THE POLITICS OF QUASI-GOVERNMENT

Hybrid Organizations and the Dynamics of Bureaucratic Control

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Introduction

In the aftermath of the attacks on the World Trade Center and the Pentagon, attention was focused on the failings of the private firms charged with securing America's aviation system. The low quality of airport security – a fact long known to frequent travelers in the United States – was suddenly an urgent concern. The Bush Administration quickly suggested that the government might assume responsibility for screening passengers and baggage, a function then performed by low-paid employees of private security firms hired by individual airlines (Schneider and Nakashima 2001).

This development was quite striking inasmuch as President George W. Bush followed in the tradition of Ronald Reagan, calling for a smaller federal government and increased responsibility for the private sector. What was not surprising, however, was that the general suggestion was soon followed by the proposal that a government corporation be created to handle the weighty task of hiring, training and managing the personnel charged with preventing another September 11.

Government corporations are a type of "hybrid" organization. The appeal of hybrids, entities that combine characteristics of public- and private-sector organizations, lies in the belief that they combine the best of both worlds: public accountability and private efficiency. Indeed, the General Accounting Office (GAO) expert testifying before Congress regarding his agency's survey of possible structures of the new security agency noted the general view "that the screening performance and accountability would improve under a government corporation" and such an entity would be "more flexible and less bureaucratic than a federal agency" (GAO 2001).

For reasons too numerous to catalog here, the Transportation Security Administration was not created as a government corporation (Schneider

2002). Still, the episode gives an indication of the prominence of hybrid organizations in contemporary governance and the need to better understand these peculiar entities frequently called upon to carry out public functions.

Created by governments to address public policy needs, hybrids resemble private companies in form and function. Many hybrids are privately owned, profit-seeking businesses. They generally charge fees for the services they provide, allowing them to cover the cost of their operations. And they are exempt from many of the laws and regulations that apply to government agencies, giving them flexibility as they pursue organizational objectives.

Hybrids are not commonly referred to as a *class* of institutions because each is unique in terms of history, purpose and organization. Still, many are familiar fixtures. In the United States, for example, the Federal Deposit Insurance Corporation (FDIC), the Port Authority of New York and New Jersey, and the Tennessee Valley Authority (TVA) are known to many people. At the very least, their names are familiar.

Hybrids are perhaps more common outside the United States. In Commonwealth countries, the peculiar class of organizations dubbed "quangos" perform a dizzying array of functions. Public enterprises, companies that are owned all or in part by government, are relatives of American hybrids that are common around the globe. There is even a mysterious class of transnational hybrid organizations such as the World Bank and International Monetary Fund that are publicly financed by multiple nations yet run as semi-private entities.

For every hybrid that is somewhat familiar, there are many more that operate in the shadows, carrying out mundane functions such as power generation, school construction and the management of our railroads. If the obscurity of most hybrids creates the impression that these institutions are marginal in the scheme of US government, that impression is misleading:

- Hybrids are big; the combined liability of federal hybrids (i.e., the amount of money guaranteed by hybrid organizations) exceeds $2 trillion, more than the entire federal budget for this (or any) year.
- Hybrids are numerous; there are more than fifty federal hybrids and hundreds more in state and local government.
- Hybrids are vital; hybrids perform critical functions, ranging from financing home purchases to operating metropolitan transit systems to disposing of weapons-grade uranium.

In short, hybrids touch the lives of virtually every American. Despite the lack of popular or scholarly attention quasi-government is critical, and in the coming years it is likely to grow in importance. To borrow the words Arthur Miller penned for Linda Loman, attention must be paid.

Why are hybrids of interest?

Although hybrid organizations are not new, they are increasingly common features of the governmental landscape. Their proliferation can be explained by several factors. First, proponents of quasi-government promise greater effectiveness than traditional government agencies at lower cost to taxpayers. Second, at a time when all things governmental are regarded with suspicion and the triumph of capitalism is widely celebrated, hybrids are appealing precisely because they seem more "businesslike" than a typical government program. Third, the desire to trim the budgets of government at all levels has led policy-makers to seek out alternatives that will ease the burden on public appropriations.

There are legitimate reasons for concern that the growth of this "quasi-government" is continuing unchecked. Collectively, hybrids embody an alternative relationship between elected officials and public bureaucracies – or, to use the language of economics, principals and agents. Many tools traditionally utilized by principals to control their agents are not part of quasi-government (Smith 1975, Musolf and Seidman 1980, Moe and Stanton 1989). For example, the leaders of many federal hybrids are not appointed by the President but elected by stockholders. Other hybrids are exempt from the yearly appropriations process through which Congress exercises its oversight function. These constraints on government agencies often were put in place, however, to ensure due process, fairness, equity and other values related to proper public administration in democratic regimes (Kaufman 1977).

As a result, critics of quasi-government claim that hybrids are simply beyond the control of elected officials, and, by extension, the public. In the rush to move government expenditures off-budget and bring "market efficiency" into the public sector, policy responsibilities have been delegated to hybrids with little consideration of the potential *political* costs. Thus critical questions have gone unanswered – even unasked.

