The Quasi Government: Hybrid Organizations with Both Government and Private Sector Legal Characteristics

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Summary

To assist Congress in its oversight, this report provides an overview of federally related entities that possess legal characteristics of both the governmental and private sectors. These hybrid organizations (e.g., Fannie Mae, National Park Foundation, In-Q-Tel), collectively referred to in this report as the “quasi government,” have grown in number, size, and importance in recent decades.

A brief review of executive branch organizational history is followed by a description of entities with ties to the executive branch, although they are not “agencies” of the United States as defined in Title 5 of the U.S. Code. Several categories of quasi governmental entities are defined and discussed: (1) quasi official agencies; (2) government-sponsored enterprises (GSE); (3) federally funded research and development corporations; (4) agency-related nonprofit organizations; (5) venture capital funds; (6) congressionally chartered nonprofit organizations; and (7) instrumentalities of indeterminate character.

The quasi government, not surprisingly, is a controversial subject. To supporters of this trend toward greater reliance upon hybrid organizations, the proper objective of governmental management is to maximize performance and results, however defined. In their view, the private and governmental sectors are alike in their essentials, and thus subject to the same economically derived behavioral norms. They tend to welcome this trend toward greater use of quasi governmental entities.

Critics of the quasi government, on the other hand, tend to view hybrid organizations as contributing to a weakened capacity of government to perform its fundamental constitutional duties, and to an erosion in political accountability, a crucial element in democratic governance. They tend to consider the governmental and private sectors as being legally distinct, with relatively little overlap in behavioral norms.

There is nothing modest about the size, scope, and impact of the quasi government. Quasi governmental entities run the gamut, from not-for-profit organizations that raise funds for the upkeep of parks to venture capital entities that fund the development of new technologies of use by federal agencies.

This report will be updated in the event of a significant development.
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Context

In recent decades, both Congress and the President have increasingly used hybrid organizations for the implementation of public policy functions traditionally assigned to executive departments and agencies. Instead, their preference has often been to assign administrative responsibilities to newly created independent agencies or to hybrid organizations possessing legal characteristics of both the governmental and private sectors. Hybrid organizations attract both support and criticism. There are today, associated with the federal government alone, hundreds of hybrid entities that have collectively been called the “quasi government.” The relationship of this burgeoning quasi government to elected and appointed officials is a subject of growing concern, as it touches the very heart of democratic governance: to whom are these hybrids accountable, and how is the public interest being protected over and against the interest of private parties?

The scope and consequences of these hybrid organizations have not been extensively studied. Basic definitional issues resist resolution. Even the language to be used in discussing the quasi government is in dispute. Should government management be discussed in the language of law, economic theory, or the business school? The traditional tools for holding executive agencies accountable, such as the budget and general management laws, are inapplicable in most instances, often leaving these hybrids with the freedom to pursue their own institutional interests, which may or may not conform to the public interest as defined by the nation’s elected leadership.

The current popularity of the quasi government option can be traced to at least five major factors at work in the political realm:

(1) the desire to avoid creating another federal “bureaucracy”;
(2) the current controls on the federal budget process that encourage agencies to develop new sources of revenues;
(3) the desire by advocates of agencies and programs to be exempt from central management laws, especially statutory ceilings on personnel and compensation;
(4) the contemporary appeal of generic, economic-focused values as the basis for a “new public management”; and
(5) the belief that management flexibility requires entity-specific laws and regulations, even at the cost of less accountability to representative institutions.

This report introduces the reader to the quasi government, suggests categories of entities within this sector, and examines their legal characteristics, behavior, and possible policy consequences. The report will be revised and updated as new information and analyses become available.

