarly, many countries subordinate to the United States have joined wartime coalitions even when they had few stakes in the conflict and might have easily free ridden on the efforts of others. This was true for Latin American countries in both world wars, who only joined after the U.S. entry, and for the ad hoc coalitions of the willing led by the United States against Iraq in 1991 and 2003.[19] In doing so, these states put themselves at risk for little or no return. Although we typically treat the gains from cooperation as symmetrical, this is not always the case.[20]

States may also gain through specialization and exchange. This is the classic benefit of international trade. As in Adam Smith's famous example of the pin factory, later expanded by David Ricardo as the law of comparative advantage, states can gain by specializing in those goods they produce or activities they perform most efficiently and exchanging some portion of their output for those goods they produce or activities they undertake relatively inefficiently.[21] Normally limited to economic goods, the logic of specialization and exchange applies more

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[19] On Latin American countries joining World War I, see Munro 1918. On coalitions of the willing, see Lake 2009a; Tago 2007.
[20] For an exception, see Krasner 1991.
[21] The law of comparative advantage is explained in any elementary economics and many international relations textbooks. See Frieden, Lake, and Schultz 2019 Chapter 7, Appendix 340-345.

generally. Countries may specialize in certain war-fighting capabilities and then rely on others for complementary capabilities they do not possess or strive to achieve. Prior to both world wars, for example, Britain specialized in naval forces and France pursued land-based defenses and armies; where the former sought to choke off Germany's access to resources, the latter aimed to resist and ultimately defeat Berlin's ground forces. By specializing (albeit incompletely) in their area of military (comparative) advantage and cooperating in the conduct of the wars (exchange), Britain and France were able to field significantly larger and more effective forces than if each had attempted to fight Germany on both land and sea.[22]

Despite the possible benefits from specialization and exchange, the interests of states may still diverge. Even if both parties gain, each may still have an incentive to defect. As with aggregation, the benefits may be one-sided. A state may use its superior position on other issues to extract more of the benefits of free trade, for instance. In turn, the benefits from specialization may be distributed unevenly within a society. Abundant factors of production or sectors that use those factors intensively gain from freer trade, for instance, while scarce factors of production and sectors that use those factors intensively lose.[23] If the ruling coalition in a subordinate country benefits disproportionately from any exchange, it will be more in favor of cooperation than the median citizen and, if it loses disproportionately, it will be more opposed to that policy than others. Even if cooperation can produce aggregate benefits, states may still differ in their interests due to intra- or international distributional concerns. Such conflicts of interest are the foundation of the model of indirect rule in the next section.

Specific Assets

[22] On specialization in defense assets, see Gannon forthcoming.
[23] Frieden and Rogowski 1996; Rogowski 1989.

A divergence in interests cannot by itself explain rule. Conflicts of interest can be accommodated in a variety of ways and, thus, are a necessary but not sufficient condition for the emergence of authority relationships. Hierarchy is more likely when defection by the subordinate state would be costly to the dominant state. Defection is more costly, in turn, when the dominant state is dependent on assets that are specific to its relationship with the subordinate country. If one partner can be easily replaced by another without cost, the dominant state does not need to rule that partner. Faced with defiance, it simply changes partners and seeks the possible gains from cooperation elsewhere. But when assets are specific to a particular relationship, defection matters and the dominant state may be willing to incur the costs of governing the subordinate to reduce the likelihood of opportunistic behavior. And since assets are enduring, rule becomes an on-going relationship.

For international politics, specific assets may be strategic locations such as ports and missile sites or foreign direct investments like mines and railroads. Once the dominant state invests in these assets – say, formulating a forward defense doctrine requiring overseas bases in particular locations – any defection by the subordinate state will impose costs on the dominant state. The concept of asset specificity nicely unifies strategic locations, as they are referred to in the literature on international security, and dependence, as it is known in the literature on international political economy. For some scholars of international relations, the potential costs of defection necessarily imply that states will not invest in specific assets and that they will always be functionally undifferentiated.[24] What this line of argument neglects, however, is that hierarchy can protect against these costs, permitting investments in assets that would otherwise be too risky.

[24] Waltz 1979.

The core idea behind asset specificity originates in industrial organization. When one firm is dependent on another for an exclusive input (e.g., a rare raw material, a specialized part, unique knowledge), this dependence creates a potential "hold-up" problem; once the dependence is incurred, any prior agreement will be subject to renegotiation with the second seeking to extract a higher price or reduce quality from that previously agreed.[25] Knowing that it risks exploitation by the second, the firm may decide not to enter into an agreement in the first place. The solution to this market failure, observed many times in the conduct of business, is for one or the other firm to internalize the possible exchange by forming a single hierarchical company. In other words, the risk of opportunism is reduced by one firm "governing" the other, thereby preventing the subsidiary from acting in ways that might harm the parent company. The most famous example is that of General Motors acquiring Fisher Body.[26] Conversely, when assets are generic or partners are many and (near) perfect substitutes for one another, defection by a single partner may be annoying but it will not be costly. If firm B attempts to hold-up firm A to alter the terms of the contract to its benefit, it can be replaced by alternative companies C, D, E and so on, with firm A perhaps incurring a (small) transactions cost in identifying a new partner. Easy substitutes for the good mean the asset or the partner is not specific and the hold-up problem will not arise. In such cases, firms may continue to interact with each other as separate entities in spot market transactions or arms-length relations without fearing costly opportunism. In international relations, such arms-length relationships are what we mean by "anarchy."

Specific assets arise in many international interactions. Foreign investments in agricultural plantations, mines, infrastructure like railroads, dams, bridges, etc., are site-specific assets; once the investment is incurred, it cannot be moved and is, therefore, specific to the

[25] See Klein, Crawford, and Alchian 1978; Williamson 1975; Williamson 1985.
[26] Klein 1988.

relationship between the home investor and host state. Such assets have long been characterized by an "obsolescing bargain" in which, prior to the investment, negotiating power lies with the investor, and after the investment is made negotiating power shifts to the host country, which may attempt to exploit the investor by altering the terms of the original agreement.[27] Portfolio investment has much the same quality; once the money is lent, bargaining leverage shifts to the borrower. Jeff Frieden has shown how such site-specific investments were a leading factor in stimulating European overseas empires in the late nineteenth and early twentieth centuries.[28] Assets such as strategic locations may also be specific to certain security relationships. Early in the nuclear era, for instance, U.S. bombers and missiles with limited ranges needed to be deployed close to the Soviet Union. Turkey thus became an essential member of NATO with its airfields and missile sites lacking near substitutes. Once integrated into the U.S. global defense posture, however, these highly specific assets created a potential for severe cost if Ankara were to defect or a hold-up problem were it to seek to renegotiate the deal. As lift capacity increased and warheads were miniaturized, the value of launch sites in Turkey diminished and were de facto negotiated away in the aftermath of the Cuban missile crisis; what is "strategic" or specific at one moment may not be at another, depending on context. Yet, specific assets are widespread in international politics, forming a barrier to anarchic cooperation and the foundation for rule.

As with firms above, the larger the specific assets at risk, the greater the incentive for two states to internalize decision-making within a single hierarchy. Indeed, it is precisely because the costs of defection are large when specific assets are at risk that a dominant state wishes to rule the subordinate state. If the subordinate cannot, for instance, decide entirely for itself when and how to use its military forces, it cannot (or at least, is less likely to) defect, cheat, or otherwise

[27] Vernon 1971; Moran 1974.
[28] Frieden 1994.

undermine security cooperation with the dominant state. The same holds for specific economic assets like mines or railroads. If the subordinate lacks the ability to decide independently to expropriate the asset (or returns on the asset), risk is substantially reduced. It is to reduce the potential for opportunism in ways large and small that hierarchies exist. By controlling directly or indirectly more of the behavior of an otherwise sovereign state, the dominant state reduces the risk of opportunism for itself and, in turn, encourages specialization that might not have occurred.[29]

Overall, we will observe hierarchy when both interests diverge and specific assets are at risk, and increasingly so in both cases. In the modern world, most interstate rule is indirect. If rule is necessary, when and how does it occur? When is indirect rule possible?

Indirect Rule in World Politics

Indirect rule is a mechanism through which a dominant state governs a subordinate state through an allied group or local proxy.[30] Just as between states, there must be some distributional conflict within subordinates that can be exploited by the dominant state for indirect rule to be

[29] The one exception to this prediction is when both parties to cooperation possess specific assets of relatively equal value to the other. In this case, the states are co-dependent or possess "mutual hostages" and can retaliate against one another for defection. Similar to the highly co-dependent but vertically networked firms in Japan, in such cases hierarchy can be avoided and cooperation sustained by reciprocity. Such mutual dependence, however, appears rare in international relations and, in any case, is sensitive to technological or political changes in the value of specific assets. We would expect in most cases that specific assets will lead to greater hierarchy to limit opportunism.