Do we sacrifice popular sovereignty by granting public authority to semi-private institutions? Is the quasi-government accountable to the public? Are hybrids beyond the control of our elected representatives? These are the central questions of this book.

Accountability and control are core considerations of political science. An "unaccountable" government, insulated from the public and their elected representatives, threatens the very legitimacy of a democratic political system (Krislov and Rosenbloom 1981, Gruber 1987). In light of the swelling ranks of hybrid organizations – and their latent threat to democratic accountability – this study is long overdue.

It is crucial to note that this book is not based upon the assumption that hybrid organizations are inherently more difficult to control or less accountable than government agencies. On the contrary, the purpose of this volume is to determine if, when and why that is the case. Proponents of the hybrid model argue that freedom from the bureaucratic "red tape" that ensnares government agencies endows hybrid organizations with the flexibility necessary for success. The purpose of this book is to fill in the other side of the ledger.

Learning from hybrids

There is an additional benefit to studying political control of hybrid organizations. It yields tremendous insight into the nature of control over traditional government agencies. Like Oliver Sacks' studies of abnormal psychology that provide understanding of normal brain physiology (Sacks 1987), this book highlights the function of structural features of government agencies by revealing the consequences of their absence from hybrid organizations. This study of hybrids revealed that the absence of some features does result in loss of control. However, the absence of other features seems *not* to diminish organizational accountability.

Thus attention is focused on an aspect of the "principal-agent" relationship frequently overlooked in the bureaucratic control literature. Typically studies of bureaucratic control evaluate the relative influence of various principals: Congress, the President, the courts, interest groups. Rarely are variations in the structure of *agents* even considered. By comparing hybrids and traditional agencies in three policy domains, this study is designed to accomplish just that objective.

To understand the dynamics of quasi-government and evaluate the consequences of variation in agent structure for bureaucratic control, American federal hybrids and traditional government agencies were compared in three policy areas: export promotion, housing and international market development. In each area, explicit principal preferences were identified and the performance of the organizations was examined to determine the extent to which the different types of agents satisfied these preferences. The design and theoretical implications of this research are addressed at greater length in the second chapter.

The strange world of the federal quasi-government

The United States Constitution is quite vague regarding the structure of the executive branch of the federal government. Article I, section 8 states simply that Congress has the power "To make all laws which shall be necessary and proper for carrying into execution the foregoing powers, and all other powers vested by this Constitution in the government of the United

States, or in any department or officer thereof." This vagueness has permitted the executive branch to adapt to changing demands with countless innovations, variations and mutations. Indeed, experiments in administrative structure are an American tradition. *McCulloch* v. *Maryland*, one of the cornerstone cases that defined the Supreme Court's power, considered the legitimacy of a novel organization, the Bank of the United States (Stanton 1994). The Bank was just the first in a line of seemingly unprecedented public institutions.

The most familiar bureaucratic form is the executive department. In the early days of the Republic, departments were few and small. The Departments of State, Treasury and War conducted the business of the federal government until 1849. The spirit of experimentation with organizational form was alive and well at this time. One of the most peculiar American governmental entities, the Smithsonian Institution, was created in 1846 following years of congressional deliberation. Established with the gift of James Smithson, the Institution is governed by a committee that includes the Vice-President, the Chief Justice of the Supreme Court, and Members of Congress appointed by the Speaker. Not only is this structure likely unconstitutional, it remains unique even by today's standards.

The Civil War and territorial expansion prompted more conventional government growth. Offices and personnel were added and new departments created (Interior in 1849, Justice in 1870, Agriculture in 1889). Even with this major expansion, the size of the federal government did not approach the current scale until well into the twentieth century.

World War I prompted the next wave of expansion. Mobilization led to the creation of a set of institutions intended to prepare the United States quickly for war. The Emergency Fleet Corporation, US Grain Corporation and War Finance Corporation were set up as government corporations to allow them to act more quickly than government agencies (Pritchett 1946a). After the war they were phased out, their assets sold, their operations halted. These organizations were ancestors of modern American hybrids in the sense that they operated as independent entities carrying out functions that resembled private-sector organizations (e.g., overseeing the construction of vessels and housing for workers).

This set the pattern for government expansion during the New Deal and World War II. Faced with the Depression and a need for military mobilization, Roosevelt and Congress created a familiar alphabet soup of entities, including several hybrids that still operate today – the Export-Import Bank (ExIm), Tennessee Valley Authority and Federal Crop Insurance Corporation – as well as several agencies that were later "hybridized," partially or completely sold to private parties. The government did not shrink following World War II as it did in the wake of World War I. Fear of a renewed Depression kept agencies in place; sustained economic expansion through the 1950s tempered the need to cut government spending.

Indeed, the growth of the federal government in this period nearly kept pace with that of the previous decade. This expansion slowed dramatically by the end of the 1960s. Debt from the "Great Society" programs and the Vietnam War as well as the financial crises of the 1970s limited the federal government's ability to address policy problems with direct expenditures. This helps account for the creation of numerous hybrids in the late 1970s and 1980s, including the Rural Telephone Bank, the Pension Benefit Guaranty Corporation, the Legal Services Corporation and others.