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1 This report was originally written by Ronald C. Moe, who retired from CRS. It has been revised a number of times by the current author. Readers with questions about quasi governmental organizations may contact Kevin R. Kosar.
In Search of a Definition

The quasi government, virtually by its name alone and the intentional blurring of the governmental and private sectors, is not easily defined. In general, the term is used in two ways: to refer to entities that have some legal relation or association, however tenuous, to the federal government; or to the terrain that putatively exists between the governmental and private sectors. For the most part, this report will use the term quasi government in the former context, referring to entities with some legal relationship to the federal government. The one common characteristic to this melange of entities in the quasi government is that they are not agencies of the United States as that term is defined in Title 5 of the U.S. Code.

If a quasi governmental entity is not an agency of government, what is it? For this report’s purposes, it is a hybrid organization that has been assigned by law, or by general practice, some of the legal characteristics of both the governmental and private sectors. While different categories of quasi governmental organizations can be described and found useful as an analytic tool, such categories are artificial, with porous lines of distinction and differentiation, and tend to be imposed upon the disparate entities after the fact.

Spectrum or Categories

Two rough models suggest themselves as ways of looking at these entities.

First, there is the linear spectrum model where the existence of a quasi government between the governmental and private sectors is designated and categories of organizations (e.g., government-sponsored enterprises) and their relationship to the executive branch (and Congress) are described on a descending scale from closest to the most distant.

Second, there is the categoric organization model involving, in this instance, the suggestion of four categories: pure government organization; quasi governmental organization (“quago”); quasi nongovernmental organization (“quango”); and pure private. A quago is essentially a government organization that is assigned some, or many, of the attributes normally associated with the private sector. A quango, on the other hand, is essentially a private organization that is assigned some, or many, of the attributes normally associated with the governmental sector. Under this schema, the Legal Services Corporation, for example, would be a quago, while the Red Cross would be a quango.

Whatever the value of the quago/quango designations, especially in the comparative international literature on corporate organizations, it shall not be used here. This report follows the linear spectrum approach in describing the elements within the quasi government. It is possible to begin

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with what are referred to in the *U.S. Government Manual* as “Quasi Official Agencies,” those entities, arguably, closest to the executive branch, and move on to the other end of the spectrum, “congressionally chartered nonprofit organizations,” those entities, arguably, the furthest from the executive branch.

**Federal Organization and Management: The Traditional View Under Question**

It was the intent of the framers of the Constitution that the authority and organization of the executive branch be as much as possible unified under the President, and that Congress be the source to which accountability was rendered. This theoretical proposition was put into practice when the first Congress convened in 1789. One of the first orders of business was the establishment of executive departments. Three “organic” statutes were enacted creating three “great” departments; Treasury, State, and War. The heads of these departments were directly responsible to the President and were his agents (and thus the agency chiefs were removable by him), but ultimately accountable for policy purposes to Congress. All the particular functions of the newly created executive branch, save that of delivering the mail, were entrusted to these departments.

With respect to fundamental authorities and lines of accountability, however, the executive branch has never been a pristine unity. From the decision in the first Congress to give the comptroller in the Department of the Treasury a substantial degree of legal autonomy within the department, down to the more recent “independent counsels” functioning in an uneasy relationship with the executive branch, not all officers have been directly accountable to the President. These exceptions notwithstanding, the prevailing organizational norm has historically been toward an executive accountable to the President.

Reinforcing the hierarchical concept of the accountable executive has been the view that authority ought to be assigned by delegation from the President or department heads to subordinate officers, rather than being assigned directly by Congress to a nondepartment head. The first

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9 In the administration of James Monroe (1817-1825), the President objected to a proposal to establish the Patent Office as an agency independent of any executive department. He argued that such a proposal would result in a usurpation of his powers as President. “I have always thought that every institution of whatever nature soever it might be, ought to be (continued...)
substantial breaks with this concept did not occur until the creation of the Civil Service Commission in 1883 and the Interstate Commerce Commission in 1887. Subsequently, more independent regulatory commissions would be added. In the 20th century, an increasing number of “independent” agencies were established, the term “independent” meaning that an agency was not established within a department (e.g., Tennessee Valley Authority; National Aeronautic and Space Administration). Nonetheless, the independent agencies generally remained full government agencies operating under all the general management laws,10 except where exempted.