[30] There are at least two mechanisms of control by a principal over an agent Hawkins et al. 2006.. In Berman and Lake 2019., we examine the use of rewards and sanctions to motivate agents to adopt policies preferred by principals. In that model, agents vary in their costs of effort, which we interpret to be the spatial distance between the policies desired by a principal and the median member of a society led by the agent. The greater the distance, the more costly it is for the agent to adopt policies preferred by the principal and opposed by society. The greater the cost of effort, in turn, the larger the rewards and sanctions required to induce the agent to act in accordance with the desires of the principal. In the model here, I focus on selection of the leader by "type," defined as the group within society from which the leader is drawn. The object of selection is to pick a leader with preferences closer to that preferred by the principal and then allow that agent or leader to adopt policies both prefer to the alternatives. There is some tension between these two models. In selection, sanctions undermine the leader, weakens their political position, and makes it less likely that the leader will survive in office and be able to adopt policies preferred by the principal. Any leader from the same group, in turn, would have similar costs of effort. Rewards can induce greater compliance, but sanctions will be counter-productive. I do not attempt to weigh the two models in the history of U.S. rule covered here, but it appears that the United States tends to rely on selection and not carrots and sticks to motivate its allies.

possible. By partnering with the group whose policy preferences are most similar to its own, the dominant state is able to shift policy in its favor, sometimes quite dramatically. While the dominant state and proxy group benefit from more favorable policy, the opposition unambiguously loses from indirect rule compared to domestic rule. Although the resources transferred by the dominant state allow the proxy to suppress active dissent by the opposition, indirect rule inevitably breeds resentment towards not only the allied group but also the dominant state. In the cases below, this has historically taken the form of anti-Americanism.

The effectiveness of indirect rule is influenced in important ways by the political skills or "competence" of the leader of the allied group. Groups within any society are defined by their common interests, which in turn are related to their position in the economy, their values and ideologies, or their "interests" more generally. In the short term, at least, the distribution of members within each group is relatively fixed. Crucial to the balance of political power within the subordinate society, if only because it is open to manipulation, is the unity and cohesiveness of the allied group. A problem common to many groups is internal factionalization and infighting. Though the allied group as a whole has political preferences more aligned with those of the dominant state than other groups in society, there may still be competition within the group, especially over other, strictly domestic issues of little concern to the metropole. Effective or competent leaders are able to manage and even overcome such internal factionalization to bring the full weight of the allied group itself and, importantly, the aid provided by the dominant state to bear on the policy struggle with the opposition. Because leadership is crucial in indirect rule, the dominant state has incentives under some conditions (specified below) to replace an incompetent leader with, it hopes, a more competent individual or regime. This implies that the dominant state will, on occasion, intervene actively – even forcefully – in intragroup politics to support a preferred leader over rivals.

Indirect rule is always bracketed by or, indeed, in competition with domestic rule and coercion by the dominant state. In domestic rule, the dominant state eschews any possible role in the subordinate country and leaves the groups to their own devices, so to speak. The dominant state may still want the subordinate state to adopt a policy closer to its own preferences, but given the governance costs it chooses not to intervene on behalf of its possible proxy. In coercion, the dominant state threatens to intervene directly to defeat the forces of resistance in the subordinate society and impose its preferred policy on the country. War or the threat of war can force the country to make larger policy concessions than the allied group would make even under indirect rule. If so, both the opposition and the allied group will resent the role of the dominant state and, in the cases below, embrace anti-Americanism.

In this section, I formalize the intuition behind indirect rule in a simple bargaining game, identifying when indirect rule is chosen over domestic rule and coercion. The model, such as it is, is more a set of identities to assist in specifying relationships carefully rather than a fully developed set of logical proofs. As it takes much as exogenous that might be endogenized in a more complete model, it should be treated only as a heuristic to structure analysis in the later case studies.

Basic Setup

For simplicity, assume there are two groups within a society, A and B, and a dominant state D, all with differing preferences over a single dimension of policy as arrayed in Figure 1.1.[31] This dimension might represent differences in the goals of cooperation, how the gains from

[31] I assume that each actor possesses some internal mechanism that aggregates the individual preferences of members into an ideal point. This internal aggregation mechanism is not explicitly modeled, but might be a social

cooperation are divided, or simply greater or lesser incentives to defect from cooperation, as above. Alternatively, we can think of the dimension here as capturing the overall relationship between a dominant and subordinate state. The model generalizes to multiple groups and dimensions of policy. This dimension represents the conflicts of interest between and within states necessary for any form of rule. Formally, the utilities of the actors with regard to any policy $x \in (0,1)$ are simply

$$U_D(x) = \sigma x$$

$$U_B(x) = 1 - x$$

$$U_A(x) = -|a - x|$$

Graphically, group B's ideal point is represented at *b=0*. For reasons that will be obvious below, I refer to group B as the opposition.[32] The dominant state's ideal point is assumed to be at *d=1*. The underlying conflict of interest, therefore, is normalized, and all costs below are set proportionate to the issue in dispute.[33] Group A's ideal point is designated as a, where $b \leq a \leq d$ and a is a variable in later analyses. For reasons that will again be obvious, I refer to group A as the ally or proxy of the dominant state. The distance between the ideal points of groups A and B reflects the domestic distributional implications of cooperation discussed in the previous section. To fix the intuition, in the case of the Caribbean Basin countries discussed in Part III, the

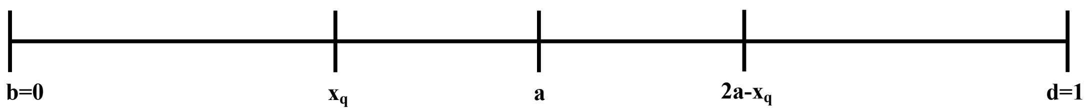
structure like a clan or ethnic group with some traditional, non-state decision-making process, an ideology that attracts followers, a charismatic leader who unifies a group of people, or even an organized political party sitting in a national legislature.

32 Group B may hold political office, as in the case of, say, Fidel Castro in Cuba relative to the United States, when indirect rule is too costly to pursue. If indirect rule is successful, however, Group B will not only be opposed to the policies of the dominant state but will also be excluded from control of the government. Similarly, group A may constitute the "government" or not. The labels here simply locate each group relative to the policy preferences of the dominant state in the next section.

33 This point is often overlooked in similar models. If the issue in dispute is, say, control over the globe, the costs of war between two states may be relatively small, but if the issue is at what level to set the exchange rate, the costs of war between the same two states is likely to be prohibitive. See Powell (1991).

opposition (group B) was landless peasants and wage laborers, the allied group (group A) was the landed elite, and the dominant state was the United States.

Figure 1.1. The Actors and their Interests (Ideal Points)



The specific assets held by the dominant state in the subordinate are represented by σ which, as explained in the first section above, then determines the intensity of that state's policy preference. The larger the specific assets held in the subordinate (the greater is σ), the more weight the dominant state places on the policy of that subordinate. This applies to all possible policy outcomes. The lower is σ, the less the dominant state cares about the policy adopted by the subordinate and, all else considered, the more likely it is to accept the policy established by domestic rule, and the higher is σ, the more the dominant state cares more about the subordinate's policy and the higher the costs it is willing to bear higher costs to influence that policy (see below).

In addition, assume there is a leader of group A (L_j) who shares the policy preference of the group ($U_A(x)$) and can serve as the agent of the dominant state. Though it plays no substantive role in the analysis below, for completeness we assume the leader pays some proportion of the costs incurred by group A, represented by η.[34] Leaders differ, however, in their ability to mobilize their group for political action or, in shorthand, their competence (λ_j). Competence is a quality of an individual leader or perhaps the regime lead by that individual rather than the structural relationship between the two groups (see below). Assume further that leaders are drawn from a known distribution of possible leaders of varying ability, where $\bar{\lambda} = 1$ represents the average leader's ability to convert the structural power of the group into policy. When $\lambda_j > 1$ the incumbent leader is relatively effective at mobilizing members of group A in the struggle over policy – in essence, magnifying their political power. And when $\lambda_j < 1$, the leader is relatively ineffective at mobilizing members of the group, implying that the group has less political power than structural factors suggest. The competence of leaders is explored in more detail below.