Budget constraints and rules have always been a significant factor in the explanation for the growth of American quasi-government. The transformation of the Federal National Mortgage Association ("Fannie Mae") from a government agency to a government corporation to a privately-owned government-sponsored enterprise, for example, can be directly attributed to revisions in budget rules. Designated a government corporation to escape inclusion in the budget, Fannie Mae was restructured again when government corporations went from "off-budget" to "on-budget" status. This necessitated another change in Fannie Mae – this time it became a government-sponsored enterprise – to get it back off-budget (interview 112, Tierney 1984, 79).

In recent years, efforts to trim the federal budget sustained the appeal of the hybrid form generally and increased interest in selling government-owned organizations to investors. For example, the Student Loan Marketing Association – an entity that performs a function for student loans similar to that performed by Fannie Mae for home loans – is being "fully privatized" (Crenshaw 1997). This will raise money for the Treasury and move debt off-budget. It has been suggested that other agencies should be "hybridized" or sold for similar reasons.

There are other rationales for creating hybrids. At the state and local levels, hybrids are utilized as instruments to overcome a wide range of obstacles faced by traditional public bureaucracies. New York State's public authorities, for example, are known for pioneering the "moral obligation" bond as a means of circumventing limitations on state government borrowing. This created not a legal obligation of payment, as prohibited by the borrowing limits applied to government agencies, but a moral obligation that investors accepted with a wink (Sharkansky 1979). Other authorities have been designed to straddle multiple jurisdictions (e.g., the Port Authority of New York and New Jersey) or enable their leaders to operate free of constraints created by state laws and regulations.

Outside the United States, there are hybrid organizations with origins similar to those of American quasi-governmental entities. The most commonly utilized label for such organizations is "quangos." Quangos (which are discussed at greater length later in this chapter) are generally associated with Commonwealth nations. Many quangos began their existence as government bureaus but underwent a transformation at some point for fiscal or ideological reasons.

There are also large numbers of hybrids with histories quite different from their American cousins. These organizations are often referred to as "state enterprises," "public enterprises" or "state-owned enterprises." Unlike American hybrids, these enterprises generally were founded as private companies. At some point, for reasons of market failure, national interest or political movement, the company or an entire industry was nationalized. That is, the government assumed ownership of all or part of a profit-seeking business. In developing countries, many public enterprises were founded with public capital and thus have been hybrid from their inception. These types of hybrids are quite different from those that have been discussed in the American context. They were not created – or hybridized – to deliver some public good in place of a government agency. As a result, the expectations for such entities, and the standards by which they are judged, are often quite different. The findings of this book are least relevant for this type of hybrid organization, as shall become clear in the ensuing pages.

There is an additional emerging class of hybrid that looms large on the horizon. These hybrids serve multiple nations and have literally global "jurisdictions." This diverse group of entities includes prominent institutions such as the World Bank and the International Monetary Fund. These organizations are financed by the governments of the world and/or returns on loans made to borrowing nations. Smaller, and far less visible, is the growing population of entities created to govern specific areas of international activity. Examples include the World Intellectual Property Organization and the Internet Corporation for Assigned Names and Numbers, and there are many other bodies with relatively narrow purposes. These entities look more like government agencies than many hybrids in that they perform traditional governmental functions rather than providing services for customers. Their transnational character and reliance on fees paid by client organizations (including governments) distinguish them from traditional agencies.

The ranks of all types of hybrid organizations are sure to continue swelling. Suggestions for new hybrids at all levels of government around the globe emerge frequently. In the United States, hybrid structures are deemed superior by some because the hybrid, unlike the government agency, must maintain financial discipline to survive in the market place. Thus traditional agencies are sometimes targeted for conversion into hybrids. Congress has considered, for example, "hybridization" (usually labeled "privatization" for its political appeal) of the Social Security Administration and the Air Traffic

Services of the Department of Transportation. These organizations could fund their own operations with fees paid by users for services and would provide a one-time boost to the Treasury with their sale.

In addition to the recent proposals for security-related hybrids, multiple new hybrid suggestions emerged from the Clinton Administration. "America's Private Investment Corporations" would have been a set of funds created to stimulate investment in underdeveloped American communities; the proposal was dropped by Clinton's successor (Markoff 1999). "Kiddie Mac," a proposed government-sponsored enterprise, would have financed construction of childcare facilities (Scherer 1999). One hybrid that *was* created under Clinton was In-Q-It (later renamed In-Q-Tee), a CIA-backed technology venture capital fund (Henry 2002).

In search of an analytic framework

Despite their popularity and importance, hybrids have not received much attention. Improbable as it may seem, in fact, no one knows just how many federal hybrids exist. This is a function of ambiguity, not secrecy. A General Accounting Office report on government corporations, a subset of hybrid organizations, relied upon organizations to characterize themselves (1995). That is, organizations were included in the report only if they considered themselves government corporations! The labels Congress attaches to organizations reveal little regarding the nature of the institution. Corporations are called agencies. Agencies are called foundations. Foundations are called corporations. The slipperiness of the labels calls to mind the conversation of Alice and Humpty-Dumpty in Lewis Carroll's *Through the Looking Glass:*

> "When *I* use a word," Humpty-Dumpty said, in rather a scornful tone, "it means just what I choose it to mean – neither more nor less."
>
> "The question is," said Alice, "whether you *can* make words mean so many different things."