The view that all government activities should be accountable in some manner to politically responsible officials received its most forceful iteration in the 20th century in the Hoover Commission report of 1949:

[The] organization and administration of the Government ... must establish a clear line of control from the President to these department and agency heads and from them to their subordinates with correlative responsibility from these officials to the President, cutting through the barriers which in many cases made bureaus and agencies partially independent of the Chief Executive.11

Through the 1950s the organization and management of the executive branch generally followed some basic rules. If an entity was established by Congress to accomplish a public purpose, the probability was that it was an agency of the United States operating under the general management laws enforced by the President. These values, originating with the founding fathers, as reinterpreted by the Progressives, featured the centrality of public law, departmental integration and political accountability. The President was viewed as the chief manager of the administrative system.12 The governmental and private sectors cooperated, but were kept legally distinct in the interests of protecting citizens’ rights against a potentially arbitrary government.

These values began to be challenged in the 1960s as evidenced in the establishment of the Communications Satellite Corporation (ComSat) in 1962. Congress, in this instance, created a private, for-profit corporation indicating a more flexible attitude towards organizational innovation. Additional organizations appeared that were intentionally mixed in their legal characteristics. The term “quasi governmental” began to appear in legislation, and unusual structures would be constructed to promote “flexibility,” even when flexibility sometimes resulted in less accountability. This was one of the arguments made for creating the Corporation for Public Broadcasting in 1967 (81 Stat. 365; 47 U.S.C. 396).13 Other factors began to further erode the accountable executive model, such as greater dependence upon third parties, usually private contractors, for the performance of governmental functions.14 The number of full-time civil

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servants in the federal government as a percentage of the workforce began what was to become a substantial decline, a decline accelerated in recent years.\textsuperscript{15}

In the late 1980s, the concept of legally distinctive governmental and private sectors began to be seriously questioned.\textsuperscript{16} In its place a “new public management” concept emerged that argued that the governmental and private sectors were essentially alike and subject to the same, economic based, behavioral norms and practices. Internationally, the New Public Management (NPM)\textsuperscript{17} movement, coupled with the movement toward privatization of governmental agencies and programs, became the reigning orthodoxy. Many elements of NPM were to be found in Vice President Albert J. Gore’s National Performance Review (NPR),\textsuperscript{18} which sought to “reinvent” some executive branch units and create corporate style, entrepreneurial structures.\textsuperscript{19}

The purported, and often realized, strength of entrepreneurial management lies in the flexibility it provides managers to improve the performance of their agencies. Performance in the entrepreneurial context, is usually measured in “output” or “results” terms, rather than in conformance to process regulations. Hence, risk-taking by managers to achieve improved performance is to some degree accepted and encouraged. The evidence thus far available suggests that the new, entrepreneurial management has resulted in improved management in many executive agencies. On the other hand, simply improving performance, as was the case with the Internal Revenue Service in the early 1990s, has occasionally proven politically counterproductive to the agency if the improved performance (in this case increased tax collections) came at the apparent expense of other values, such as due process of law. The rapid ascendency of these “new” values in the United States has not been without challenge\textsuperscript{20} and has

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\textsuperscript{18} The term National Performance Review (NPR) refers both to a report and to an organization. In 1993, under Vice President Al Gore’s leadership, the NPR issued a report titled: \textit{From Red Tape to Results: Creating a Government That Works Better and Costs Less} (Washington: GPO, 1993). The NPR, a nonstatutory organization, continued to issue reports through 1997 (e.g., \textit{Businesslike Government: Lessons Learned from America’s Best Companies}, 1997). In 1998, the NPR organization changed its name to the National Partnership for Reinventing Government. For a critical overview of the “reinventing government” exercise, see Michael E. Norris, \textit{Reinventing the Administrative State} (Lanham, MD: University Press of America, 2000).