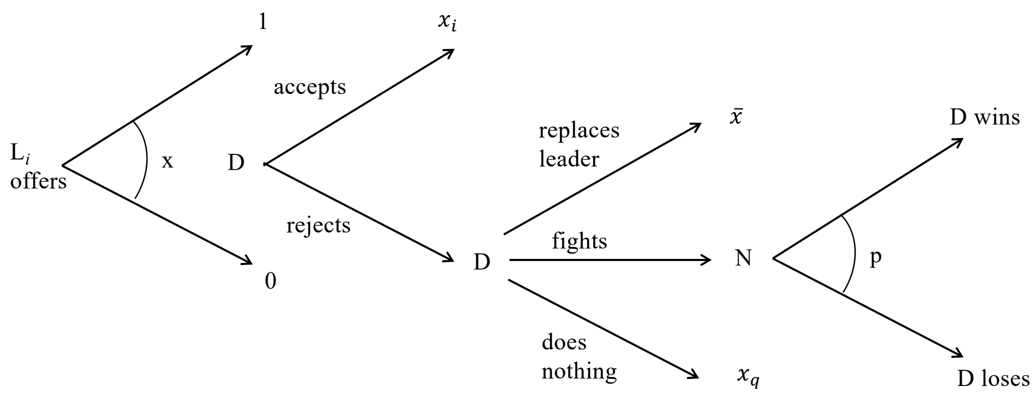
The sequence of moves is illustrated and payoffs defined in Figure 1.2.[35] L_j moves first, offering D a policy x_i. The dominant state can accept the policy offered by L_j or reject it. If the dominant state accepts the policy, it pays a governance cost (γ) defined below. If the dominant state rejects the policy, it can then 1) do nothing, allowing groups A and B to set a strictly domestically derived policy at x_q (domestic rule); 2) replace L_j with a different leader from group A at some exogenous cost r (an "intervention"); or 3) attempt to impose its ideal point on the

[34] These costs may be proportional to the population of group A or higher or lower than for other members, depending on how the group reacts to the policy outcome and whether the leader can deflect personal costs onto others.
[35] For clarity, as will be seen below, group B always resists, and increasingly so as policy moves further from its ideal point. The game, therefore, reduces to an interaction between the leader of group A and the dominant state.

subordinate state through war (or other coercive threat) at some exogenous cost to each party of fighting c. If the dominant state intervenes to replace the leader, in expectation, the replacement will provide a policy $\bar{x}$ which may be more or less attractive than the previous policy but is assumed to be equal to the policy offered by a leader of average competence ($\bar{\lambda} = 1$). If the dominant state chooses to fight, nature draws randomly from some exogenous probability distribution whether the dominant state wins the war (p) and imposes its ideal point *d* on the subordinate state or loses (1-p) and policy reverts once again to the domestic alternative x_q.[36]

[36] The model assumes full information by all parties. Although this is obviously a simplification, leaders appear not to have any systematic incentives to misrepresent their position or competence. There appear to be no advantages from lying about the group's ideal point, its domestic power, or the leader's own competence. Less competent leaders may want to "over promise" to the dominant state and claim they can produce a higher x_i than they really can, but then they will not be able to deliver on that promise and their true competence will be revealed – placing them again at risk of replacement. Without any incentive to misrepresent their true characteristics, if the dominant state does not know something important about the leader or the allied group, the leader has incentives to provide the necessary information to avoid "mistakes," as in unnecessary but costly wars or inefficient removals from office. As in the bargaining model of war, however, the dominant state does have an incentive to misrepresent its costs of fighting (or equivalently, its probability of victory). If it succeeds in convincing the subordinate state that x_w is higher than it really is, it can extract greater policy concessions. Knowing this, the subordinate may discount the information signals sent by the dominant state. By extension, the same problem may exist for σ. Although the specific assets in the subordinate state ought to be public knowledge, or at least knowable to the leader, the mapping of those assets onto the intensity of preferences may be more subjective and, thus, open to misrepresentation. Though these sources of private information with incentives to misrepresent may result in wars that could have been otherwise avoided, the pathology is not unique to indirect rule.

Figure 1.2. Sequence of Moves



Actor	x_q	x_i	D wins	D loses	$\bar{x}$
Dominant State (D)	σx_q	$\sigma x_i - \gamma$	$p(\sigma 1 - c_D)$	$(1-p)(\sigma x_q - c_D)$	$\sigma\bar{x} - \gamma - r$
Opposition (Group B)	$-x_q$	$-x_i$	$p(-1 - c_B)$	$(1-p)(-x_q - c_B)$	$-\bar{x}$
Allied Group (Group A)	$-(a - x_q)$	$-\lvert a - x_i\rvert + \gamma_A$	$p(1 - a - c_A)$	$(1-p)(a - x_q - c_A)$	$-\lvert a - \bar{x}\rvert + \gamma_A$
Leader (L_j)	$-(a - x_q)$	$-\lvert a - x_i\rvert + \eta\gamma_A$	$p(1 - a - \eta c_A)$	$(1-p)(a - x_q - \eta c_A)$	$-\lvert a - \bar{x}\rvert + \eta\gamma_A$

Domestic Rule

As a baseline and to fix the intuition behind the model, consider how groups A and B set policy under leader L_j in the absence of any external involvement by the dominant state. Under domestic rule, the two groups have to arrive at a policy settlement $x_q = \lambda_j \pi$ strictly on their own, where $\pi \in (0,1)$ is the power of group A relative to group B. Policy is also a function of the competence of leader L_j. Domestic politics is, thus, understood very simply here as a struggle between two groups the outcome of which is determined by the power of one group relative to the other as well as the competence of the leader of group A. L_j can set policy anywhere in the interval $[0, x_q]$, and will under domestic rule set policy at $x = x_q \leq a$. In this strictly domestic game L_j will never offer a policy $x > a$, group A's ideal point. The more powerful the group and the more competent the leader, the larger will be x_q and the closer it will be to a.

In focusing on indirect rule in this volume, I do not attempt to model fully the domestic politics that give rise to x_q. Importantly, π and λ_j exogenous. Exactly what gives one group power is left open here, but is often considered to be a function of the distribution of resources in society, the size of the groups, political institutions and their ability to set the political agenda, or ideology. An important factor in the later case studies is the factionalization of the allied group. These sources of power are structural in the sense that they are fixed in the short term and not easily changed. What creates power in any particular instance is treated descriptively below. The leader's competence, in turn, rests on his or her ability to manipulate these underlying structural conditions to achieve the group's ends, with some leaders more skilled or politically adept than others. In cases of indirect rule such as those later in this volume, we do not actually observe x_q. Nonetheless, x_q sets an important lower bound to indirect rule or coercion. To attempt to rule the subordinate country or coerce it into compliance, the dominant state must expect to do "better" all things considered than the default policy that would arise through the strictly domestic bargaining of groups within the subordinate country.

Coercion

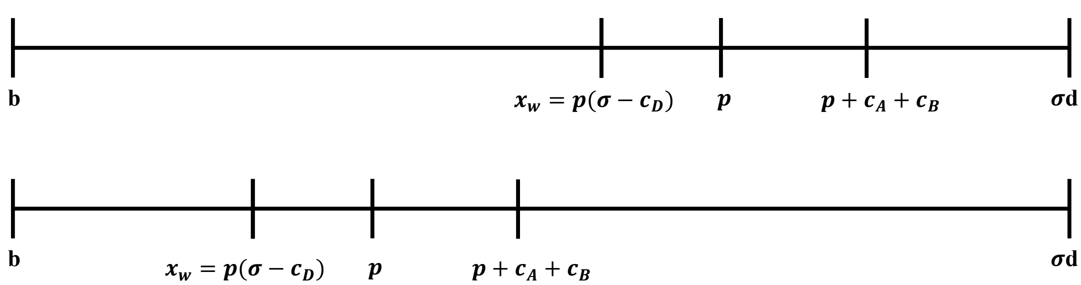
At the other extreme, the dominant country always has the option of rejecting the policy offered by the leader of the subordinate country, fighting a war, and – if victorious -- imposing its ideal point $d=1$ on the defeated society, often but not necessarily under direct rule or military occupation. With one important exception, discussed below, the logic here follows the now standard rationalist model of war.[37] Though discussed here only in terms of war, the logic generalizes to all forms of coercion, including various economic sanctions. In this model, the dominant state wins the war with probability p and loses with probability $1-p$, and in both cases

[37] See Fearon 1995; Powell 1999; Powell 2006.

pays some exogenous cost c_D. If it loses, I assume the dominant state withdraws and the policy of the subordinate reverts to the domestic alternative x_q. Groups A and B must also pay the costs of war at c_A and c_B as well, regardless of the outcome of the war. If the dominant state wins, not only do the groups pay these costs of war but they suffer the most extreme policy being imposed on them.

In the full information model presented here, we should never observe war. Since fighting is costly, there must exist some bargaining range, here between $p(\sigma - c_D)$ and $p + c_A + c_B$ that all sides would prefer to actually fighting (see Figure 1.3). To avoid the costs of fighting, L_j must offer D a policy at least equal to what D could expect to get from war, or $x_w = p(\sigma - c_D)$. The top graph in Figure 1.3 illustrates a case where war is relatively attractive to D (p is high) and the lower graph illustrates a case where war is relatively unattractive to D (p is low).

Figure 1.3. Bargaining and War



The higher the probability of victory for D or the smaller is costs of fighting, the greater is x_w, or the policy concession the dominant state can extract from the subordinate by threatening war. In turn, both groups A and B have incentives to accept a policy at x_w in order to avoid the more extreme policy and costs of fighting. If $x_w \leq x_q$, however, war is not a credible threat. Either because D's probability of victory is low or its costs of fighting are high, the policy necessary to leave the dominant state indifferent between fighting and not is less preferred than the policy that would be adopted under domestic rule. Since in this case D prefers domestic rule to the expected value of war, it either accepts x_q or if possible forms an alliance with group A under indirect rule that implements some policy $x_i > x_q$ (see below). Nonetheless, the consequences of a war should it occur casts a large shadow over the policies of the subordinate state. It is the threat of war – if not war itself -- that sometimes coerces the subordinate to offer and live with often substantial policy concessions.