The world of quasi-government would make Humpty-Dumpty beam. As a result, establishing order is an imposing task. Even the simple objective of determining what organizations to consider hybrids can be elusive.

One way to identify hybrids is to sort the entire universe of governmental institutions. Harold Seidman offers a system that, by his own admission, "makes no claim to scientific exactness" (Seidman and Gilmour 1986, 254). At the core of the federal government lie the *executive departments.* Those mentioned already have been joined by Commerce, Labor, Health and Human Services, Housing and Urban Development (HUD), Transportation, Energy, Education and Veterans Affairs (VA). The Executive Office of the President has grown to resemble a department encompassing several large agencies, most notably the Office of Management and Budget (OMB).

Closest to this core are a host of *independent agencies*, including the Environmental Protection Agency (EPA), the National Aeronautics and Space Administration, the Peace Corps and the Small Business Administration (SBA). Seidman cautions that *independence* means only that the agency is not part of an executive department, not that it is independent of the President or executive branch (1986, 254). There are numerous *institutes* (e.g., National Institute of Health) and *foundations* (e.g., National Science Foundation) associated with executive departments. *Commissions*, often created to perform regulatory functions, *are* independent and insulated from executive branch influence by virtue of statutorily required partisan balance in membership and lengthy terms not coinciding with presidential administration.

All of the entities mentioned so far are solidly governmental. They receive federal appropriations, are governed by presidential appointees, and are subject to federal rules and regulations. Seidman proposes three more categories for entities that are less traditional in character. *Government corporations*, such as the Federal Deposit Insurance Corporation and TVA, have a business-related purpose, produce revenue and conduct a large number of transactions with the public (GAO 1995). *Private institutions organized by the federal government to provide contractual services* include well-known research establishments like the Los Alamos National Laboratory and the Rand Corporation.

Then there are the leftovers. Seidman dubs this final category "*the Twilight Zone.*" This remainder bin includes well-known organizations such as the Federal Reserve Banks, Fannie Mae and Amtrak. These entities were created by Congress but are privately owned (or partially owned by private parties). They are tied to the federal government by unique privileges, distinctive regulation and unusual appointment schemes.

The problem with Seidman's typology is its lack of an organizing principle. Many of the organizations in one category have much in common with institutions in other categories. For example, almost all the denizens of the Twilight Zone are as independent as, say, the Nuclear Regulatory Commission. No dominant characteristic orders the population. This implies a definition of hybrid organizations that would focus on what the organizations *are not* rather than what they *are.*

Perry and Rainey propose a typology incorporating *three* characteristics: ownership, funding and mode of control (1988). With three variables, this approach yields eight categories. One could consider organizations in categories two through eight (as numbered in table 1.1) to be hybrid organizations – although that is not indisputable.

Table 1.1 *Perry and Rainey's typology of institutions*

Category	Ownership	Funding	Control	Example
1. Bureau	Public	Public	Polyarchy	Bureau of Labor Statistics
2. Government corporation	Public	Private	Polyarchy	Pension Benefit Guaranty Corporation
3. Government-sponsored enterprise	Private	Public	Polyarchy	Fannie Mae
4. Regulated enterprise	Private	Private	Polyarchy	Private utilities
5. Governmental enterprise	Public	Public	Market	No known examples
6. State-owned enterprise	Public	Private	Market	Amtrak, Airbus
7. Government contractor	Private	Public	Market	Grumman
8. Private enterprise	Private	Private	Market	IBM

Note: This table is copied exactly as presented by Perry and Rainey (1988, table 2, 196) and does not reflect the author's view regarding proper characterizations of these institutions.

There are problems with this system. First, there are mixed ownership corporations in which the federal government shares ownership with private investors (e.g., Federal Home Loan Banks, Rural Telephone Bank). It is unclear how such institutions should be classified in Perry and Rainey's scheme. Second, many organizations receive funding from both appropriations and revenue income. Again it is unclear how such organizations should be classified.

A more serious concern, particularly with respect to the questions at the center of this book, is the "mode of social control" variable. The polyarchy/market distinction is quite slippery, as Perry and Rainey's examples reveal. Amtrak is offered as a "market" control entity while Fannie Mae is in the "polyarchy" category, meaning that it is subject to political control. While this may be true in some senses, it is far from straightforward. The requirement that Congress approve any labor agreement for Amtrak employees, for example, clearly conflicts with Perry and Rainey's classification of Amtrak as a market control organization (Woodward 1997). The executives of Fannie Mae, an organization classified as "polyarchy" in the control column, would blanch at the thought of such congressional intervention.