\textsuperscript{20} The debate between those supporting the entrepreneurial government management paradigm and those supporting a
had consequences with respect to the quasi government, as will be discussed more fully later in the report.

Quasi Governmental Organizations

Quasi Official Agencies

Within the quasi government, it is possible to begin with those entities that are, arguably, closest to the executive branch. The United States Government Manual, 2009-2010, contains a section titled; “Quasi-Official Agencies,” listing four entities: Legal Services Corporation; the Smithsonian Institution; State Justice Institute; and the United States Institute of Peace. In prior years, other entities have been accorded this designation, for example, the National Railroad Passenger Corporation (AMTRAK); the National Consumer Cooperative Bank; and the National Academy of Sciences. The category is something of a “catchall” designation to include entities the National Archives and Records Administration (NARA), compilers of the Manual, find difficult to comfortably fit elsewhere. Insofar as NARA provides a defining characteristic for quasi-official agencies, it is that they “are not executive agencies under the definition of 5 U.S.C. 105 but are required by statute to publish certain information on their programs and activities in the Federal Register,” also published by NARA.

The issues associated with quasi official agencies tend to be related to their legal status. Because they occupy a realm between the private and the public, a quasi governmental entity may find it in its interest to assert its private or governmental status. Quasi official agencies, like other elements of the quasi government, may exist in what has been called “the twilight zone” between the governmental and private sectors. This status, while presumably permitting considerable autonomy from regular lines of accountability to managerial agencies (e.g., the Government Accountability Office) is not, as is often argued in their defense, protection from “political influences.” Quasi-official agencies, like other forms of quasi governmental institutions, may sometimes be highly “political,” and subject to pressures not dissimilar to that encountered by regular executive agencies.

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21 U.S. Office of the Federal Register, National Archives and Records Administration, United States Government Manual, 2009-2010 (Washington: GPO, 2010), pp. 543-560. The Manual also lists separately “Selected Multilateral Organizations” (e.g., the International Atomic Energy Agency) and “selected bilateral organizations” (e.g., the Great Lakes Fishery Commission). Ibid., pp. 563-574.

22 Ibid., p. 543.


24 One argument often made when proposing independence, autonomy, or quasi governmental status for an agency is that such a move will result in less political and interest group pressures being brought to bear on the agency. That such an assertion is often not the case is illustrated by a study of the Social Security Administration (SSA), made independent of the Department of Health and Human Services (HHS) in 1994. “Few if any putative benefits from
Government-Sponsored Enterprises

Distinctions between the governmental and private sectors are especially blurred with respect to a category of organization known as “government-sponsored enterprises” (GSE). There is no established criteria defining standards to be met prior to the establishment of a GSE, nor is there a listing of GSEs in the U.S. Code. Each GSE is created sui generis with its attributes defined by Congress in its enabling legislation. For the purpose of budgetary treatment, Congress defined the term “government-sponsored enterprise” in the Omnibus Reconciliation Act of 1990 to refer to a corporate entity created by a law of the United States that—

(A) (i) has a Federal charter authorized by law;

(ii) is privately owned, as evidenced by capital stock owned by private entities or individuals;

(iii) is under the direction of a board of directors, a majority of which is elected by private owners;

(iv) is a financial institution with power to—

(I) make loans or loan guarantees for limited purposes such as to provide credit for specific borrowers or one sector; and

(II) raise funds by borrowing (which does not carry the full faith and credit of the Federal Government) or to guarantee the debt of others in unlimited amounts; and

(B) (i) does not exercise powers that are reserved to the Government as sovereign (such as the power to tax or to regulate interstate commerce);

(ii) does not have the power to commit the Government financially (but it may be a recipient of a loan guarantee commitment made by the Government); and

(iii) has employees whose salaries and expenses are paid by the enterprise and are not Federal employees subject to title 5.25

Few scholars of public administration and finance are likely to argue that this definition is incorrect. However, some have argued that the above definition omits an essential characteristic—a GSE “benefits from an implicit federal guarantee to enhance its ability to...

