Agents of Destruction? Applying Principal-Agent Analysis to State-Sponsored Terrorism

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This article evaluates state-sponsored terrorism as a principal-agent issue. More often applied to the study of licit national or international institutions as a way to improve their governance, we argue that applying principal-agent analysis to illicit relationships such as those between states and terrorist agents is an equally fruitful application, though one with different objectives. Rather than being used as a tool to improve governance, applying principal-agent analysis to illicit relationships such as state-sponsored terrorism may point to areas of susceptibility and thus inform more effective counterterrorism strategies. In this article, we explain why states delegate to terrorist groups, how they seek to control their agents, and the tensions in the relationship, both generally and through specific reference to Iran's sponsorship of Hizballah, Syria of various Palestinian groups, and the Taliban of al-Qa'ida. This analysis yields propositions about the conditions under which states are likely to delegate to terrorist groups and specific recommendations on how principal-agent problems of these illicit relationships may be used in practice to combat terrorism.

Throughout the 1970s and into the 1980s, the Indian government offered material and political support to the Liberation Tigers of Tamil Eelam (LTTE)—one of the world's most vicious and dangerous terrorist groups. The historical and cultural connections between the Tamils in India and those in Sri Lanka, and New Delhi's antipathy toward the Sri Lankan government of the time, led the Indian government to work with the LTTE in its attempt to gain independence for the Tamils of northern Sri Lanka (Rao 1998).

The Indian government's sponsorship of the LTTE seemed to serve both parties' interests. By sponsoring the LTTE rather than directly intervening, the Indian government could influence events in Sri Lanka while denying any involvement in the violence. This deniability—or, more accurately, other states' willingness to accept India's rather weak claims of non-involvement in the form of ''organized hypocrisy'' (Krasner 1999)—minimized the prospects of direct

confrontation between India and the Sri Lankan Army and reduced the diplomatic fallout from supporting unrest in the neighborhood. Second, the LTTE had evolved a specialized set of tactics that worked remarkably well against the Sri Lankan army. For its part, the LTTE became better equipped through the Indian state sponsorship and was in a better material position to achieve its objective of independence for the Tamils.

Supporting terrorists, however, proved costly to New Delhi. Both the Indian government and the LTTE became suspicious that the others' interests and motives were different from their own, creating hesitation in the government of Rajiv Gandhi and concern on the part of the terrorist group. This suspicion became acute when India began to work with the Sri Lankan government on a compromise solution, while the LTTE held to its maximalist position. In 1987, India intervened directly in Sri Lanka and sent a peacekeeping force to enforce a peace agreement that, while greatly increasing the rights of Tamils in Sri Lanka, fell short of the LTTE's goal of complete independence. The LTTE resisted violently. The result was a brutal clash between Indian armed forces and the LTTE and the collapse of the Indian-brokered peace process. Indian forces left Sri Lanka in 1990. Hatred burned strongly, and in 1991 an LTTE suicide bomber killed Gandhi (Oberst 1996).

The travails India's would-be puppet inflicted on its erstwhile master illustrate a major source of international insecurity but also some avenues for solutions. On the one hand, this relationship is a form of state-sponsored terrorism, which is problematic since terrorist groups that enjoy state support have been found to be ''more able and willing to kill in large numbers'' than those without state support (Byman 2005). On the other, this vignette suggests that state-sponsored terrorism is a type of principal-agent relationship, which offers opportunities for countermeasures. If the literature on licit principal-agent (PA) relationships is any guide (Pollack 1997; Majone 2002; Hussein and Menon 2003; Hawkins, Lake, Nielson, and Tierney 2006), and we suggest it is, then looking at the state-sponsored relationship as a PA problem can help explain why some state-sponsored relationships are stronger than others, where there are weaknesses, and how those weaknesses might be exploited.

Most applications of principal-agent analysis to licit relationships ask why states delegate to an agent that may have divergent interests or lower levels of efficiency (Grant and Keohane 2005; Milner 2006). These inquiries take the principal-agent problems as a given and establish the puzzle accordingly: given these costs of delegation, why would principals nonetheless delegate? Their ultimate goal is to explain suboptimal outcomes and improve efficiency. The puzzle and many of the research aims are similar in the illicit context of state-sponsored terrorism, but the policy objectives are different. The goal is not to improve efficiency and harmony, but rather to hinder the effectiveness of terrorist groups and the states that sponsor them. In this sense, this article builds on recent work that looks at terrorism as a PA problem (Felter, Bramlett, Perkins, Brachman, Fishman, Forest, Kennedy, Shapiro, and Stocking 2006; Shapiro and Siegel 2007), but instead of examining divergent interests and vulnerabilities *within* a network, we look at the critical PA relationship between a state sponsor, the principal, and terrorist groups, the agents. In this sense, it adds to the developing literature that examines the costs and nature of illicit PA relationships (Hovil and Werker 2005).

The article proceeds as follows: First, we lay the groundwork by engaging the principal-agent literature, identifying the theoretical motivations for delegating to agents, and weaving in examples in which states have delegated to terrorist agents. Second, we turn to the tensions in the state-terrorist group relationship that can prove suboptimal for one or both parties, a discussion also informed by the principal-agent literature. Third, we address the mechanisms of control,

showing that the monitoring and sanctioning mechanisms available to state principals are inherently less transparent and more difficult than those that are typically discussed in the PA literature. Fourth, we use these findings to generate propositions about the conditions under which states will be more likely to delegate to terrorist groups and the challenges that this illicit PA relationship is likely to face. Lastly, the article offers policy recommendations that flow from the PA analysis of state-sponsored terrorism to counterterrorism strategies. While most recommendations addressing the PA disjuncture look for ways to remedy coordination problems, the prescriptions we lay out here center on how to *exploit* PA problems to reduce state sponsorship of terrorism and, when it occurs, to make it a less effective instrument of statecraft.