Even if one could definitively categorize every institution as "market" or "polyarchy" based on some structural feature, this approach would still not be satisfactory. This typology provides the answer to the "control question" without the empirical research that is the core of this book. Perry and Rainey rely upon the formal structure to formulate their characterization. This book is based on an investigation of the link between structure and actual control.

The Perry and Rainey approach does, however, offer a promising lead. A simplified version of their framework is proposed for the purpose of defining the population of hybrid organizations. The "mixed institution" problem is solved by making a default assignment of "public" and shifting to "private" at the first sign of deviation (i.e., mixed ownership is typologically equivalent to private ownership). For example, the Federal Home Loan Bank system would be coded as "private" in the ownership column.

A similar solution applies to the "funding" variable. Organizations are considered publicly funded unless they effectively cover all or most of their operating expenses with their generated revenue in most years. Funding is a more tricky matter because many entities that meet this criterion do not retain per se their earnings for subsequent use. Rather their income is funneled into the general revenues of the government and their budget is funded out of general appropriations. The appropriations level in year $t+1$ is, however, a function of earnings in year t. Thus such entities are effectively "paying their own way."

In contrast, there are many so-called government corporations that, despite their name, are funded entirely (or mostly) through appropriations and thus would not be classified as hybrids (e.g., Corporation for National Service). Only government corporations that typically generate annual revenues nearly equal to their annual outlays are included in the hybrid category.

Finally, the "mode of control" problem is avoided by simply excluding this variable from the typology. Thus the population of federal hybrids is identified on the basis of private funding and/or ownership in the simplified version of the Perry and Rainey typology (see table 1.2).

Table 1.2 *Simplified typology of institutions*

Category	Ownership		Funding
Government agency	Public		Public
Hybrid organization	Private (or mixed)	OR	Private[a]
Private entity	Private		Private

[a] Organizations that generate revenue that effectively covers most of their operating expenses are considered "privately" funded.

This simplified version of the Perry and Rainey approach is employed to formulate a definition of hybrid organization that is used in this book:

> *A hybrid organization is an entity created by the federal government (either by act of Congress or executive action) to address a specific public policy purpose. It is owned in whole or part by private individuals or corporations and/or generates revenue to cover its operating costs.*

This definition excludes government bureaus, including independent agencies and "government corporations," that operate on appropriated funds, regulatory commissions, institutes and some foundations that are not distinguished in organizational form from executive agencies.

This definition also does not include private firms brought into governmental orbit through contractual relationships with government agencies. Although some argue that such organizations are indistinguishable from governmental institutions (Kettl 1993, Bozeman 1987), they differ from hybrids in at least two pertinent respects: (a) the contracting agency typically bears responsibility for delivery of some service or good by contractors; (b) as a consequence, expectations for accountability and public control do not apply to contractors as they do to mixed institutions. For example, the Department of Transportation is responsible for the quality of roadway construction carried out by private contractors. This is not to suggest that concerns regarding the accountability of such organizations are misplaced or invalid. Increased reliance on contractors is a serious matter related to but not at the heart of the hybrid discussion and beyond the scope of this project.

Establishing a working definition of hybrid organizations is an important step. The population of hybrids from which the entities studied were drawn was identified according to this definition. In the pages to follow, conclusions are drawn based on the organizations studied that are offered as applicable to a more general population of hybrids.

Hybrid literature

There are considerable barriers to systematic study of hybrid organizations. First, the heterogeneity of this class of organizations makes generalization quite difficult. Every hybrid is structured somewhat differently with permutations including governance structure, funding mechanisms and relationships with elected officials. Second, the substantive complexity of the activities carried out by each organization requires the researcher to devote considerable energy to learning about the nature of the organization's operations. Third, the relative obscurity of any single hybrid organization limits the audience for work that is not broad. Nevertheless, a handful of scholars have examined hybrids and raised issues related to their structural distinctiveness.

Seidman points out the problems created by the vague legal status of government-sponsored enterprises and other hybrids. Lines of authority have been blurred and constitutional questions raised as "degovernmentalization" has continued (Seidman 1988, 25). Musolf studied several hybrids including Comsat, Amtrak and Fannie Mae and raised similar questions concerning organizational accountability (1983, 1984).

Neither of these authors offered empirical assessments of the *relative* accountability of hybrids and traditional agencies. Rather they note the extra-constitutional nature of these organizations, the alarming absence of structural controls that exist for traditional government agencies, and the apparent shortcomings in terms of accountability. Like Leazes, in his excellent study of the development of the federal government corporation (1987), they assume the connection between structures designed to achieve control and actual control over government agencies.

Of all hybrids, government corporations have been subject to the most empirical investigation, usually in the form of case studies. Perhaps the most examined institution is the Tennessee Valley Authority. Studies by Selznick (1953), Lillienthal (1944), Finer (1944) and Pritchett (1943) have made the organization's extensive powers and broad mandate familiar to students of public administration. Although these authors note the substantive structural independence of the TVA, there is little effort to compare empirically presidential and congressional influence over the TVA as opposed to government agencies.