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reorganization have been realized by the SSA. Removing the agency from HHS has meant, of course, independence from the agency’s policy tendencies, but it has left the SSA more exposed to its various clientele or constituency groups and to congressional and executive branch politics of divided government.” David G. Smith, “Organizational Models for Restructuring Fee-for-Service Medicare,” in Robert D. Reischauer, Stuart Butler, and Judith Lave, eds., Medicare: Preparing for the Challenges of the 21st Century (Washington: National Academy of Social Insurance, 1998), p. 230; and J.L. Mashaw, “Reinventing Government and Regulatory Reform, Studies in the Neglect and Abuse of Administrative Law,” University of Pittsburgh Law Review, vol. 57, 1996, pp. 405-22.

borrow money.”26 While the details may vary from one instance to the next, GSEs typically have four characteristics:

- private ownership;
- implicit federal guarantee of obligations;
- activities limited by congressional charter; and
- limited competition.

Congress created GSEs to help make credit more readily available to sectors of the economy believed to be disadvantaged in the credit markets.27 GSEs provide financial services such as issuing capital stock and short- and long-term debt instruments, guaranteeing mortgage-backed securities (MBS), purchasing loans and holding them in their own portfolio, funding activities (e.g., subsidized mortgages in selected areas), and collecting fees for guarantees and other services.28

GSEs are part of a tradition of mercantilist financial institutions in that the government assigns them benefits and privileges in their charters that are not available to fully private corporations.29 In return, the government is able to limit the activities and lines of business of GSEs and require them to promote selected public policy objectives. The present GSEs are traceable in concept to several enterprises created during the Great Depression.30

There are five GSEs. Three of the GSEs—Federal National Mortgage Association (Fannie Mae), Federal Home Loan Mortgage Corporation (Freddie Mac), and the Federal Agricultural Mortgage Corporation (Farmer Mac)—were designed to be investor-owned. The two others—the Federal Home Loan Bank System and the Farm Credit System—are owned cooperatively by their borrowers.31

Advocates of the GSEs and the economic concepts upon which they are based argue that GSEs continue to meet a national need that would not otherwise be met or be met poorly by corporations fully in the private sector. Further, they contend that the current GSEs are generally well managed, financially sound, and assist less-advantaged mortgage borrowers. They maintain

30 The Farm Credit Banks, however, pre-date the Depression, having been established in 1916 (39 Stat. 360).
31 In addition, two institutions—the Financing Corporation and the Resolution Funding Corporation—are governmental bodies that were given GSE status so that their funding would not appear to be federal borrowing for purposes of the federal budget. Sallie Mae (Student Loan Marketing Association) used to be a GSE. Now it is a wholly private firm. J. E. Dean, S. L. Moskowitz, and K. L. Cipriani, “Implications of Privatization of Sallie Mae,” Journal of Public Budgeting, Accounting and Financial Management, vol. 11, spring 1999, pp. 56-80; and J. Kevin Corder and Susan M. Hoffman, “Privatizing Federal Credit Programs: Why Sallie Mae?” Public Administration Review, vol. 64, March/April 2004, pp. 180-191.
that the subsidy retained from the presence of the federal implied guarantee of GSE obligations is passed on to the consumer in the form of lower mortgage rates. Fannie Mae, in a national advertising campaign, suggested that its special GSE status is worth a quarter of a percent in mortgage interest and thus 400,000 families are provided mortgages that would not otherwise be qualified to do so. “At Fannie Mae, we have one job. One mission. One purpose. To do whatever we can to lower the cost of home ownership.”