Throughout these sections, the article examines various propositions on the PA relationship and state sponsorship by drawing on groups sponsored by Iran, Syria, the Taliban's Afghanistan, and other states. To be clear, this analysis is not intended as a theory-testing exercise but rather to be used as a broad heuristic framework. It employs existing explanations of principal-agent problems to probe other types of PA relationships and begin building a theory that traces the relationship between state principals and terrorist agents as well as the source of variation between harmonious and disharmonious relationships.

Theoretical and Empirical Reasons to Delegate

Without the practice of delegation, no principal-agent relationship would exist. Delegation is the process by which the principal offers a ''conditional grant of authority'' to an agent to act on their behalf. Non-governmental organizations acting consistent with the goals of a state, for example, would not be considered delegation unless the state granted authority to the organization to act on its behalf. The World Bank, on the other hand, has been charged by its member states to distribute foreign aid on behalf of those members. The latter represents a ''policy implementation'' type of delegation, in which states authorize international bodies with the responsibility to allocate and use resources on behalf of agreed-upon projects. Alternatively, principals can undertake adjudicative delegation, as states might do with the Dispute Settlement Body that rules on adherence to the World Trade Organization provisions (Bradley and Kelley 2008).[1] What all forms of delegation have in common is the granting of authority by the principal to an agent who acts on behalf of the former.

Several factors would motivate a principal to give up some agency over outcomes by delegating to an agent. The first deals with specialization and the logic of comparative advantage. Different individuals, groups, and firms have areas of expertise that make it more efficient for them to undertake an activity than for one group to do everything. A principal might seek to delegate to an agent who has a comparative advantage in a particular skill. Hawkins et al. write that ''without some gains from specialization, there is little reason to delegate anything to anybody (2006:13).'' When principals delegate to agents, they expect to gain a level of political or technical expertise that they are unwilling or even unable to develop themselves.

In the case of state-sponsored terrorism, principals that may have strong conventional military capabilities would hope to enlist groups with greater mastery over unconventional tactics or additional niche skills. The Lebanese Hizballah, for example, has evolved a specialized set of terrorist capabilities; the group has its own training sites in the Bekaa Valley of Lebanon where several Palestinian

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[1]Other arrangements in the typology of delegation include legislative, regulatory, monitoring and enforcement, agenda-setting, research and advice, and redelegation (Bradley and Kelley 2008:10–17).

groups have received training, a well-run and widely viewed television channel (Al-Manar), and a proven record of tactical effectiveness against civilian and military targets, whether these be United States, French, and Israeli military facilities in Lebanon, Jewish sites in Argentina, or Western hostages in Lebanon (Hoffman 2006). Despite its initial history as a ''rag-tag collection of Shiite fighters,'' Hizballah has become an elite, well-trained, highly secure, and highly effective organization that is now indispensable to Iran as well as Syria (Byman 2007; Levitt 2007). Over time, Hizballah offered Iran a form of power projection, enabling Iran to indirectly attack Israel and influence events far from its shores, even attacking Iran's enemies in Europe and the Middle East, which Tehran's weak military forces could not do by themselves (Norton 2000:147).

Second, principals may delegate to increase the credibility of their commitments. Where there are concentrated costs and diffuse benefits, or in cases in which long-term and short-term interests may diverge, principals may have incentives to renege on commitments. Delegating can be a signal of credible commitment since an agent might have fewer incentives to change or renege on policies than the principal. This would be particularly salient on issues such as monetary policy where political leaders might have reasons to undertake policies that are politically advantageous for their electoral prospects—for example by loosening monetary policy—but are economically harmful over the long-term, perhaps by increasing inflation (Keefer and Stasavage 2001). Delegation to enforcing agents with high discretion such as an independent central bank signals commitment, since granting enforcement authority to this agent makes it less possible for the principal to back out of its pledge.

In the state-terrorist relationship, the possibility of increasing credibility is a central motivation behind delegation. Whereas a state such as Iran cannot credibly suggest that it will retaliate militarily for every perceived Israeli transgression, it *can* use its agents' actions to signal commitment to engage in tit-for-tat retaliation. This credibility problem has two sources. First, Iran's military is in poor shape, particularly when compared to the Israeli juggernaut (Cordesman 1999). Second, Tehran does not want to risk interstate conflict. However, Hizballah and Palestinian Islamist groups—particularly Palestinian Islamic Jihad, which Iran supports through training, weapons, and funding—can more credibly commit to act against Israel because Israel would find it politically difficult to retaliate against Iran for the terrorists' actions, even if they are believed to be at Iran's behest. Iran thus can advance its interests more effectively, since the credibility of retaliation from its agents is higher and therefore a stronger deterrent against Israeli activity.[2]

A third theoretical reason why principals might seek to delegate to agents is to ensure that the principal's preferences are acted upon well beyond the duration of the principal's tenure. Delegation to an agent that shares and implements policies consistent with the principal's is one way to enact change over the longer term when the principal's power may wane or when other principals may assume greater power; the agent then acts as the continuity of the principal's power or interest (Moe 1989:282–284; Moravcsik 2000; Hawkins et al. 2006:19–20).