A few authors have studied the implications of government corporation structure for management and accountability. Pritchett argues that the deviation from a standard form for government corporations reduces their functionality as alternatives to traditional government agencies (1946a, 1946b). Demonstrating that many government corporations operate and are treated in a manner similar to agencies, Pritchett warns, "It serves no useful purpose to keep the original label on a bottle when its contents have been changed, and it may cause trouble" (1946a, 383). His words obviously were not heeded, for Dimock echoed these arguments in a two-part article that urged a return to genuine government corporations, companies that operate truly free of political oversight and direction (1949).

Seidman presents an opposing view, that government corporations are instruments of government that must be subject to controls (1952, 1954). Although he is willing to acknowledge that the corporate form is appropriate for the performance of certain functions, Seidman does not accept the contention that government corporations should be placed beyond the reach of Congress or the President. In making this argument, Seidman refers to the

Cherry Cotton Mills case, in which the Supreme Court essentially concluded the same.

The subsequent literature on government corporations reflects the shifting expectations for hybrid organizations, demonstrating that the debate between Pritchett/Dimock and Seidman has never been resolved. Tierney, for example, describes the conditions under which government corporations are created and warns that expectations placed upon these entities are unrealistically high and political "interference" is inevitable (1984). Calls for reduced political influence over government corporations faded and have been replaced by critiques of the government corporation form based on their shortcomings in terms of control and dedication to public purposes. Khademian, utilizing a study of the Federal Deposit Insurance Corporation, explores the ways in which a government corporation's interest in revenue affects its management (1995). She argues that government corporations' concern for the "bottom line" clearly affects management and decision-making, a point that is bolstered by this study. Froomkin offers a set of structural reforms intended to increase accountability of government corporations and reduce risk to taxpayers, including clearer statement of legal status and public receipt of profits from corporate activities (1996).

In recent years, government-sponsored enterprises have received more attention than other hybrid organizations. Government-sponsored enterprises (GSEs) are a type of hybrid distinguished by private ownership, profitability and advantages derived from the organization's special relationship with the federal government. The most well-known GSEs are "Fannie Mae" and "Freddie Mac," two mortgage finance corporations that are traded on the New York Stock Exchange and are among the largest companies in the United States (in terms of assets). Both are discussed in detail in this book. There are other GSEs in the areas of housing, agriculture and education.

Harold Seidman – who coined the term "government-sponsored enterprise" – was the dean of a small community of authors who are responsible for the bulk of work on these entities. Seidman maintains that the GSE form is inherently problematic due to the lack of clarity regarding their purpose and responsibilities (1975). Thomas Stanton, formerly employed by Fannie Mae, has written two books and several articles explaining the relationship of GSEs to the government, the risks presented by the implicit governmental support of these businesses and the inadequacy of the regulatory mechanisms currently in place (2002, 1991). Ronald Moe was joined by Stanton (1989) in expressing concerns regarding the constitutionality of the government-sponsored enterprise structure and the implications for accountability. Seiler likens GSEs to public utilities and argues that they must be better regulated to ensure that they perform their public functions (1999).

All of these authors have discussed the political ramifications of the GSE structure, pointing out that much may be lost with the transfer of authority to quasi-governmental bodies. There is also scholarly literature devoted to the economics of government-sponsored enterprises. A central question, for instance, is the precise value of the government's support for these highly profitable companies (e.g., Kane 1999, Calomiris 1999). Because the support is implicit and based on the assumption of risk, it is an extremely thorny problem.

The greater part of the attention to GSEs is not academic but journalistic. Both Fannie Mae and Freddie Mac are important businesses, cornerstones of the American mortgage industry, and thus receive prominent attention in the business press. Moreover, they are influential participants in the policy-making process and thus receive attention in Washington as well as Wall Street. The particular subjects range from the potential expansion of Fannie Mae and Freddie Mac's business activities (Kopecki 2002, Barta 2001a) to the regulation of GSE securities (Fernandez 2002a) to the performance of Farmer Mac's board of directors (Cowan 2002). Much of the news coverage of GSEs touches on matters that are considered in this book. For example, there are individuals and organizations that criticize GSEs for their political tactics, their profitability and their accountability (e.g., Wallison 2001, Wilke and Barta 2001).

What is missing from the discussion of GSEs, like the discussion of government corporations, is any comparative assessment in terms of accountability or control. In the scholarly and the journalistic analyses of GSEs, the organizations are implicitly judged against an ideal standard that may not be met by any type of organization, public or hybrid. Moreover, discussions of GSEs are never broadened to include other types of hybrids.

Of course, there are many hybrid organizations outside the Beltway. Quasi-government has a history at the state and local level stretching back to the colonial era (Goodrich 1949, Willoughby 1917, McDiarmid 1940, Guild 1920). It is not surprising then that there is literature devoted to American sub-national hybrids (e.g., Brilliant 1975, Hawkins 1976, Betnun 1976, Hamilton and Hamilton 1981). Perhaps the most cited book related to a common type of hybrid, the public authority, is Robert Caro's engaging biography of Robert Moses (1974). The so-called "Master Builder" pioneered the use of public authorities as head of the Triborough Bridge and Tunnel Authority New York State Power Authority and several other authorities. Caro points out how Moses manipulated aspects of the authority structure (particularly bond covenants) to concentrate power. Indeed, the stories of Moses' arrogance and willingness to frustrate elected officials are legendary. Accounts of Austin Tobin and the Port Authority of New York and New Jersey also demonstrate the independence of this type of hybrid – albeit with less megalomaniacal leadership (Doig 1993, 2001).