Indirect Rule

In indirect rule, the dominant state forms a partnership with group A – the group with policy preferences closest to its own -- to enact a policy more attractive to both than otherwise possible. By transferring some quantity of resources (γ_B) to the allied group, the dominant state can increase the power of its proxy relative to the strictly domestic game above, allowing that group to increase policy x_i. That is, by augmenting the power of the allied group, the dominant state enables the leader L$_j$ to offer a policy $x \in [0, x_i]$ such that $x_i = \lambda_j(\pi + \gamma_B)$. When $\gamma_B > 0$, it follows that $x_i > x_q$, all else equal. In addition, the dominant state can offer the allied group a sidepayment (γ_A) contingent on the adoption of a policy $x_i > a$, where this sidepayment must be $\gamma_A > |x_i - a|$. Together, the resource transfer and the sidepayment constitute the governance cost (γ) to the dominant state of indirect rule, or $\gamma = \gamma_B + \gamma_A$.

Consider first the effects of a resource transfer (β) from D to group A and its leader. Given some γ_B, L$_j$ offers D a policy $x_i > x_q$ and, if γ_B is sufficiently large, $x = a$. Since the difference $x_i - x_q$ is a function only of γ_B, the group and leader will always prefer policy at $x_i = a$ over any policy in which $x_i < a$. That is, an increase in policy x_i over x_q is "free" to the members of group A and the leader. A γ_B large enough to move x_i from x_q to a is "incentive compatible," that is, it is in the interests of D, group A, and L$_j$ to shift policy to a with no further restraints. Consider now the additional sidepayment γ_A. If given only γ_B, no L$_j$ will ever offer D any $x_i > a$, as any such policy simply reduces the payoffs to group A and the leader. To induce the allied group to increase policy x_i beyond a, thus requires an additional sidepayment $\gamma_A > |x_i - a|$, contingent on the realization of policy x_i.[38] Since group A's utility from policy declines when $x_i > a$, D can induce L$_j$ to offer an $x_i > a$ only by compensating the group by more than its loss in utility from policy. That is, the dominant state must "buy" additional policy beyond a by an amount greater than what the allied group loses from this less preferred policy. Overall, the greater the governance cost paid by the dominant state, the greater is γ_B and γ_A, and the higher the policy x_i the leader is willing to offer.

The governance cost to the dominant state is determined by the opportunity cost of resources transferred (γ_B) and sidepayments (γ_A) to the allied group. Presumably, the dominant states sets the governance cost it is willing to pay where the marginal cost equals the marginal benefit of an additional increment in policy, but these calculations require subjective valuations of policy that cannot be readily observed. For my purposes here, therefore, governance costs are

[38] I sidestep the problem of credible promises of policy and sidepayments here. Assume that the sidepayment is only paid once policy is observed. In this case, L$_j$ has an incentive to provide the policy. In the one-shot game here, however, D might then have an incentive to renege. Informally, L$_j$ would then in subsequent rounds set policy at *a*, which D presumably prefers less than the x_i that would otherwise be offered.

treated as exogenous. We can speculate, however, that severe recessions or depressions at home may turn the dominant state more "isolationist" and prompt it to concentrate its resources on domestic expenditures.[39] Wars elsewhere may also divert attention from particular subordinates and focus available resources on more active conflagrations or render other policy concessions to allied groups more costly. As governance costs increase, all else constant, indirect rule becomes less attractive relative to either domestic rule or coercion.

Governance costs come in three primary forms, the first two of which relate to the allied group's ability to suppress the opposition and enact favorable policies (γ_B) and the third to both suppression and sidepayments. First, the dominant state can guarantee the political survival of the allied group should it come under attack from group B after implementing $x_i > x_q$. Recall, x_q is the best policy group A can obtain on its own. A guarantee of political survival allows the proxy to adopt a policy that it could not implement by itself without greater resistance from group B, including the risk of being overthrown. Here, γ_B is simply the resources and effort required to defend the allied group against the opposition. This requires, at a minimum, maintaining a military infrastructure sufficient to protect the regime and defeat the opposition and, at a maximum, carrying out military operations in defense of the allied group against popular protests or any insurgency. When the guarantee is credible, the opposition will be deterred and, despite its unhappiness over a policy farther from its ideal, it will choose not to actually revolt. In this case, the dominant state may need only pay the fixed costs of the maintaining the ability to intervene in support of its ally and not the marginal costs of an actual intervention.[40] Second, the dominant state may increase the ability of group A to suppress group

[39] Butt 2013.
[40] Moreover, since the capability to intervene can apply to several subordinates simultaneously, this allows considerable savings for a dominant state with multiple subordinates in the same region or political circumstances.

B through various forms of what has come to be called security force assistance. By training or even paying for local military and police forces, providing better equipment, or advising groups on intelligence operations, riot control, and counterinsurgency warfare, the dominant state can increase the capacity of its ally for domestic suppression, allowing it to more effectively repress the opposition as x_i increases. In the contemporary era, security force assistance is often described as building state capacity, but is better understood here as increasing the proxy's ability to suppress opposition to its policies. Third, the dominant state can augment the resources available to the leader to use either to buy off undecided citizens or even members of the opposition through more attractive domestic policies (contributing to γ_B) or as sidepayments to members of the allied group to compensate for more extreme foreign policies (γ_A). These general transfers of resources may take the form of foreign aid, loans with favorable conditions, or concessions on other policy issues, including as was frequent in the cases below trade concessions of importance to the allied group.

Importantly, both γ_B and γ_A must benefit or be confined to only the allied group and its leader. If the benefits spill over onto group B, they may reduce π and, thus, x_i. With proper forethought, the first two forms of governance costs can be easily designed to both increase γ_B and be confined to the allied group. A guarantee to the regime or an increase in security force assistance improves the security capabilities of the leader without increasing the power of the opposition in any way. It is in the third category of resource transfers or concessions that the dominant state and allied group must be most attentive to limiting spillovers to the opposition. Governance costs are treated empirically in the cases later in this volume.

The competence of the leader matters significantly for policy and, as we shall see, the choices made by the dominant state over the form of rule. The more competent the leader, the greater impact of $\pi + \gamma_B$ on policy, or the more bang D gets for its buck, so to speak. Since $x_i = \lambda_j(\pi + \gamma_B)$, the greater is λ_j, the higher is x_i for any given γ_B, and inversely, the less competent the leader, the less attractive is the policy obtained for any given governance cost. This raises the possibility that the dominant state may want to replace less competent leaders.

Assume that any new or untested leader is drawn from a known distribution of individuals of more or less competence, but that the competence of any particular leader cannot be known with certainty until they occupy office.[41] Some seemingly charismatic leaders turn out to be self-serving dolts who exacerbate tensions within the allied group once in power, other perhaps obscure individuals rise to the office and unify the group for effective action. In 1911, as noted in the Introduction and explained at greater length in Chapter 2, the United States backed Juan Jose Estrada in a coup against the sitting president of Nicaragua. Estrada was soon revealed as a drunkard who lasted a mere six months in office and was replaced by Aldolfo Diaz, previously an accountant for a U.S. mining firm, who then led the Conservatives at least somewhat successfully for almost two decades. While the dominant state knows the competence of the incumbent leader (λ_j), it can only estimate that it will, on average, get a new leader of average competence ($\bar{\lambda}$). This possible replacement leader will, in expectation, be able to offer the dominant state only an average policy ($\overline{x}$). This implies that the dominant state will intervene and replace the incumbent leader if $r < \sigma(\overline{x} - x_i)$.[42] The more incompetent the incumbent leader is relative to an average leader, the more likely that leader is to be removed at any given

[41] See Berman et al. for s similar selection mechanism.
[42] The greater the specific assets of the dominant state in the subordinate (σ), the more intense its preferences over the policy adopted in that state and the more likely it is to replace a leader. When the dominant state does not have very intense preferences over the policy of the subordinate (σ is low), it is less likely to replace the leader; when it does not care very much about the policy adopted by any leader, replacing that leader may simply not be worth the effort.

cost (r). In turn, the lower the cost of replacing a leader, the less tolerant the dominant state will be of leaders of less than average competence.

The costs of replacing leaders is, under many circumstances, relatively low. Precisely because less competent leaders are not effective at managing the internal politics of the allied group, there are likely to be alternative leaders of other factions that can, with only a little encouragement, be prompted to overthrow the incumbent, either peacefully in, say, a rigged election or violently in a coup. In some cases, however, even less competent incumbents will have successfully "coup-proofed" their regimes and the dominant state will need to stage a covert operation to overthrow the leader with expatriates or invade the subordinate country itself to drive the leader from power. Such forcible interventions will be more likely to be observed than coups, which might only be tacitly encouraged, and "counted" by historians and in empirical datasets as "interventions" or foreign-imposed regime changes. These interventions may be "lighting strikes," such as the invasion of Panama in 1989 that removed Manuel Noriega from office and brought him back to the United States to stand trial on drug charges, or something closer to the "regime change" in the Iraq War of 2003 that removed Saddam Hussain from office, though in this case the vast majority of the costs were incurred after Hussain was captured and executed. When the costs of replacing a leader are relatively low, there may appear to be a "revolving door" in the executive mansion. Given the stochastic nature of replacement in which more competent leaders are by no means guaranteed, the dominant state may simply keep replacing leaders until a reasonably competent leader emerges from the pool of possible leaders. Just as one can get a series of "tails" in repeated tosses of a fair coin, the dominant state may draw a series of incompetents that, if r is sufficiently low, prompts it to intervene again and again in the hope that a competent leader eventually emerges.