In practice, states may sponsor terrorism to reinforce a state's influence at home. Syrian delegation to the regional agent has been a way to extend the Syrian regime's influence at the domestic level. For example, the Palestinian

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[2]In practice, greater credibility of attack by Iran's agents has deterred Israel from striking Iran directly, though it has struck the agents repeatedly. Israel has responded to terrorist attacks by seeking to decapitate the agents, as it did in 1995 when it assassinated the leader of PIJ in Malta. For Syria and Iran's sponsorship of Islamic Jihad, see Levitt (2002).

group Fatah, which at times has worked with the government of Syria, developed independent political power as its stature grew when Israel's lightning victory humiliated Arab states in 1967. For many years it had enough influence among Palestinians and the broader Arab nationalist community that any criticisms it levied against Syria for not sufficiently supporting its ''Palestinian brothers'' could undermine the regime's support among its key Arab nationalist and pro-Palestinian backers within Syria itself. Though Damascus sought to make Fatah its agent and, as a state, dwarfed the organization in terms of overall power, Fatah accrued enough independent political power that it could actually threaten the Syrian regime unless the Syrian government adequately supported it (Wedeen 1999). To counter this and increase its popularity with Arab audiences, the Asad regime sought to portray itself as the most steadfast of the Arab states in the struggle against Israel. Part and parcel of this image was championing the rights of the Palestinians. Thus a form of ''outbidding'' occurred, where various Arab regimes sought to portray themselves as the most ardent Arab nationalists in order to deny legitimacy to their rivals and enhance their own (Kaufmann 1996; Bloom 2005).

Most theoretical accounts of PA motivation proceed from a rational assumption that actors are interested in reducing transaction costs and thereby turn to delegation as a way to yield economic utility. Taking issue with this motivation—and citing inconclusive economic benefits on the question of delegation—sociological institutionalists offer competing accounts for delegation (Pollack 2006). These accounts turn on an altogether different ontology and set of motivations than the ''value added'' rationalist accounts. For example, Kathleen McNamara has argued convincingly that central bank independence does not lead to the reduction of inflation, which is the ostensible reason for the independence. Therefore, there must be some other factor that explains continued delegation to independent central banks. She cites the legitimizing benefits of central banks and argues that these symbolic commitments are as powerful for governments (principals) as the instrumental value-added motivation. Delegation behavior, the argument goes, is less an ''adaptation to straightforward functional problems'' but rather a product of shared ideas and identities (2002:62).

Such normative motivations are at the root of many state relations with terrorist groups. Indeed, both the state and terrorist group may derive some functional value in investing in the relationship, but in several prominent instances of state support for terrorism the ideological driver behind the relationship cannot be overstated. Libyan leader Moammar Qaddafi's decided to back an array of left-wing Palestinian groups in the 1970s. Iran formed Hizballah out of dissidents from the more secular Amal movement, as well as a host of smaller Shi'a radical groups. By deliberately weakening Amal, which was then strong and spoke for most of Lebanon's Shi'a Muslims, Iran was seeking a proxy with which it had a strong degree of ideological overlap as a way to export the revolutionary movement abroad in a way that Amal, which was not a sympathetic ideological proxy, was unwilling to do (Kramer 1993; Hamzeh 2004; Shapira 1987:124; Wege 1994:154; Hajjar 2002:6–9; Ranstorp 1997:25–33; Byman 2007:92–93). Iran and Libya delegated to terrorist group agents as a way of exporting the states' ideologies and creating large-scale adherence to a shared idea. In both these instances, the regimes had instrumental hopes of gaining more powerful allies (or weakening existing foes) if the terrorist groups succeeded. Yet in both cases, the regimes ignored stronger groups that would probably have worked on behalf of the state because they did not fit their ideological objectives.

Perhaps the best example of a regime supporting a terrorist group for ideological reasons is the Taliban's support for al-Qa'ida before 9/11. The Taliban did receive military and financial support from the terrorist group: benefits that made some cooperation worthwhile simply for cost-benefit reasons. Yet in so doing, the Taliban jeopardized potential United States and Saudi support and

even incurred limited US military strikes in 1998 and, eventually, an all-out invasion. In the eyes of the Taliban's leaders, al-Qa'ida was promoting Islamic values abroad that the Taliban were implementing in Afghanistan. In 2001, the Taliban demonstrated its increasingly extreme beliefs by expelling foreign relief workers and destroying two ancient statues of the Buddha at Bamiyan—a move criticized by other Islamist movements and Pakistan, which received considerable support from several countries with large Buddhist populations. Mullah Omar, the Taliban's leader, reportedly dismissed this pressure by referring to the Day of Judgment: ''Allah will ask me, 'Omar, you have brought a superpower called the Soviet Union to its knees. You could not break two statues?''' (Coll 2004:549).

   An additional benefit not supported by the existing literature on principal-agent analysis—and the motivation that differs most notably between illicit and licit forms of delegation—is that of plausible deniability. Whereas a state's conventional military attack on an adversary creates a clear connection to the perpetrator and thus a clear target for retaliation from the adversary, state delegation to a terrorist group may create a more tenuous linkage between the agent and the state sponsor. Retaliation is more difficult to justify because of the thin evidence linking state intent and agent actions. The US government claims Iran ''inspired, supported, and supervised members of the Saudi Hizballah'' in the 1996 bombing of the Khobar Towers complex in Saudi Arabia that killed 19 Americans (Attorney General Statement 2001). However, the United States was not able to immediately establish that Iran was culpable, and in the intervening months political and diplomatic support for military retaliation against Tehran dissipated.

