

Principal Agent Problems

Congress, the Executive Branch, and Control of the Bureaucracy.

Key Questions

- Why do the Legislative and Executive branches of government choose to delegate to bureaucracy? How do they ensure that bureaucracy is actually doing what is intended in legislation?
- What do principal agent dilemmas teach us about government behavior and the relationship of executive agencies to government?

Principal Agency in Government: the typical tradeoff.

- Congress must delegate to bureaucracies to see that laws are implemented.
 - They also gain from efficiency if they can delegate policy authority to bureaucracy
 - Vary with how much independence agencies are given
 - Discretion: High bureaucratic discretion requires less oversight, but can lead to rogue behavior
 - Control: Strict oversight and rule making can control rogue behavior, but is costly.

Principal agent dilemmas and control of government

- Congress faces a **principal agent dilemma** in writing laws.
- The would benefit from **delegating lawmaking discretion** to expert bureaucrats.
- Lets Congress save time, energy and resources by **writing ambiguous** laws outlining broad goals of policy.
- Rely on bureaucrats to **fill in the detail through rulemaking**.

Principal agent dilemmas and control of government

- Congress worries that if they hand off discretion to bureaucrats the law will be **subverted**.
- Bureaucrats might **undermine Congress** by shifting policy towards **the president's preferences**.
- Risk of subversion is highest when Congress and the president are from different parties— and disagree over policy.

Principal agent dilemmas and control of government

- Congress is **strategic** in writing laws.
- When **government is unified** and risk that bureaucrats have preferences different than their own, they save time and energy by delegating to bureaucracy.
- When **government is divided** Congress writes more precise and carefully proscribed laws— limiting the ability of bureaucrats to shift policy through rulemaking.

Competing Principles in American Politics

- Bureaucracies have many bosses
 - The Executive Branch
 - Staffs and directs implementation of agencies
- Congress
 - Writes legislation, controls oversight
- Courts
 - Rule on legality of executive agency behavior
- The American People
 - Consumers of agency products, targets of agency regulations

Complexity in Government Principal Agent Relationships

- Multiple and Competing Principals
 - Can reduce or increase information asymmetry
 - Can lead to uncertain Principal Agent Relationship.
- Goal Incongruence exacerbated.
 - Politicians are elected officials with short term goals, whereas bureaucrats are career oriented.
- Public versus Private Interests
 - **Iron Triangles:** Strong Relationships can emerge between Congressional Subcommittee, Bureaucratic Agency, and Special Interest groups.
 - Lead to **Agency Capture.**

Tobacco Policy: Confusion Over Competing Principals.

- In 1996, the Clinton Administration urges the FDA to rethink Tobacco policy.
- The FDA issued guidelines to regulate Tobacco as a drug, citing "clear and compelling evidence that nicotine is extremely addictive, that consumers use tobacco because they are addicted."
- Tobacco challenges ruling that Congress had never given FDA authority to regulate tobacco.
- In a 5-4 opinion delivered by Justice Sandra Day O'Connor, the Court held that "Congress has not given the FDA the authority to regulate tobacco products as customarily marketed."
- Congress declines to revisit and rewrite tobacco policy guidelines.

Principal Agent Dilemmas in the Trump Era

- Questions of agency responsiveness to policy goals (ex: ICE agents, FDA scientists, EPA officials)
- Questions of agency responsiveness to Congress or the President (IRS document disputes, subpoena compliance)
- Questions of agency autonomy (agency expert opinion and actions in conflict with administration priorities: ex: Climate Change)

Overcoming Principal Agent Problems in Government

- Incentive Structures
 - Punishment and Reward Systems for individuals and agencies.
- Monitoring
 - Congressional Oversight
 - Hearings and investigations, mandatory reports, etc. Red tape, sunset clauses.
 - Presidential Oversight
 - OMB and Budget Controls
 - Powers of Appointment
 - Judicial Oversight

Efficiency in Presidential Oversight

- Power of appointment and budgeting
 - Control bureaucratic behavior through management and budget control.
- Shift in management strategy: From norm of neutral competence to norm of responsive competence
 - Create more responsive bureaucracy by prioritizing political preferences rather than neutral expertise.

Efficiency in Congressional Oversight

- How can Congress effectively monitor executive agencies?
- Police Patrol Oversight
- Fire Alarm Oversight

Problems with the Principal Agent Perspective

- Model assumptions are incorrect
- Implementation shaped by dynamics beyond delegation and control
- Implementation dictated by targets of policy intervention as well as behavior of bureaucrats and street level bureaucrats.