The economic rationale for GSEs is the belief that without such a government sponsored institution, a critical area of necessary debt financing would go unserved, or would be serviced at an expensive or inefficient level. Government, according to this rationale, should use some of its sovereign powers (e.g., full faith and credit of the U.S. Treasury) to encourage the development of private financial intermediaries to serve selected markets. In terms of meeting their original congressional objective, that was to liquify the mortgage credit markets on a national rather than regional or state basis, the GSEs have been remarkably successful.

However, GSEs have been criticized on two broad fronts. First, there is the matter of accountability. GSE management must respond to both governmental overseers and their shareholders. Not surprisingly, these two masters often have very different wants. Additionally, the great size and wealth of the investor-held GSEs enabled them to afford to spend heavily on congressional lobbying. More than a few media reports have attributed great political influence to Fannie Mae and Freddie Mac.

The second criticism of GSEs regards their financial safety and soundness. Due to their ability to borrow money at lower interest rates than private lenders, GSEs can grow very quickly. The combined mortgage portfolios of Fannie Mae and Freddie Mac grew from $136 billion in 1990 to $1.6 trillion in 2003. Congress, critics, and the GSEs’ government regulator have expressed concerns about the GSEs’ size and the systemic risk to the nation’s financial system.

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33 Some observers believe that the pressure of private shareholders is stronger than that of the federal government. Harold Seidman has remarked, “Intermingling of public and private purposes in a profit making corporation almost inevitably means subordination of public responsibilities to corporate goals. We run the danger of creating a system in which we privatize profits and socialize losses.” Harold Seidman, Politics, Position, and Power: The Dynamics of Federal Organization, 5th ed. (New York: Oxford University Press, 1998), p. 213.
Concern over the condition of the GSEs was heightened in 2003 and 2004 when significant accounting irregularities were discovered at both Freddie Mac and Fannie Mae. Both companies had to restate their earnings. In response, the 108th and 109th Congresses held hearings and considered legislation that would fundamentally alter the regulations and regulatory agencies for overseeing GSEs.

On September 7, 2008, critics’ fears materialized—the U.S. Treasury placed the two investor-held GSEs, Fannie Mae and Freddie Mac, into government conservatorship. Then Secretary of the Treasury, Henry M. Paulson, Jr., said this was done to provide stability to financial markets, support the availability of mortgage finance, and protect taxpayers. He stated that policymakers now faced the challenge of resolving “the systemic risk created by the inherent conflict in the GSE structure.” Since then, the U.S. Treasury has provided $150 billion in direct support to the GSEs and the Treasury and the Federal Reserve have purchased nearly $1.4 trillion in GSE-issued and guaranteed mortgage-backed securities.

Notably, this was not the first time that the GSEs had experienced significant operational turbulence. In 1988, the federal government thought it prudent to authorize $8 billion of financial assistance for one insolvent GSE, the Farm Credit System. Also, Fannie Mae was in trouble in the early 1980s, when its capitalization dropped until the corporation had a negative net worth of $11 billion.

Federally Funded Research and Development Centers (FFRDCs)

One category of organization in the quasi government is largely a World War II and immediate postwar phenomenon, the federally funded research and development center (FFRDC). The FFRDC is a hybrid organization designed to meet a federal need through the use of private organizations. In World War II, there was a national emergency requirement that scientific and engineering talent be rapidly assembled and put to work. National laboratories such as those at Oak Ridge and Los Alamos were created to be government owned, but operated by non-federal organizations which were not fettered by civil service rules or most general management laws. Under wartime conditions, these government-owned, contractor operated (GOCO) facilities worked quite well. Immediately after the war, the new Department of Defense, and particularly the Air Force, was reluctant to part with this talent base they had assembled, and sought ways and means to keep them in service to the government. The decision was to establish some private,