Tensions in the State-Terrorist Group Relationship

Though the PA relationship is founded on the prospect of gains—whether in efficiency or ideological diffusion—the very nature of delegation means that principals are granting some degree of autonomy to an agent, which introduces a host of inefficiencies from the standpoint of the principal. D. Roderick Kiewiet and Matthew McCubbins have summarized the inherent flaws of delegation as follows:

> Delegation…entails side effects that are known, in the parlance of economic theory, as agency losses. There is almost always some conflict between the interests of those who delegate authority (principals) and agents to whom they delegate it. Agents behave opportunistically, pursuing their own interests subject only to the constraints imposed by their relationship with the principal. (1991)

   In principle, an agent should behave as the principal would were it in the same position. Failure in the PA relationship then means that the agent's actions deviate from the preferences of the principals and a suboptimal outcome results from the standpoint of the principal (Stein 1982; Krasner 1991). This may be the result of incompetence on the part of the agent, but more nefariously, is the consequence of divergence in the commitment to the cause, the willingness to accept risks on behalf of the cause, or on the desired goals and tactics. Shirking behavior—the act of an agent seeking to advance his preferences rather than those of the principal—creates agency losses, or ''costs when agents engage in undesired independent action,'' which poses organizational challenges for the principal (Feaver 2005:55–75; Hawkins et al. 2006:9–10; Weinstein 2006:129–130).

   The state-terrorist group relationship is fraught with shirking behavior. One fundamental problem is that agents often have different payoff structures

associated with goals and priorities. The same propensity for violence that made the group attractive as an agent may also make it a liability to the principal if the agent does not use violence in the calibrated way that state sponsors seek. The Abu Nidal Organization (ANO), for example, embarrassed Syria (and was eventually expelled to Libya) because it claimed responsibility for attacks, such as the Provisional IRA's attempt to kill British Prime Minister Margaret Thatcher, that it did not commit and that would damage Syria diplomatically. Alternatively, at times terrorist agents (even the same ones) may become more risk averse and take measures that protect their own lives even if they come at the expense of the state's preferences. Syria, for example, hired ANO to kill Israeli soldiers and generally register its opposition to Israel and as a way to develop a counter to Yasir Arafat's leadership of the PLO. ANO was ideologically opposed to Israel, but preferred to kill Israeli civilians than soldiers, since it was less risky to ANO personnel. Killing Israeli civilians, however, was not Syria's preference because doing so risked escalating the attacks into a broader war between Israel and Syria, which Syria would likely lose (Byman 2005:123–125).

An agent may also have financial incentives that diverge from the principals' goals. For example, the Soviet Union delegated responsibility to a key leader of the Marxist Popular Front for the Liberation of Palestine (PFLP), which in turn further delegated the operation to another agent. The PFLP entrusted one key operation, the December 1975 hostage-taking of an OPEC oil ministers summit, to "Carlos the Jackal," instructing him to free the various hostage ministers in exchange for getting their governments to voice support for the Palestinian cause. The exceptions were the Saudi and Iranian ministers, who were to be executed. Carlos, however, freed both after the two governments paid large ransoms—a move that enriched Carlos, but enraged the PFLP (Andrew and Mitrokhin 2005:253–254).

Even the convergence of preferences may be insufficient for avoiding agency losses. Principals and agents almost always receive different sources of information; while state principals might be more likely to receive information through diplomatic and intelligence contacts, agents would receive information largely from underground sources that might be divergent. These informational differences could create a set of induced preferences that drive wedges between preferences that were originally aligned. Similarly, the underground nature of these terrorist groups can create isolation that causes the agents to lose touch with the broader political context and become enamored of violence as an end in itself. In 1986, Abu Nidal moved to Libya after alienating the Syrians. There his leadership moved from extreme to bizarre, with internal purges, seclusion, and extreme paranoia characterizing his leadership. Both show how induced preferences can shift incentives and create agency losses even if the principals and agents originally converged on their preferences (Shapiro 2008).

Agency losses may result from several unintended consequences that follow from state sponsorship of terrorism. A first is that even a sincere agent may fumble the execution of a particular operation. British counterterrorism officials often referred to the "Paddy factor" when assessing PIRA operations, noting that many failed due to bungling and a lack of training (Harrigan 1985:34).[3] The PIRA, however, was one of the world's most capable terrorist groups, reflecting the low level of skill overall for many terrorist organizations. Such a low level, however, produces inefficient outcomes, which reduce the potential benefits of delegation.

Second, the ambiguity that states deliberately try to create about their relations with their terrorist proxies can backfire against them, as they often have no

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[3]John A. Harrigan describes the "Paddy Factor" as a "term of derision frequently used by the British to describe periodic blunders by Provo (Provisional) volunteers, such as blowing up unintended targets."

way to credibly deny claims their proxies make. Patrick Seale, for example, contends that Asad did not order Abu Nidal's attacks on Israeli targets at the Rome and Vienna airports in December 1985 or the 1986 attacks in Karachi and Istanbul even though Abu Nidal's gunmen had continued to use Syrian camps and lodging (US Department of State 1986:1–3).[4] Nevertheless, Syria was widely blamed and felt compelled to respond in 1987 by expelling Abu Nidal's organization from its territory (Seale 1990:467).

A third unintended consequence is that when states enhance the capabilities of their agents, they often do so at the price of control. Hizballah, which at times has worked directly with Syrian intelligence as well as with its Iranian patrons, was granted considerable leeway to fight the Israelis in Israeli-occupied parts of southern Lebanon (Hamzeh 2004). Syria found that Hizballah's improving military capabilities in the 1990s made it a more useful asset against the vaunted Israeli Defense Force. At the same time, however, the group's military successes increased its prestige within Lebanon and the region, making it better able to resist Syrian threats and less needful of Syrian blandishments (el-Hokayyem 2007:41).

Fourth, this lack of control can often lead to dangerous escalation. Damascus' support for Palestinian guerrillas played a major role in causing the 1967 war, in which Syria suffered a devastating defeat. Damascus was the only Arab state actively supporting Fatah's attacks before the war (Tessler 1994:377). Syrian leaders sought to ''kindle the spark'' in their words, promoting dozens of Palestinian cross-border attacks as a means to spark a broader war (Ma'oz 1995:84 and 89). Syrian leaders failed to recognize that it was playing with fire, as Israel proved willing to escalate in response to the guerrilla attacks (Seale 1991:124–125 and 132). Ironically, Damascus believed that support for the guerrillas enabled it to avoid a humiliating passivity while also avoiding a war that they would lose (Oren 2002:46–49). Israel, however, saw Syria as preparing for a full-scale guerrilla war and sought to stop cross-border attacks (Tessler 1994:378–385).