Outcomes

Given the governance cost the dominant state is willing to pay and the competence of the leader, any L_j will offer the dominant state the policy x_i that maximizes its payoff at

$$L_j(x) = -|a - x_i| + \eta\gamma_A$$

The dominant state will accept this x_i and, in turn, prefer indirect rule over the alternatives of domestic rule and war if and only if

$$\sigma x_i - \gamma \geq \sigma x_q$$

and

$$\sigma\bar{x} - \gamma \geq \sigma x_q$$

and

$$\sigma x_i - \gamma \geq p(\sigma 1 - c_D) + (1 - p)(\sigma x_q - c_D)$$

That is, the leader must offer the dominant state a policy it prefers to domestic rule, replacing the leader, or threatening war to extract greater policy concessions. This implies the following:

H_1: The lower the probability of victory in war or the greater the costs of fighting, the more likely is indirect rule.

H_{2a}: The lower the governance costs for any given x_i, the more likely is indirect rule.

H_{2b}: The higher the governance costs for any given x_i, the more likely the dominant state is to coerce policy concessions from the subordinate state or accept domestic rule.

H_3: The more competent the leader, the more likely is either indirect rule or domestic rule.

H_{4a}: The lower the cost of replacing a leader, the more likely the dominant state is to intervene and replace less competent leaders.

H_{4b}: The lower the cost of replacing a leader, the more competent the incumbent leader is likely to be and the more likely is indirect rule.

Other parameters enter the model in several ways and, thus, have more complex effects that are best described visually. Figures 1.5-1.7 simulate the payoffs for the dominant state by varying the parameter of interest while holding all others constant. In all cases, I assume that γ_B is large enough and the average leader is sufficiently competent to offer the dominant state $x_i = a$ (and that $\gamma_A = 0$). Thus, the figures compare policy at a to x_q and x_w. The simulations are calibrated to produce a slight bias toward indirect rule while allowing domestic rule and coercion to emerge under some conditions.[43] That is, the leader can offer the dominant state a policy at the ideal point of the allied group, making indirect rule relatively attractive but not, as we shall see, always the preferred form of rule.

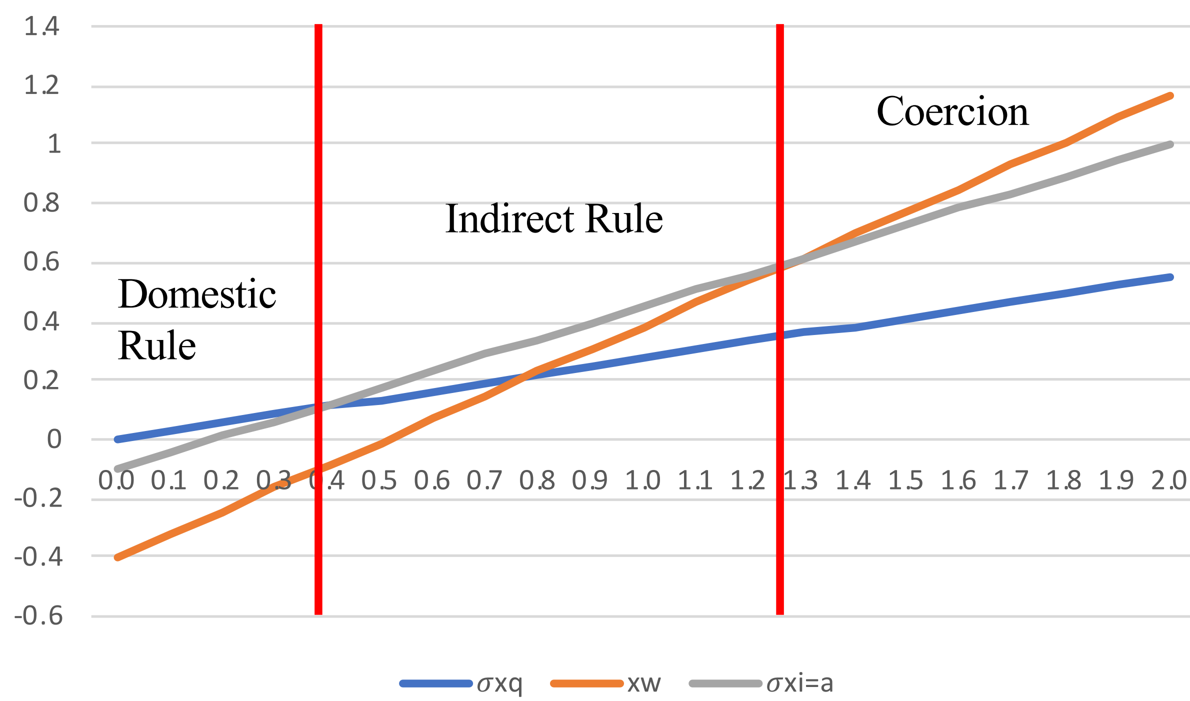
As its specific assets in the subordinate (σ) expand, and the intensity of its policy preferences correspondingly increases, the dominant state cares more about the policy adopted relative to the governance costs of indirect rule or the costs of fighting a war. As illustrated in Figure 1.5, as the assets of the dominant state specific to the subordinate increase, the dominant states payoffs are highest for, first, domestic rule, then indirect rule and, at the high levels of σ, coercion. When there are no specific assets at risk and $\sigma \cong 0$, the dominant state under all conditions is indifferent to the policy of the subordinate and is unwilling to pay the governance cost of indirect rule. Nor is war a credible threat. As the specific assets increase, the difference between x_i compared to x_q gets magnified, permitting the dominant state to absorb the governance costs of indirect rule. Further increases in specific assets raise the payoffs to the

[43] Simulations are based on the following default values: $a = 0.55$, $\pi = 0.5$, $\bar{\lambda} = 1$, $p = 0.7$, $c_D = 0.4$, $\sigma = 1$, $\gamma = 0.1$. The other parameters are endogenous.

dominant state from imposing its ideal point on the subordinate state, war yields a higher expected payoff, and that state will demand a higher x_w in return for not going to war. If γ were higher, permitting an $x_i > a$, the threshold between indirect rule coercion would be higher and further to the right in Figure 1.5. Overall, the specific assets held by the dominant state in the subordinate are a critical determinant of policy and rule. This implies that some level of specific assets is required for any form of external engagement. As the level of specific assets expands, indirect rule becomes more attractive but, eventually, the possible gains from war become sufficiently large that dominant state may coerce the subordinate into submission. This implies

> H_5: As the specific assets held by the dominant state in the subordinate increase, domestic rule will be superseded by indirect rule, which may be superseded by coercion.

Figure 1.5. Increase in Specific Assets (σ)



Going beyond the confines of the abstract model, it follows that the relationship between rule and specific assets poses a classic chicken-and-egg problem. To invest in specific assets – to build a military base or a banana plantation – often requires at least a degree or prospect of indirect rule. As in the classic hold-up problem discussed in Section I above, if a state or its investors fear the asset will be seized or taxed more heavily upon completion, they will not invest. At the same time, a potentially dominant country will not pay the governance costs of rule unless there are specific assets at risk or at least the prospect of such assets being acquired. In the real world, there is likely to be a feedback process at work over time. Some entrepreneur sees an opportunity and makes a small investment, and then lobbies the government of the dominant state to protect the assets so acquired; as that protection is extended, further investments are made; as investments expand even more, rule is eventually demanded despite its sometimes high governance costs, and so on. In this way, the old debate about whether trade follows the flag, or vice versa, is rendered moot.[44] In practice, interests and rule co-evolve such that the causal effect of one on the other is impossible to identify cleanly. What matters politically at any moment in time is the current value of the stock of such specific assets. Whatever the exact causal process or sequence of events, the greater the stock of specific assets, the more likely we are to observe indirect rule and, at an extreme, coercion. But over the longer term, however, it is important to acknowledge that the stock of investments is endogenous and will grow or decline as a function of the policy adopted, affecting subsequent (unmodeled) rounds of the relationship. We find abundant evidence in Part III for the relationship between specific assets and rule. Before 1898 and even as late as 1901 with the signing of the Hay-Pauncefote Treaty giving the United States the sole right to build a canal across the isthmus, the United States had few assets specific to