40 In testimony before the Senate Banking Committee, Federal Reserve Board Chairman Alan Greenspan, noted a paradox facing Congress in “fixing” the regulatory apparatus for GSEs. “[W]orld-class regulation, by itself, may even worsen the situation if market participants infer from such regulation that the government is all the more likely to back GSE debt.” Testimony of the Alan Greenspan, Chairman, Board of Governors of the Federal Reserve System, in U.S. Congress, Senate Committee on Banking, Housing, and Urban Affairs, Proposals for Improving the Regulation of the Housing Government Sponsored Enterprises, hearings, 108th Cong., 2nd sess., February 24, 2004, p. 9.
41 CRS Report RS22950, Fannie Mae and Freddie Mac in Conservatorship, by Mark Jickling.
44 For a brief history of FFRDCs, consult: James S. Hostetler, Federally Funded Research and Development Centers: A Proper Role in the 1990s (Vienna, VA: Professional Services Council, 1990).
nonprofit corporations to do contract work for the armed services. These corporations would be solely or largely dependent upon the federal government contracted projects.

The first FFRDC was RAND, created by the Air Force in California in 1947. This pioneer was followed over the years by such well-known FFRDCs as Mitre Corporation, Aerospace, and the Institute for Defense Analyses. According to the National Science Foundation (NSF), there were 39 FFRDCs as of April 2010. Various FFRDCs have ceased to be listed, although not all those unlisted have ceased to exist; in several instances they have been transformed into private organizations. This, though, does not mean that FFRDCs are fading away. In the past decade, a new FFRDC was established by the Internal Revenue Service, and Congress authorized the Department of Homeland Security to establish an FFRDC (P.L. 107-296, Title III). Although the Departments of Defense and Energy account for the bulk of the FFRDCs, other federal entities have FFRDCs, including the National Science Foundation, the Federal Aviation Administration, and the Department of Homeland Security, to name just a few. According to the most up-to-date data available, annual federal obligations to FFRDCs were approximately $9.5 billion in FY2009.

In past years, critics have complained that FFRDCs provide fertile grounds for activities that inappropriately mix public funds and private interests. Critics see favoritism when FFRDCs receive large contracts without competitive bidding. Critics have also pointed to the interflow of personnel between government agencies, FFRDCs, and companies that work for FFRDCs. Critics say there is a revolving door between these entities and they decry “interlocking directorships” that arise (such as when a former Secretary of Defense took board positions at RAND and General Dynamics Corp.). This latter charge is particularly significant because FFRDCs are supposed to be expertise-based organizations that are to impartially oversee the use of federal funds that are to advance a governmental purpose.

The great strength of FFRDCs appears to lie in their flexibility to assemble teams of technical experts on a project basis. High on the list of positive results supporters claim for FFRDCs is their ability to promote technology transfers between the governmental and private sectors. The knowledge base created by the agencies’ use of FFRDCs often serves as a foundation for commercially relevant efforts in the private sector. The United States, some contend, is not as effective as other nations in taking the results of basic research and transforming them into commercially viable products to be sold in world markets. FFRDCs are intended to promote and facilitate this transfer and development process.

46 The NSF list of FFRDCs may be found at http://www.nsf.gov/statistics/ffrdclist/.
Congress has been interested in FFRDCs almost from their inception. Some in Congress have viewed the FFRDCs as a means to circumvent civil service hiring practices and salary limitations. FFRDCs have an advantage in competing with private firms for contracts: as nonprofit corporations, they are exempt from most taxation; their facilities and equipment are owned or financed, for the most part, by the federal government, and they receive fees for operating expenses without having to assume business risks or costs associated with competing for most federal work.

Questions by Congress have led to hearings, warnings, and some changes in law (e.g., Competition in Contracting Act of 1984; 98 Stat. 1175) that reduced the scope of contract work available to FFRDCs, making more outsourced work available to competitive contracting. Also, Congress has limited the power of the Secretaries of Defense, Army, Navy, Airforce, and the heads of some other agencies to create FFRDCs (10 U.S.C. 2367).

Unusual and sensitive issues of conflict of interest may be present with FFRDCs, particularly when a FFRDC is an affiliate of a non-FFRDC corporation. FFRDCs often have privileged access to government information, plans, data, employees, and facilities which may be difficult to insulate from private partners involved in for-profit activities. Critics maintain that unbiased advice may also be difficult to provide when the future or fate of the advising FFRDC may be adversely affected.