Fifth, states often employ terrorists they believe may be useful ''spoilers''—Iran, for example, supported Palestine Islamic Jihad in part to disrupt the Israeli-Palestinian peace process. These same disruptive capabilities can be used against the sponsor if it chooses to embrace peace at some point (Stedman 1997). Hizballah expert Emile el-Hokayyem notes that if Syria tried to make peace with Israel today, Hizballah could provoke ''Israel without Syrian knowledge but at Syrian expense'' (el-Hokayyem 2007:48). The longstanding ties between the two would lead Israel to conclude that any Hizballah attack had Syrian blessing.

Finally, embracing a terrorist group may also prove costly for a state domestically. Many terrorist groups often champion a cause ideologically important to a state. In the process of working with a group, a state often further elevates the importance of that goal. Pakistan, for example, embraced a range of groups active in Kashmir, such as Jaysh-e-Mohammad, Harkat-ul-Ansar/Harkat-ul-Mujahedin, Lashkar-e-Taiba, and Hizbul Mujhideen as a means of weakening the Indian government. With the support of the Pakistan government, these *jihadist* organizations raise money and recruit militants to fight in Kashmir and have access to training and weapons for their volunteers. Equally important, these organizations have worked with Islamist political movements in Pakistan, such as the Jamiat-e-Islami party, the Jamiat-ul-Ulema-e-Islami (JUI) movement, and others, many of which are associated with a particular interpretation of Islam. In the process, however, the regime further increased the importance of

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[4]The State Department reported that Abu Nidal received travel documents and the right of transit, as well as a base for its facilities in Syria and in Lebanon. However, the report also notes that Libya in fact sponsored these attacks but that some of the team received training and transit in Damascus.

Kashmir to the Pakistani regime's legitimacy, making it harder for it to negotiate peace with India (Stern 2000). Moreover, not all of Pakistan's proxies stayed true to Pakistan's goals. The Jammu and Kashmir Liberation Front, which worked with Pakistan early in the Kashmir insurgency, later moved to reject violence. Perhaps of greatest concern, many of these groups have brought their extreme agendas home to Pakistan itself, radicalizing politics there. Suicide bombings, assassinations, and Islamist-linked insurgent attacks are now commonplace (Gregory and Fair 2008). The problem Stern noted in 2000 is even more true today: its interest and those of the militant groups it supports are not fully aligned (2000:116).

Control Mechanisms in Practice for the State-Terrorist Relationship

As with licit PA relationships, states have imperfect solutions for reducing agency losses introduced through delegation. The difficulty, as this analysis shows, is that compared to the institutional checks or control mechanisms available to states in the context of international organizations, those available to state sponsors of terrorism are weak and problematic. The next section highlights control mechanisms that could align agents' behavior with the principal's goals and argues their applicability in the terrorism context.

Principals' mechanisms of control seek to make it more difficult for an agent to shirk successfully, or move a particular outcome closer to its own ideal point than that of the principal. In other words, control mechanisms intend to create convergence between agents' behavior and principals' objectives. These same mechanisms, however, may reduce the benefits that inspire the use of agents at all. Kiewiet and McCubbins contend that ''Agency losses can be contained, but only by undertaking measures that are themselves costly'' (1991:27). Control mechanisms require additional resources, whether for monitoring behavior or revising checks on an agent's autonomy. These checks, in turn, may be counterproductive, since the agent's expertise and autonomy to conduct its behavior are part of what, in theory, make them a valuable asset. Moreover, they may introduce a new set of principal-agent problems, since these mechanisms tend to require additional agents for monitoring, screening, and sanctioning the agent's behavior.

One way a principal may control agency losses is to modify the scope of authority that it delegates to the agent. Although this relationship is often modeled as either a discretionary or instrumental agent (Grant and Keohane 2005), in practice the degree of autonomy is less likely to be dichotomized and more likely to resemble a continuum along which the principal can move on the basis of his motivations and of his assessment of agency gains and losses (Pollack 2006). Agency losses are more likely to prompt a contractual shift toward greater instrumentality, enforced through appropriate *ex ante* controls and ex post sanctioning measures. Rather than repeatedly incurring losses if the agent has opportunistically abused its discretion, the principal is likely to change the arrangement and institutionalize accountability *ex ante* (Majone 2001).

In practice, however, because the state sponsoring terrorism is trying to operate from a basis of plausible deniability, any scheme of control that shifts the relationship from discretionary to instrumental may emblazon the state's fingerprints on the terrorist group. Iran, for example, has long had hundreds of paramilitary forces in Lebanon (and reportedly has more in Iraq today),[5] both of

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[5]Estimates for the Iranian presence go as high as 30,000 personnel. Lionel Beehner, ''Iran's Involvement in Iraq,'' Council on Foreign Relations, February 12, 2007. Available at http://www.cfr.org/publication/12521/.

which make it harder for Tehran to deny involvement in violence in these countries.

The extent to which a principal can learn of agency losses depends on its ability to monitor and audit the agent's actions, a second mechanism of control. By definition, such behavior sometimes takes place during a violation of the contractual agreement through ''fire alarms,'' in which third parties affected by the agency losses (slack) publicize violations of a contractual arrangement (McCubbins and Schwartz 1984).