A broader approach is used by Annmarie Hauck Walsh in her excellent study of public authorities in New York (1978). She expresses misgivings regarding the potential for public authorities to act independently but notes their potential as policy tools. Walsh acknowledges that public authorities certainly pose a control challenge – she, of course, also cites Robert Moses – but also points out the manner in which New York Governor Nelson Rockefeller was able to control the many authorities in the state and use them as instruments to get around the legislature and state constitution. She also observes that the authority structure shifts the focus of organizational management, creating a bias towards revenue-enhancing activity (1978, 337–338), a point that is emphasized in this book. Finally, Walsh offers structural adjustments that might reduce the autonomy of public authorities, including greater integration into state government, more transparency and more fiscal controls (1978, 343–346).

There are multiple studies of "special districts" and other types of local hybrids that provide municipal services like water and waste. These entities are more common in the western United States but their popularity is growing. McDiarmid profiles California's use of entities modeled on government corporations, for example (1940). Mitchell evaluates the advantages and disadvantages of government corporations – focusing primarily on state and local authorities – and is ultimately ambivalent regarding their desirability in his summary of other studies (1999).

Foster has produced a broad study that examines the special district phenomenon (1997). She finds that "special-purpose government" often spends more money than traditional agencies to carry out the same tasks and that the same tasks consume a larger proportion of the overall budget when they are the responsibility of special districts. It is important to note that, although some special districts would meet the definition of hybrid organizations established above, many others are simply independent agencies (to use one of Seidman's categories) – governmental bodies with unique taxing authority and governance structure and limited purposes.

In addition to the literature devoted to American hybrid organizations, briefly reviewed here, there is a significant body of research related to quasi-government outside the United States. Not surprisingly, the preponderance of English-language literature devoted to hybrid organizations concerns Commonwealth nations. As discussed above, the most frequent subjects of analysis are "quangos." Much of the description of the literature on American hybrids applies to the quango literature.

First, there is no universal understanding of just what constitutes a quango. Even the derivation of the term "quango" is explained as shorthand for "quasi-non-governmental organizations" *or* "quasi-autonomous non-governmental organization" *or* "quasi-autonomous national government organization." Quangos have been described as synonomous with – or a subset of – non-departmental public bodies (NDPBs).

Second, and more troublesome, it is quite difficult to pin down a definition of this strangely named type of organization. As Flinders writes, "The number and range of bodies referred to under the acronym 'quango' is already so wide as to render the term both priceless and worthless . . ." (1999, 4). In general, quangos are organizations created by governments to pursue public policy objectives with publicly appropriated funds. What distinguishes them from traditional government agencies is their separateness from traditional ministries or departments, their appointed leadership, and their exemption from many rules and regulations applicable to public bureaucracies; hence the designation as NDPBs. In Great Britain and Australia, most quangos operate at the local or regional level rather than on a national scale.

As this general description suggests, most quangos are unlike the American hybrids of principal interest in this volume because they do not incorporate market-based mechanisms into their operations. That is, they are not in any sense a blend of the public and private sectors. Thus, while many of the accountability issues raised with respect to quangos are related to hybrid organizations because both sets of organizations are independent, they are not directly comparable. Nevertheless, the quango experience and analysis is instructive. Analysts of quangos find that the absence of structures that constrain traditional agencies does create accountability concerns for quangos similar to those observed by critics of quasi-government in the United States. Skelcher refers to this shortcoming of quangos as "a democratic deficit" (1988). Additionally, it has been suggested that, in the absence of hierarchical structures put in place to assure organizational accountability, the contractual relationships into which quangos enter take on this function (Wilson 1995). A related argument is made with respect to American hybrid organizations in chapter 3.

There are hybrids that bear a closer resemblance to the American, federal hybrids that are the subject of this book. Musolf studies Canadian (1956) and Vietnamese (1963) public enterprises in addition to American hybrids. Wettenhall utilizes a comparative approach to argue that hybrids are increasingly private in character (1987). A volume by Thynne provides descriptive overviews of quasi-government in New Zealand, Finland, Ghana, the Netherlands and China (1998).

More common than quangos or American-style hybrids around the world are state-owned enterprises, businesses owned entirely or in part by governments. These are often referred to as public enterprises or crown corporations. These entities *are* like the American hybrids that are the subject of this book in the important sense that they blend public and private. They are participants in markets, they charge for goods and services, and they generally fund their own operations. Many were created to perform some public function similar to that performed by the government (or the government in other countries).

