HOW TO RUN AN EMPIRE

Indirect Rule and the Making of U.S. International Hierarchy

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A Tale of Two Hierarchies

Adolfo Diaz
President of Nicaragua
1911-1917 and 1926-1929

Konrad Adenauer
Chancellor of Federal Republic of Germany
1949-1963
How Does International Hierarchy Work?

• Like empires before it, the United States rules indirectly through local allied groups with policy preferences (more or less) aligned with its own
  • Unable to achieve their own preferred policies, these groups collaborate with the U.S. in exchange for political support
  • U.S. offers additional sidepayments to induce further policy concessions
• When the allied group is small, indirect rule will be autocratic and hierarchy will be illegitimate
• When allied group is large, indirect rule is compatible with democracy and appears “voluntary” or “anarchic”
1. Interests

Group B’s ideal point: b=0 (the opposition)
\[ U_B(x) = 1 - x \]

Group A’s ideal point: a (the allied group)
\[ U_A(x) = -|a - x| \]

The dominant state’s ideal point: d=1 (the U.S.)
\[ U_D(x) = \sigma x \]
where \( \sigma \) represents the specific assets at risk
2. Interactions

<table>
<thead>
<tr>
<th>Actor</th>
<th>$x_q$</th>
<th>$x_i$</th>
<th>D wins</th>
<th>D loses</th>
<th>$\bar{x}$</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dominant State (D)</td>
<td>$\sigma x_q$</td>
<td>$\sigma x_i - \gamma$</td>
<td>$(1 - p)(\sigma x_q - c_D)$</td>
<td>$\sigma \bar{x} - \gamma - r$</td>
<td></td>
</tr>
<tr>
<td>Opposition (Group B)</td>
<td>$-x_q$</td>
<td>$-x_i$</td>
<td>$(1 - p)(-x_q - c_B)$</td>
<td>$-\bar{x}$</td>
<td></td>
</tr>
<tr>
<td>Allied Group (Group A)</td>
<td>$-(a - x_q)$</td>
<td>$-</td>
<td>a - x_i</td>
<td>+ \gamma_A$</td>
<td>$(1 - p)(a - x_q - c_A)$</td>
</tr>
<tr>
<td>Leader (L_i)</td>
<td>$-(a - x_q)$</td>
<td>$-</td>
<td>a - x_i</td>
<td>+ \eta \gamma_A$</td>
<td>$(1 - p)(a - x_q - \eta c_A)$</td>
</tr>
</tbody>
</table>
3. Domestic Rule

Where $\pi$ is the effort by group A to influence policy and $\lambda_i$ represents the competence of the leader of group A.

Examples: “Anarchic” relations between countries
4. Coercion

\[ x_w = p(\sigma 1 - c_D) \]

where \( p \) = probability of victory
and \( c_D \) = costs of fighting

\( x_w \) is the minimum offer from A that satisfies
D’s expected payoff from war

Examples: U.S. military occupations in
Caribbean/Central America and
postwar Germany and Japan
5. Indirect Rule

\[ x_i = \lambda_i (\pi + \gamma) \]

Where \( \gamma \) is the governance cost to D of supporting group A

\[ \gamma = \gamma_B + \gamma_A \]

\( \gamma_B \) = resource transfer to A to suppress B
\( \gamma_A \) = sidepayment to A

Examples: Most of U.S.-Caribbean/Central America and postwar U.S.-Europe
(Some) Implications

- The smaller the governance costs, the more likely is indirect rule.
- The higher the probability of victory and/or the lower costs of fighting, the more likely is coercion.
- The more aligned the preferences of A and D, the more powerful A is at home, and the more competent the leader, the more likely is domestic rule.
## Cases

<table>
<thead>
<tr>
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<tbody>
<tr>
<td>Specific assets ($\sigma$)</td>
<td></td>
<td>High</td>
<td></td>
</tr>
<tr>
<td>Ideal point of allied group (a)</td>
<td>Moderate</td>
<td>High</td>
<td>Low</td>
</tr>
<tr>
<td>Power of allied group ($\pi$)</td>
<td>Moderate-to-high</td>
<td>High</td>
<td>Moderate-to-high</td>
</tr>
<tr>
<td>Competence of leader ($\lambda_j$)</td>
<td>Low-to-moderate</td>
<td>High</td>
<td>Moderate</td>
</tr>
<tr>
<td>Probability of victory (p)</td>
<td>High</td>
<td>Moderate</td>
<td>High</td>
</tr>
<tr>
<td>Costs of war to dominant state ($c_D$)</td>
<td>Low</td>
<td>High</td>
<td>Moderate</td>
</tr>
<tr>
<td>Governance costs ($\gamma$)</td>
<td>Low</td>
<td>Moderate</td>
<td>High</td>
</tr>
<tr>
<td>Costs of replacing leader (r)</td>
<td>Low</td>
<td>High</td>
<td>Moderate</td>
</tr>
<tr>
<td>Predicted Outcome</td>
<td>Indirect rule with frequent replacement of leaders; coercion possible when leaders are sufficiently incompetent</td>
<td>Indirect rule; domestic rule possible if ideal point is sufficiently high and/or governance costs are sufficiently high</td>
<td>Indirect rule; coercion or domestic rule possible if governance costs are sufficiently high</td>
</tr>
</tbody>
</table>
Questions?