This second control mechanism—monitoring and reporting behavior—also presents challenges for the state principal. Unlike international organizations or congressional committees that inform their principals of behavior through periodic reports, terrorist groups operate covertly, which creates information asymmetries between the principal and agent and more opportunities for shirking (Shapiro and Siegel 2007). State sponsors are required to make inferences from an agent's observable behavior, which is at best inexact and which therefore makes states more cautious with regard to how they sponsor terrorists. At times, monitoring has involved a degree of direct control of an organization, which is potentially problematic because it reduces the pretense of deniability and benefits of specialization.

At times, this monitoring and reporting can be extremely intensive. For many years Iranian officials played direct roles on different Hizballah councils, and the terrorist group professed obeisance to Ayatollah Khomeini, the revolutionary leader of Iran, and incorporated his decisions into their formal decision-making process. Several of these officials monitored and reported behavior to Iranian officials. This, in turn, enabled Iran to direct its financial support to Hizballah toward activities that advanced Tehran's interests (Byman 2005).

A third control mechanism is the screening and selection procedures the principals use to locate appropriate agents. To minimize agency losses through shirking behavior, the principal will select agents whose own preferences are naturally suited to those of the principal. In some cases, the screening is relatively straight-forward, as a particular cause may be able to attract a group of like-minded, self-selecting individuals. Iran's successful midwifing of the Lebanese Hizballah from a range of smaller, like-minded groups in the 1980s, in spite of an existing Shi'a group (Amal) that was not closely aligned with Iran's ideological and target preferences, is a good example (Kramer 2004; Shapira 1987:124; Wege 1994:154; Hajjar 2002:6–9; Ranstorp 1997:25–33). In some cases, however, screening is difficult, because of the challenge in obtaining accurate information about agents or training them to adopt preferences closely aligned with the states sponsor's preferences. To gain the information, states sometimes seek to learn about an individual's family background and personal networks, both of which may provide information and a source of leverage to deter individuals from defecting.

Iran initially devoted considerable ''contractual'' energy to the relationship with Hizballah. Iranian intelligence and diplomatic officials worked closely to organize the group. Tehran deployed hundreds of Islamic Revolutionary Guard Corp (IRGC) personnel—the revolutionary vanguard of Iran's military that often engages in covert revolutionary activity—to Lebanon's Bekaa valley to monitor Hizballah's training and activities? (Norton 2000; Shapira 1987; Pollack 2002:540–550; Katzman 1993). Much of the contractual energy and efforts to exert leadership and direct financial support, however, were also heavily focused on proselytizing, which served to both screen potential recruits and to reorient the group as a whole toward the principal's interests.

In short, the mechanisms conjoined ideational and material instruments. Iran created religious schools, funded various charities for Hizballah fighters

and their families, sponsored hospitals, and otherwise increased the social ser-
vices network to back the organization they favored. The IRGC preached the
virtues of revolutionary Islam as well as providing military tactics. It also
stressed the value of martyrdom, even as it provided more standard military
training (Kramer 1993). When the IRGC initially arrived in Lebanon, its base
in the Baalbeck area of the Bekaa Valley became a microcosm of revolutionary
Iran (Jaber 1997:108). Women wore veils, pictures of Ayatollah Khomeini were
ubiquitous, and the debates in Iran were mirrored in Lebanon. Iran's efforts
bore fruit. Over time, a Hizballah cadre emerged that saw its own interests
aligned with the Islamic revolution. Hizballah even accepted the *velayet-e faqih,*
the controversial philosophy put forth by Ayatollah Khomeini that called for
the merging of political and religious authority under the most learned cleric
(Kramer 1990, 1993; Brumberg 2001:80–97; Milani 1994; Roy 1996:175–176).
Hizballah initially even sought to create an Islamic state in Lebanon along the
Iranian model.

A corollary of this mechanism is the practice of seeking multiple agents, with
the intention of offering a range of options from which the principal may
choose in order to increase the likelihood that one of the agents will present an
option close to the principal's ideal point. As a further mitigation to the princi-
pal-agent problem, the agents may monitor each other, which provides an
endogenous control mechanism and reduces the burden for the principal
(Sappington 1991:54; Bueno de Mesquita 2005).

To keep each agent weak and dependent, Syria also used multiple agents and
put them in constant competition with each other. Syria consistently supported
Arafat's rivals as a counter to his influence. In 1970, for example, Syria backed
the Popular Democratic Front for the Liberation of Palestine (PDFLP), al-Saiqa,
and the PFLP-GC. Thus Asad supported literally thousands of armed Palestinians
who did not support Arafat (Tessler 1994:430–431). Syria also encouraged Abu
Musa, a Fatah leader, to rebel against Arafat in May 1983. This rebellion failed
to topple Arafat, but it did force Fatah to abandon Lebanon as its main operat-
ing base and leadership sanctuary—more so, in fact, than Israel's 1982 invasion
(Van Dam 1996:67; Kimmerling and Migdal 1994:235–236; Mishal and Sela
2000:39; Seale 1991:411; Tessler 1994:633–636; Agha 1996:26).[6] Sponsorship of
several Palestinian terrorist groups has provided Syria a hedge against biased
interests and offered several agents' ideologies and sets of expertise from which
to choose. Syria has played these groups off each other in order to ensure that
none of them becomes dominant, thus increasing Syrian influence over the
Palestinian cause in the region.