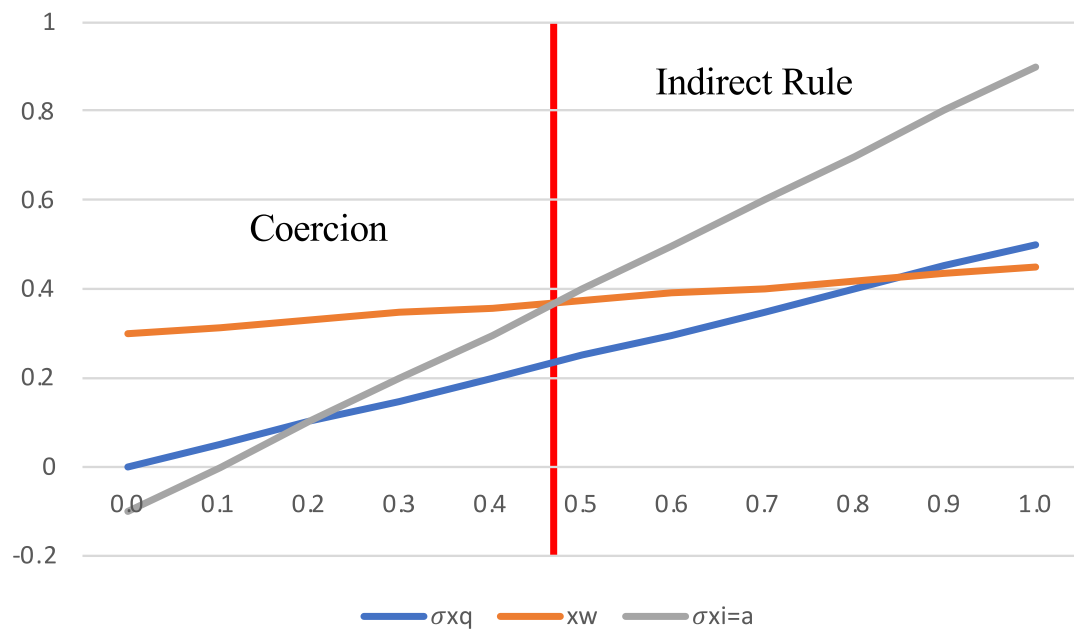
[44] Among many, see Pollins 1989; Keshk, Omar M.G., Pollins, and Reuveny, Rafael 2004.

countries in the Caribbean basin and largely ignored the region. Once indirect rule began and specific assets began to accumulate, the United States was drawn deeper and deeper into rule. As we shall see in Part II, forward deployed bases in Europe were also crucial to the development of indirect rule after 1945.

As the ideal point of group A (a) increases, all else constant, relations move from coercion to indirect rule (see Figure 1.6). As a increases, all else constant, it increases the policy under domestic rule (x_q) and, by extension, the returns to coercion, as the payoff to fighting and losing a war also increases ($(1 - p)(\sigma x_q - c_D)$). Assuming again that β is large enough and the incumbent leader is competent enough to offer the dominant state $x_i = a$, when the ideal point of the allied group and the dominant state are distant from one another (a is low), coercion is the only way to move policy in the dominant state's favor. As a increases, the leader offers a policy more favorable to the dominant state, all else constant, and indirect rule is preferred. Thus, as group A's policy preferences converge with those of the dominant state, indirect rule is likely to dominate and, in fact, render war nearly impossible to contemplate. As explained in Part II, this trend is clearly evident in postwar Europe as preferences generally converged with those of the United States. This implies:

H_6: As the allied group's ideal point increases, the more likely is indirect rule.

Figure 1.6. Increase in Group A's Ideal Point (*a*)

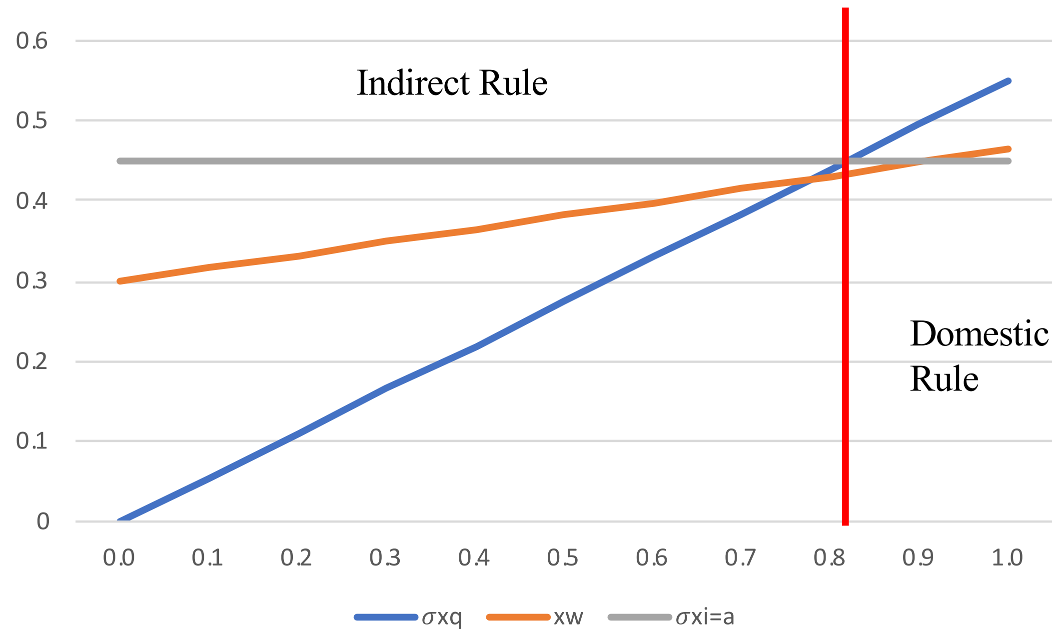


Finally, the power of the allied group (π) exerts important but subtle effects. Assume again that γ_B is large enough and the incumbent leader is competent enough to offer the dominant state $x_i = a$. Implicitly, this suggests that at low levels of π the resources transferred by the dominant state are sufficient to allow even a politically weak leader to offer the allied group's ideal point. As π increases and the allied group becomes more powerful on its own, as in Figure 1.7, both domestic rule and coercion become more attractive to the dominant state. A more powerful group A can pull policy closer to its ideal point even without the support of the dominant state. When domestic rule approximates the policy that would be enacted under indirect rule at $x_i = a$, the dominant state can get the same policy without paying the governance cost, rendering domestic rule preferable to indirect rule. The second order effect of an increase in π, as in the prior implication, is to make coercion more attractive to the dominant state by increasing the payoff from losing a war. The key implication, though, is that the stronger the group is at home, and the larger is x_q, the more likely the dominant state will eschew indirect rule and allow politics within the subordinate society to unfold on their own. At an extreme, where the allied group completely dominates the opposition, the dominant state gains little or nothing from indirect rule as long as the leader offers only $x_i = a$. Of course, if γ_B is sufficiently large that at low levels of π the leader offer $x_i = a$, and the dominant state is willing to pay the same total governance cost at higher levels of π, then the leader could offer some α that induces an $x_i > a$, suggesting that indirect rule would remain the preferred form. Inverting this analysis, however, suggests that the weaker the allied group – the less power it wields within the domestic society – the more likely is indirect rule. In this case, the domestic alternative of x_q will be further from the group's ideal policy at a, and it potentially gains more from the aid provided by the dominant state (γ_B), allowing it to set policy closer to its preferences. When the allied group is weak, not only is domestic rule and coercion less attractive to the dominant state but the allied group itself gains more from the external support. This implies that:

H_{7a}: As the power of the allied group increases, indirect rule may be eventually superseded by domestic rule.

H_{7b}: The less powerful the allied group, the more likely is indirect rule.

Figure 1.7. Increase in the Power of Group A ($\boldsymbol{\pi}$)



Anecdotally, most cases involving the United States, at least, appear to take the form of domestic rule – relations under anarchy -- or indirect rule. Over the last 125 years surveyed below, coercion appears rare, though it might also reflect that subordinates anticipate threats of war and preemptively comply. Note that with the policy space (Figure 1.1) normalized to one, the costs of fighting are defined relative to the value of the issue in dispute. When negotiating over a minor issue – say, fishing rights – the costs of war are very high compared to stakes in the dispute. The use of force is, therefore, often not credible. If so, D and group A must either accept the domestically-formed policy or indirect rule, though in such a case we might expect γ to be relatively small as well. This characterizes a lot – most – of international relations that are not politicized precisely because we are only in the realm of negotiations and aid to allied groups. Only on issues of major concern to the dominant state are the costs of war likely tolerable and, thus, is war credible. Even in the Caribbean basin in the early twentieth century, for instance, when the United States was far-and-away the largest military power, indirect rule was normally preferred, though this also meant the costs of replacement were low and interventions were frequent. Although coding relations is difficult (see below) and we lack systematic data, this suggests that indirect rule in some form holds over a broad range of relations.

Though it has not featured in the model and the surrounding discussion, it is important to remember that the opposition always opposes indirect rule and even more so coercion. The opposition may not like domestic rule. Even then, if it lacks political power (π is high), policy will favor the allied group. But any support from the dominant state under indirect rule pulls policy even further away from the opposition's ideal point and reduces the welfare of members of the group. The opposition, thus, will always oppose the allied group's relationship with the dominant state. This does not mean that the opposition will necessarily rebel against the allied group or the dominant state that supports it. Indeed, under indirect rule, the dominant state provides enough assistance to the allied group to suppress challenges from the opposition. Even if members of the opposition engage in everyday acts of resistance, forms of protest that undermine rule but are not large or visible enough to provoke retaliation, overt rebellions will likely be rare. [45] But this does not detract from the fact that in the cases below the opposition remains a simmering volcano of anti-Americanism.