Many other state-owned enterprises are *unlike* American hybrid organizations in that the final observation above is not true. They are not substitutes for traditional government agencies as deliverers of public programs. It is more accurate to regard most public enterprises as substitutes for private firms. Indeed, many state-owned enterprises were started as private companies and later nationalized for a variety of reasons. Public enterprises are often created in developing countries precisely because no private, profit-seeking company exists to serve the country's market (Nellis 1994).

As this statement suggests, state-owned enterprises are clearly products and instruments of public policy. However, the expectations and demands of control are quite different for many state-owned enterprises from what they are for American hybrids. For example, in their interesting study of Greek state-owned enterprises, Lioukas, Bourantas and Papadakis are concerned with managerial autonomy over "pricing decisions" and "resource acquisition" rather than matters one might deem closer to public policy (1993). That is not to say such studies are not relevant. The authors' findings regarding the conditions under which one would expect greater autonomy are likely applicable to many types of hybrids.

There are a great many articles about individual public enterprises that cannot be summarized collectively. It would consume many pages and the readers' attention to review them all, but what follows gives a flavor of the existing research. It also provides an indication of the universality of quasi-government.

Shrivastava examined public enterprises in India and focused on the distinctive tools of control over hybrid organizations available in parliamentary systems (1992). Many of these structural instruments, including the right to question and investigate enterprises, parliamentary debate practices and various committees charged with general oversight, are similar to those available to the Congress and the President in the United States. In a brief comparative section, Shrivastava compares the accountability of Indian public enterprises to those in Tanzania, Thailand, New Zealand, Australia and Nigeria (among others). Mihyo focuses entirely on "non-market controls" of public enterprises in Tanzania (1994), concluding that public enterprises are a superior alternative to government-run corporations – an observation that is consistent with the American analysts who, forty years earlier, bemoaned the erosion of true government corporations.

Also looking at state enterprises in Africa, Tangri observes that these companies provide no relief from the debilitating politics of patronage that stunts development in the nations he considered, including Uganda, Zimbabwe, Ghana and Nigeria (1999). Grosh and Mukanda have collected several essays describing the varying experiences with state-owned enterprises around Africa (1994). Only one of these argues that political influence over "parastatal" entities is actually *good.*

Friedmann and Garner have collected articles regarding "government enterprises" in Europe (1970) that provide observations from France, Germany, Sweden and Italy (among others). The various authors suggest that Europeans are more comfortable with the government being kept at some distance from the management of public enterprises. Treves notes, for example, that the Italian government retains a supervisory role with respect to corporations in which it is a shareholder (1970, 151). Closer to the United States, Stevens analyzes Canadian crown corporations and their ongoing struggle for the optimum balance between autonomy and control (1993). He uses a "game analogy" to assess the different designs of crown corporations in various Canadian provinces. Allan collects works related to the transformation (i.e., privatization) of public enterprises in Canada (1998).

With few exceptions the significant body of research devoted to the dynamics of public enterprise all over the world has a different focus from this volume. In general, studies of public enterprises are not concerned with the bureaucratic control problem per se. A great deal of research concerns the efficiency of these companies and their effects on economic development (e.g., Lott 1995, DeBorger 1993, Vogelsang 1990, Ware 1986, Foreman-Peck and Waterson 1985, Rees 1984, Fleming 1950, Meade 1944). In recent years, the privatization of public enterprises is the dominant concern driving research.

Many of the economic analyses of public enterprises argue that the organizational form is less efficient than private firms. Critics of public enterprises also argue that they are used for purposes of patronage, that the requisite mechanisms for transparency do not exist and that they operate substantially unencumbered by the prerogatives of the executive and legislative branches. All of these criticisms echo those leveled at American hybrids.

Indeed, quasi-government around the globe has generated a small population of work that could best be described as screeds (e.g., Howard 1985, Axelrod 1992, Schaefer 1996, Hendrie 1998). Many of these analyses appear in more popular journals. In general, they offer analysis of particular organizations that is colored to varying extents by an agenda. For example, common critiques of hybrids include charges that hybrid organizations exist merely to function as patronage mills for elected officials (Burstein and Shields 1997, McTague 1996), that hybrids' leaders use their positions to line their pockets at public expense (Henriques 1986, Savage 1987), and that hybrids have too much power and function beyond the influence of elected officials and the public (Axelrod 1992, Bennett and DiLorenzo 1983). There are elements of truth in many of these articles. The pertinent arguments that apply to the organizations discussed in this book are addressed. Moreover, the existence of this popular literature demonstrates the lingering suspicion many have towards quasi-government and the need for more objective scholars to pay attention.

The brief literature review presented in the preceding pages is not comprehensive. It is offered to give a flavor of existing work and establish the place of this book amidst this field. These books and articles offer rich descriptive analysis of particular types of hybrids. They offer warnings regarding the lack of accountability and the structural shortcomings of hybrid organizations in multiple contexts.

The notable shortcoming common to most of this work is the absence of any empirical comparison with traditional government agencies. Hybrids may not be perfect but that does not mean they are less accountable than government agencies. One cannot view diminished accountability as a political "cost" of quasi-government without analyzing its relative performance. Presented in the pages that follow is an attempt to better estimate that cost based on a more nuanced understanding of quasi-government in the United States.