Finally, and most often used in conjunction with other control mechanisms,
are sanctions that principals can use to punish agents for suboptimal outcomes
or reward those for preferable outcomes. Principals can withhold or grant
additional resources as a signal to the agent, but punishment may also take
the form of removal of a particular agent, a fairly common mechanism of con-
trol in the state-terrorist group relationship. To manage the Palestinian move-
ment as it emerged and grew stronger, Damascus tried to intimidate and
coerce Palestinian leaders and movements. Most devastatingly, Syria intervened
militarily against the Palestinians in Lebanon in 1976, using its military forces
to prevent the victory of Palestinians and their allies over Christian forces in
the civil war. As early as 1966, Syria jailed Arafat after he began to act too
independently (Seale 1991:125). In 1983, Syria tried to remove Yasir Arafat
from control of the PLO by backing a rebellion against him by one Palestinian

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[6]In Lebanon in the 1980s, Syria encouraged the Amal movement to subjugate the Palestinian refugee camps in
order to prevent Fatah from returning.

group and working with another, ANO, in its assassination campaign against Arafat's lieutenants (Andrew and Mitrokhin 2005:259). State efforts to sanction agents are far more credible when the state has influence on the territory in which the terrorists operate and when the terrorist group has few other options for sanctuary.

The costs of these control mechanisms from the agent point of view can be high. Syrian support made several individual Palestinian groups more lethal and stronger in some ways, but it often detracted from their strength in more subtle ways and hurt the Palestinian cause as a wholet. Damascus' support widened fissures in the Palestinian nationalist movement and helped prevent a cohesive leadership from taking control. Syria repeatedly undermined the movement whenever it threatened the regime's domestic position and strategic interests. This lack of unity that Syria fostered proved perhaps the Palestinians' biggest weakness over the years. In war, the Palestinians were not able to marshal their resources effectively. In peace, they were not able to present a united front and convince Israel or other states that they could deliver on what they promised.

Propositions About the State-Terrorist PA Relationship

As the above sections indicate, the stakes in the illicit PA relationship between states and terrorists are dramatically higher than for licit PA relationships: state sponsorship of terrorism not only leads to the deaths of innocent victims, but also deaths and other severe costs for the principal and the agent. In principle, by analyzing specific motivations, control mechanisms, and weaknesses for this illicit PA relationship, we can advance some generalized propositions about the tradeoffs between agent autonomy and agency losses, the comparative influence of ideology versus rational self-interest on the PA relationship, and the conditions under which states will delegate more or fewer resources to terrorist groups.

First, the relationship between state and terrorist may yield some benefits to both, but the relationship often exists uneasily and disharmoniously. In all cases, as PA analysis would predict, the reality of asymmetric information—the agent has inside information about its interests and activities, while the principal must rely on less precise observables to gauge compliance—further complicates the relationship. Terrorist attacks often fail, and the state must decide whether this is due to bad luck, incompetence, deception, or a lack of commitment on the part of a terrorist group. The biggest problem is that the terrorist group often operates underground to avoid its adversary's counterterrorism forces, but this underground structure inhibits monitoring even by its supposed allies. Regular and standardized reporting of spending and personnel decisions are a potential gold mine for counterterrorist forces, leading a group to either risk exposure or rely on much weaker reporting mechanisms (Bell 1994).

This observation leads to the proposition that whereas less oversight and control increase agent autonomy, this freedom increases the risk of agency losses. Conversely, greater principal oversight and less agent discretion might lead to fewer agency losses and fewer cleavages between principal and agent, but increased risk of exposure.

Second, rationalist calculations about efficiency gains explain only part of the dynamic between principal and agent in the state-terrorist group relationship. Rarely does a strategic cost-benefit logic, for example, explain the convergence of principal-agent preferences and behavioral outcomes. Rather, a strong ideological bond often reduces divergence and thus reduces the need for other control mechanisms. A shared ideology offers a tremendous source of potential

influence for the principal, but may also lead a state not to control the agents' attacks even if they are strategically costly.

A shared ideology allowed Iran to make Hizballah far stronger as an agent than Syria was willing to do with Palestinian groups, which it openly distrusted. This observed role of ideology leads to the general proposition that a shared worldview between the state and terrorist group would be expected to produce a stronger PA relationship and the need for fewer coercive control mechanisms.

Third, however, while ideology may provide glue that brings together and strengthens the PA relationship, it is not a sufficient condition for a strong and successful relationship. The relationship between Iran and Hizballah, which in part originated from ideological convergence, has been kept together by Iran's use of carrots and sticks to shift the agent's incentives in favor of pursuing its principal's ideal point. When Hizballah did not deliver results consistent with Iran's interests, the principal tightened its grip on the agent, making Hizballah a more instrumental and less discretionary agent, and when it did deliver, Iran responded with positive sanctions of additional resources, which served to reinforce Hizballah's loyalty.

Thus, ideological affinities may reinforce the convergence of material interests but are unable to compensate completely for divergent interests. States and terrorist groups that are like-minded but differ in objectives with respect to territory, for example, would be expected to create fissures in spite of their ideological fellowship. This point speaks to the limitations of a rigid rationalist-ideational dichotomy since these two motivations tended to work in tandem across cases. Existing PA accounts tend to segregate rationalist and ideational motivations for behavior, but this analysis suggests that principals might have both rationalist (transaction-cost) motivations as well as ideational motivations, in which consequences of delegation are either de-emphasized or actually ignored in the interest of ideological brotherhood.

Fourth, this analysis reveals the effect of domestic politics on state sponsored terrorism. Syria offers an unusual case where domestic political concerns played a major role in the regime's decision to work with Palestinian groups and, at the same time, to try to weaken, limit, and divide them. The US cruise missile attack on Afghanistan in 1998 also offers an instance where a punishment meant to impose strategic costs if the Taliban did not surrender Bin Ladin created new political costs if it did so: a dilemma other countries may face when they try to coerce state sponsors. Thus, when domestic stability is at risk, political regimes are likely to employ a wide variety of control mechanisms, fearing that even limited independence to terrorist groups may pose a grave political threat.