Implications for Democracy and Legitimacy

If we step outside the formal model, the understanding of indirect rule developed here suggests two additional and important insights for politics more generally. First, the larger is the opposition (group B) in terms of population, the less likely the subordinate state will be democratic under indirect rule. When the bulk of society (group B) is distant from the policy preferences of the dominant state and the subordinate is governed by a relatively small elite

[45] Scott 1985.

(group A) that retains power only with the support and assistance of the dominant state, the allied group must govern autocratically. As explained, members of the opposition are always worse off under indirect rule than domestic rule. As policy shifts towards the ideal point of the allied group or even beyond under collaboration and coercion, group B's welfare unambiguously declines. Although the allied group with the aid of the dominant state may successfully repress dissent, when the opposition constitutes a large fraction of the society the allied group cannot hope to win free and fair elections. Indeed, elections almost by definition have to be rigged – or not held at all. Thus, when group B is large, indirect rule requires some form of autocracy. In turn, authoritarian rule will persist with at least the acquiescence if not the active support of the dominant state. While the dominant state might otherwise espouse democracy – and might itself be democratic – the logic of the model above implies that it will support its "SOBs" in power even -- especially -- when they are in the numerical minority. Thus, in the Caribbean basin, indirect rule produced or reinforced autocratic rule, producing several of the more vicious dictators in modern history. When the allied group is a small elite, autocracy is not a "bug" but a "feature" of indirect rule.

Conversely, when the group most sympathetic to the dominant state's preferred policies constitutes a majority of the population, democracy is compatible with (but not required for) indirect rule. That is, when the allied group is relatively large, democracy is possible even under indirect rule. The opposition must still be suppressed, of course, but this will occur "naturally" at the ballot box or by manipulating the electoral system to ensure that the opposition cannot come to power through democratic means. We see this in the cases of postwar Europe where new center-right majorities, orchestrated by the United States, favored allying with Washington over the neutralist policies advocated by the socialist oppositions, respectively (see Part II).

Second, indirect rule is typically regarded today as illegitimate, violating the sovereignty and autonomy of states. This brings the discussion full circle, if you will, to the conception of hierarchy with which this chapter began. When is hierarchy legitimate, possessing a measure of rightfulness, and when is it coercive, imposed, and normatively objectionable? Although critics tend to treat indirect rule in blunt terms, suggesting that all indirect rule is morally wrong, the answer is actually quite nuanced. Indirect rule is always regarded as illegitimate by the opposition but can be legitimate in the eyes of the allied group. Let me explain.

As noted, hierarchy is a political relationship of authority, which implies at least a measure of rightful or legitimate domination. Authority contrasts with purely coercive relations where threats or actual force are used to compel compliance. In the first, subjects have an obligation to comply with rules if possible, and may also be punished for failing to comply. In the second, targets of coercion may choose to comply, but they have no moral obligation or duty to do. It is not the fact of compliance that distinguishes authority from coercion, but the socially constructed understanding of the relationship within which rules or directives are issued and followed -- or not. Understood in this way, legitimacy is a belief held by individuals about the rightfulness of rule. In the case of indirect rule, legitimacy is a belief held by individuals within the subordinate state about the appropriateness of the dominant state ruling through the allied group.[46] The greater the proportion of the members of a subordinate community who regard

[46] As an individual-level belief, legitimacy may vary across members even of the same society. My belief in the rightfulness of rule need not be the same as yours. Anarchists reject rule in general. Individuals with an "authoritarian personality" place higher value on social order and are often sympathetic to more expansive rights for the ruler. See Haidt 2012. Within societies, members disagree about the rights possessed by the state all the time. Even in consolidated democracies with relatively clear constitutional rules and institutions (supreme courts) to clarify those rules in cases of ambiguity, societies continue to debate whether the government has the right to regulate women's reproduction or to take a human life in retaliation for a brutal crime. Individuals clearly differ in their beliefs. If this is true within societies, it is even more true for indirect rule, which in the modern age and given the broad acceptance of the principle of sovereignty is always contested. For a more fully articulated review of legitimacy, see Lake 2018.

indirect rule as rightful, however, the more legitimate we can say the role of the dominant state is, and vice versa. Legitimacy is, thus, a continuous construct defined by the proportion of subjects who recognize rule as rightful.

We lack good theories of legitimacy, one of the more elusive concepts in Political Science. Why some rulers are regarded as legitimate while others are not remains an open question, with any answer likely dependent on extant social norms. It seems hard to conceive, however, that over time subordinates will regard rule as legitimate if it systematically reduces their welfare relative to some feasible alternative, understood as domestic rule in the theory above. That is, those who benefit from indirect rule are more likely to regard that rule as legitimate, while those who are harmed are likely to regard it as illegitimate. In this admittedly minimalist conception, legitimacy is the product of the equilibria identified by the theory above. Depending on who benefits, the policy bargain between the dominant state and allied group creates a measure of legitimacy or not. Given the values of the parameters in the theory, and the choices of the various parties, in equilibrium no one has any incentive to alter their behavior. The interests of the dominant state and groups within the subordinate state may vary as parameters may change, altering the legitimacy of indirect rule, but in this conception the extent of legitimacy is wholly determined within the model at a moment in time. What can vary, however, is the proportion of the population that is made worse off relative to feasible alternatives, which the theory helps us calibrate. Under indirect rule, as demonstrated, group B is always worse off than otherwise. When group B is a larger proportion of the population, there will be fewer individuals within the subordinate society who regard indirect rule as legitimate and more who will regard it as inappropriate. Thus, when observing indirect rule in such a case, we would conclude that it is illegitimate, even if there were a few supportive voices – typically from the elite. Here, we would expect broad-based opposition to indirect rule, least in principle if not manifested in practice.

Conversely, group A benefits on net from indirect rule. It gets at least a policy in prefers to domestic rule, may obtain its ideal point, or receives a sidepayment large enough to compensate it for a policy it prefers less than its ideal point. In all cases, then, the allied group is better off under indirect rule than under domestic rule or coercion. When the allied group is relatively large as a share of the population, or when group B is relatively small, a majority might well regard indirect rule as legitimate. Of course, normative values might condition how these welfare effects are interpreted, but equally the welfare effects might influence the norms and ideologies held by society. This is particularly important in the current era when sovereignty is a normative standard to which many countries and even groups within countries aspire, though the meaning of that standard is itself contested. The interplay of material conditions and norms is one of the most complex issues in the social sciences, and not one to be resolved here. What we can say, however, is that indirect rule can be legitimate when the majority of society has preferences closer to that of the dominant state but cannot implement those preferences on its own against the opposition of a determined minority.

Thus, it is not appropriate to ask whether indirect rule itself is or is not legitimate or authoritative. Rather, the question should be legitimate for who and to what degree? Legitimacy is always difficult to observe in any systematic way. Especially when rulers are repressive, individuals may be reluctant to express their true sentiments, even in public opinion polls.[47] In international relations, illegitimate rule is sometimes reflected in various forms of anti-“foreign” sentiment, most concretely for this volume in anti-Americanism.[48] This has long been a problem

[47] On the problem of preference falsification, see Kuran 1995.
[48] On anti-Americanism, see McPherson 2003; McPherson 2006; Katzenstein and Keohane 2006; Friedman 2012.

in U.S.-Caribbean relations, and U.S.-Latin American relations more generally, suggesting that the U.S. role in the region was broadly illegitimate perhaps even among some elites. Anti-Americanism was much more confined and episodic in Europe after 1945, implying at least slightly broader legitimacy for U.S. rule. We examine these outcomes in subsequent chapters.

Analytical Narratives

The method used throughout the following chapters is that of an analytic narrative.[49] Such narratives seek to explain specific events by combining the usual discursive method of historians with the analytical tools of Economists and Political Scientists. The primary criterion for evaluation is verisimilitude, or the fit between theory and facts, although it can be extended further to include uncovering "new facts" predicted by theory.[50] Analytic narratives are sometimes described as conversations between history and theory. In this book, the theory was informed by the history of U.S. foreign policy but, in turn, generalizes the notion of indirect rule beyond the study of European imperialism where it was first emphasized and calls attention to problems of indirect rule that are ubiquitous but often overlooked. Historians have examined the motives behind U.S. foreign policy and the techniques of rule employed by Washington in relations with its subordinates but have not theorized the conditions for indirect rule. In addition to revealing the commonalities across these cases, the theory highlights the degree and nature of U.S. rule, the specific assets at risk that require some degree of international hierarchy, and the domestic collaborators who benefit from indirect rule.