Exploiting Principal-Agent Problems for Counterterrorism

On its face, the relationship between states and the terrorist groups they sponsor may seem like a best-case relationship for principals and agents. The state can achieve its goals while minimizing the risk of international sanction while the agent can gain money, weapons, and other benefits of state support while maintaining some independence. In reality, the preceding analysis shows that the relationship is fraught with problems. Whereas most PA analysis is directed at improving governance and efficiency of licit institutions such as Congress and international organizations, our focus has been on the illicit PA relationship of state-sponsored terrorism. As such, our objective was not to analyze the relationship by way of improving its efficiency, but to identify tensions that might make the relationship vulnerable to exploitation or at least increase friction.

Unlike licit PA relationships in which identification of PA problems and dis-junctures can lead to logical control mechanisms—such as increased oversight, audits, and reports—state principals are more limited in their ability to control agency losses. The high stakes of the illicit relationship between state and terror-ist group make it difficult to apply effectively the control mechanisms that might be more successful in licit relationships. They reduce deniability of sponsorship or if applied insufficiently, lead to unintended escalation that can have fatal consequences for both parties. State sponsors face a tradeoff between control and ''plausible deniability.'' By increasing its control over the terrorist agent—whether through changes in funding, increasing direct links between the state and its agent—the state sponsor leaves a trail between itself and the agent. Even small moves toward greater control might have a limited effect on deniability, since greater control can create a ''smoking gun'' that enables even legitimate counterterrorism efforts.

Similarly, using multiple agents may take care of one PA problem by delegat-ing to several agents whose ideal points canvass an ideological spectrum, thus making it more likely that the principal can locate a proper agent depending on the particular issue, but it also introduces a new set of PA problems. Syria's rela-tionship with multiple Palestinian groups shows the suboptimal outcome that may result from this approach. The most effective control strategy, agent removal, may resolve the immediate problem of an opportunistic or incompe-tent agent, but has a longer-term problem of engendering uncertainty in the relationship, making future cooperation between principal and agent more tenu-ous and risky for both parties.

Counterterrorism can seize upon these difficulties states have in closing the PA gap with the terrorist groups they support. One potentially fruitful area for counterterrorism officials to exploit is the information gap between states and the terrorists they support. A disinformation campaign to increase the princi-pal's suspicions of a group's competence and fidelity may prove successful because of the difficulty many states have in gaining accurate information on the terrorist group's own preferences. Counterterrorism intelligence services can highlight the mistakes of terrorist groups, play up the peccadilloes of individuals in the group, and in particular emphasize when group members' agendas diverge from those of their sponsor.

Such disinformation can also be used within a group to increase suspicions between leaders and the rank-and-file. ANO, for example, effectively destroyed itself after the CIA fed information into the organization that it was penetrated by United States and other intelligence agencies. Out of paranoia, its head Sabri al-Banna (Abu Nidal's real name) murdered over 300 of his most dedicated operatives, and many of his lieutenants began to see their leader as insane (Clarridge 1997:336). Policymakers seeking to fight state sponsorship can exploit this information problem, which is common within most underground organiza-tions (Bell 1994). The results of sowing suspicion are rarely such an extreme suc-cess, but at the very least they make the principal spend more effort, and thus pay a higher cost, on monitoring the relationship.

Another strategy for counterterrorism officials to exploit is to play up national-ism concerns. As noted above, principals often stress ideological convergence as a control mechanism, trying to make the terrorist group believe what its foreign sponsor believes. One drawback for terrorist groups is that it becomes harder for them to portray themselves as the legitimate voice of the people and leaves them vulnerable to charges that they are foreign agents. Loyalty to a foreign principal is usually perceived negatively by potential terrorist supporters moti-vated by nationalism. Lebanese opponents of Hizballah have recently empha-sized the organization's longstanding ties to Syria and Iran in an attempt to discredit the organization. Appealing to the forces of nationalism to create a

backlash against the terrorist group may be effective in reducing the group's legitimacy among a population whose support that group may need for its own survival.

Policymakers should also try to reduce the deniability that allows states to avoid pressure for their support for terrorists. Publicizing classified information can be used to embarrass sponsors that cling to deniability as well as inhibit states that do not necessarily ''sponsor'' a group, but passively allow it to raise money, recruit, or otherwise conduct its business with little interference. The CIA published *The Abu Nidal Handbook* that laid out the organization's presence in Eastern Europe, companies with whom it did business, and other embarrassing facts that led Poland, East Germany, and several Western European countries to terminate ties to the organization (Clarridge 1997:335).

In addition, because state control mechanisms often inflict heavy costs on the terrorist agents, the latter may eventually become disillusioned with their supposed benefactors. At the very least, this tension can be encouraged to try to reduce a group's willingness to attack targets solely because of the wishes of the state sponsor. In certain cases, counterterrorism aid, military support, intelligence operations, and other measures can focus on punishing a group's attacks that occur on the behest of the sponsor. At most, some groups might be willing to renounce violence, as the costs of continuing militancy are high.

Finally, outside powers should recognize one possible silver lining to state sponsorship: limits on agents' pursuit of unconventional capabilities, like nuclear weapons or biological agents. Sponsors are more likely to place limits on agents, fearing that the use of such weapons would lead to dangerous escalation that would work against the sponsor (Parachini 2003). Cutting sponsorship may increase the risk of the group seeking unconventional weapons on its own. Again, ideological powers represent a dangerous exception: the Taliban supported al-Qa'ida, even while Bin Ladin and his organization experimented with chemical agents and sought out nuclear capabilities (Tenet 2007). Ideological sponsors are more likely to transfer unconventional weapons, as their cost-benefit calculation is less material and more ideational.

The above recommendations and observations do not ''solve'' the problem of state-sponsored terrorism. Yet, by applying the PA lens to this danger, additional points of vulnerability can be better understood and exploited, and potentially dangerous consequences are more likely to be avoided.

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