Analytical narratives do not themselves provide a causal test of a theory; if sufficiently provoked, I hope others will take up this challenge, though given the often difficult to

[49] On analytic narratives as a method, see Bates et al. 1998; Elster 2000; Bates et al. 2000; Kiser and Welser 2007; Arias 2011; Monglin 2016. Analytical narratives, of course, were employed long before they were recognized as a specific method.
[50] On new facts as a measure of a progressive research program, see Lakatos 1978.

operationalize and endogenous determinants of indirect rule causal identification may be difficult if not impossible to achieve. As David Hume wrote, an "explanation is where the mind rests."[51] Mine, at least, is comfortable with what I have aimed to accomplish in this volume. Nor do I present original historical research, relying instead on the secondary literature. My claim is not to a new history of U.S. foreign policy. Historians and other observers already know quite a bit about U.S. hierarchy, even if they do not employ the model or its concepts as here, and past works based on close readings of primary sources have had to come to grips with questions of rule by the United States over its subordinates. What we lack -- and what I aim to provide here -- is a theory for understanding how U.S. international hierarchy actually worked over the last century to induce widespread compliance with rules largely set in Washington. In turn, this theory highlights the changes now underway in U.S. politics and policy and the challenges with which the nation will have to cope in the years ahead.

Analytical narratives are most appropriate when the theory yields clear predictions but key variables are difficult to operationalize and can be assessed only through context-specific knowledge and theoretically-disciplined counterfactuals. The theory here identifies the conditions under which we expect indirect rule but critical concepts like interests, specific assets, or governance costs are difficult to measure in systematic ways. In on-going cases of indirect rule, as noted, the domestic alternative (x_q) is not actually observed and, thus, is often difficult to estimate empirically, both ex ante for the actors in the game and ex post for external observers such as ourselves. The case studies, thus, can be read as extended justifications for the codings of key variables in the theory.

[51] https://www.goodreads.com/quotes/7728812-explanation-is-where-the-mind-rests

For instance, policy preferences or interests, and especially the distance in the policy preferences of groups within and between countries, are critical for the theory of indirect rule. Yet, interests in particular are always difficult to observe. What we can see in the historical record are the choices made by groups and states, but all interesting questions of politics involve at least a degree of strategic interaction between two or more parties. Choices in turn are based on an actor's understanding of the actions available to it and the other relevant parties, its conception of its own interests, its beliefs about the interests of other parties, and the available information. In a given strategic setting, what an actor chooses is often different from what it "wants." Acting strategically does not mean that you get what you desire, only that you choose optimally from among the sometimes poor choices before you. As a result, one cannot easily reason backwards from choices to preferences. That we observe indirect rule does not mean that the subordinate society or even the dominant state wanted indirect rule. Indeed, the allied group in the subordinate – the group most supportive of indirect rule – might prefer complete and unabridged sovereignty and the ability to enact precisely the package of policies that maximizes its welfare, but when the group is weak that is not a feasible option. The dominant state might desire a sovereign partner that complies with its wishes without it having to pay any governance costs, but unless the preferences of the two states are closely aligned this too is not feasible. In any strategic setting, outcomes do not directly reflect preferences.

As methodological problem, we can assume interests, posit them deductively on the basis of other theories, or attempt to infer preferences from choices.[52] Throughout this volume and through an analytical narrative, I use a combination of the last two methods to identify preferences. I begin from theories of open economy politics to deduce the distributional

[52] Frieden 1999.

implications of increased economic openness, a goal typically desired by the United States in the cases examined here, and then use counterfactual reasoning informed by the theory to generate insights into what the broader interests of the parties might have been.[53] I also draw heavily on the work of historians as to what the United States and potential subordinates – and the groups in both -- desired to achieve in each period. The third strategy runs the risk of tautology or, at least, a test of the theory that cannot be falsified. This is always a danger in any analytical narrative. Fortunately, what matters for the theory of indirect rule is less the specific content of interests – which are described in later chapters -- and more the distance between the interests of the dominant and subordinate societies. Nonetheless, an even more deductive approach might be desirable. Given the central role of interests here, we might ultimately want theories that explain where interests "come from." Open economy politics gives us some deductive insight but is not sufficiently comprehensive in its theory of interests to cover all motivations for indirect rule. Treating interests as (at least partly) exogenous is admittedly never very satisfying. Every independent variable is someone else's dependent variable, and there is an inevitable tendency to want to endogenize interests even when we are analytically comfortable taking other factors as given. Rather than developing or testing a complete theory of interests, the empirical chapters below simply attempt to describe and infer preferences and, given their characterization, assess the theory of indirect rule. The criterion for judging the effort is whether the posited interests seem reasonable, given what we know, and whether they accord with the observed outcomes in different cases.

Very similar problems of operationalization exist for virtually all of the variables in the theory above. Specific assets affect the intensity of the dominant state's policy preferences, and

[53] On open economy politics, see Bates 1997; Frieden and Rogowski 1996; Hiscox 2002; Lake 2009b.

though we can often observe the former we cannot directly observe the latter. Governance costs come in varied forms, may be observable only in "out-of-equilibrium" events when the opposition actually revolts, and in all cases lack a common metric. The same for the costs of coercion. All of this suggests a measure of subjective judgement is necessary in assessing the theory.

All of this is complicated by the fact that when rule is indirect, international hierarchy itself is sometimes hard to "see." This point has been stressed above. Under indirect rule, the allied group appears to act voluntarily. In equilibrium, the allied group anticipates the reactions of the dominant state, offers a policy that leaves that state at least indifferent between war and not war, and no overt use of force is necessary. In turn, if the support of the dominant state to its ally is credible, the opposition is deterred from active rebellion. Everything appears as if the parties acted freely and of their own volition. If successful in structuring the incentives of the regime and larger subordinate society, the rule of the dominant state is masked, hidden from view. Thus, though we often assume we are observing cooperation or bargaining under anarchy, we may in fact be seeing indirect rule in action. As a result, scholars and analysts may have underestimated the extent and importance of hierarchy in international relations. This is the true value of the theory here. It grinds a new set of lenses through which we can see what was previously obscured. By focusing on the larger pattern of compliance and how external support bolsters the political position of groups with sympathetic policy preferences that could not otherwise survive in office, international hierarchy through indirect rule can be revealed. The ambition of this book, in short, is not to test a theory of indirect rule but to persuade readers of its usefulness in explaining heretofore difficult to understand and, indeed, unrecognized patterns of international politics.

Conclusion

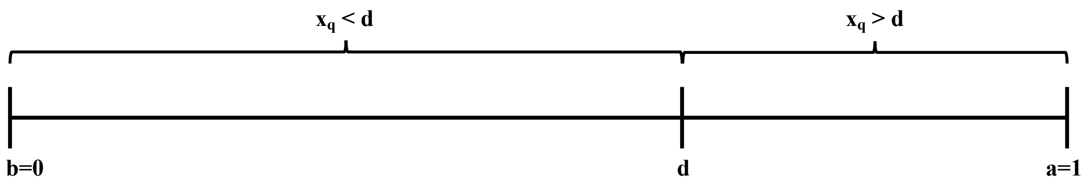
With all this as prolegomenon, we can now turn theory and narrative to the question of how indirect rule works in practice. The case studies in the following chapters focus on the comparative static predictions of the theory. At the macrolevel, chapters compare postwar Europe to the Caribbean basin in the early twentieth century and the contemporary Middle East. Key parameters differ across these regions and periods, illustrating the core predictions of the theory. Within each region, in turn, each chapter compares cases of indirect rule to instances of domestic rule and overt coercion. As but one example, Cuba and Puerto Rico were both seized by the United States from Spain in 1898, but the first was ruled indirectly for most of the following decades, albeit in a heavy-handed way, while the latter remains a U.S. dependency over 120 years later. These cross regional and time as well as within region comparisons are, I hope, illuminating of larger patterns of world politics.

Appendix: Alternative Preference Ordering

The model in the body of this chapter assumes a particular ordering of preferences, with the dominant state and opposition within the subordinate state holding extreme preferences. This appears to fit most of the cases discussed in the remainder of this volume. While there might always be a handful of even more extreme extremists in the subordinate state who hold preferences even further to the right of those of the dominant state, they have not constituted an important political force in the cases. In principle, however, another configuration of preferences is possible and worth exploring briefly. This configuration might characterize some regimes like the military juntas in Chile and Argentina.

Assume instead of Figure 1.1, the preferences of the three actors are arrayed as in Figure A.1. Here, the dominant state holds preferences between those of the allied group and the opposition. As drawn, the dominant state still has preferences closer to those of the allied group; were this reversed, we could simply substitute the labels of the groups for one another. The core logic of the model still applies.

Figure A.1. The Actors and Alternative Ideal Points



When $x_q < d$, Group A is relatively weak. By transferring resources to the group (γ_B), the dominant state can enable its ally to improve its political position and adopt a policy it prefers to the domestic alternative. The dominant state, however, has no incentive to provide γ_B larger than what is necessary to move policy to *d*. No additional concessions are necessary either, so $\gamma_B = 0$ and total governance costs (γ) are likely to be relatively small. Both the dominant state and allied group prefer *d* to x_q, though we might expect policy to be relatively favorable to D's interests.

When $x_q > d$, group A is already strong and able to impose on its society a policy closer to its ideal than that desired by the dominant state. In this range, the influence of the dominant state is relatively limited. Group A does not need the dominant state to transfer resources to improve its bargaining position with the opposition ($\gamma_B = 0$). However, the dominant state may be able to provide concessions (α) to induce the group to moderate its policies and implement some outcome closer to D's ideal point.

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