Federal management of FFRDCs is based upon the Federal Acquisition Regulation (FAR, 35.017). FAR provides guidelines to be followed in establishing, organizing, and managing FFRDCs and limits agencies' use of FFRDCs to meet "some long-term research or development need which cannot be met effectively by existing in-house or contractor resources" (FAR, 35.017).

Agency-Related Nonprofit Organizations

The term, "agency-related nonprofit corporations," represents an attempt to classify under one heading a number of different types of organizations that share one characteristic: a legal relationship with a department or agency of the federal government. These relations may differ greatly from one situation and organization to the next. To assist our review, however, nonprofit organizations with legal relationships to departments and agencies will be considered under three categories: (1) adjunct organizations under the control of a department or agency; (2) organizations independent of, but dependent upon, departments and agencies; and (3) nonprofit organizations voluntarily affiliated with departments and agencies. Generally, the latter category of organizations are established under state or District of Columbia law. These three categories are not pure by any means. While these distinctions have an arbitrary character imposed after the fact, there is nonetheless some utility in beginning the review of the agency-related nonprofit organization category within the quasi government as being of three essential types.

Adjunct Organizations Under the Control of a Department or Agency

There are, at this point, an indeterminate number of organizations under the control of a department or agency; this review must therefore be illustrative, rather than comprehensive.

Nonetheless, a survey of several such departmental or agency controlled organizations facilitates an understanding of the scope and nature of such organizations.

The Department of Agriculture makes extensive use of adjunct organizations. As of 2011, there were 18 agricultural commodity organizations (e.g., National Pork Board, National Dairy Promotion and Research Board). The Secretary of Agriculture is assigned varying degrees of authority over these boards individually. In an effort to make uniform the oversight of such boards and the processes for creating additional boards, Congress passed the Commodity Promotion, Research, and Information Act of 1996 (P.L. 104-127; 7 U.S.C. 7411).

The law permits the Secretary to establish new commodity organizations (usually referred to as “boards” or councils”) under departmental orders. The Commodity Promotion Act of 1996 is similar to a general incorporation act containing specific provisions to be included in the individual charters approved by the Secretary.

The provisions in the act respecting the annual activities and budget of the boards illustrate the type and level of secretarial and agency involvement with the boards.

SEC. 515 (e) Activities and Budgets—

(1) ACTIVITIES—Each [secretarial order to create a board] shall require the board established under the order to submit to the Secretary for approval plans and projects for promotion, research, or information relating to the agricultural commodity covered by the order.

(2) BUDGETS—

(A) SUBMISSION TO SECRETARY—Each order shall require the board established under the order to submit to the Secretary for approval a budget of its anticipated annual expenses and disbursements to be paid to administer the order. The budget shall be submitted before the beginning of the fiscal year and as frequently as may be necessary after the beginning of the fiscal year.

(B) REIMBURSEMENT OF SECRETARY—Each order shall require that the Secretary be reimbursed for all expenses incurred by the Secretary in the implementation, administration, and supervision of the order, including all referenda costs incurred in connection with the order.

The concept behind these “independent” boards and councils is to encourage the commodity interests themselves to organize and propose to the Secretary that such an organization be chartered to promote a product (e.g., milk) generically, rather than by brand-name. These boards and councils are authorized by law to finance their activities by collecting “assessments” from members according to a rate structure that has received the approval of the Secretary. Once a

The Quasi Government

The element of private influence and ultimate participation in these hybrid organizations resides in an elaborate process of referenda. As a practical matter, the commodity promotion organizations are under the supervision of the Agricultural Marketing Service (AMS), a relatively small unit within the department. The referendum provisions of the 1996 act are detailed. The boards are not established in perpetuity, but must be subject to renewal referenda no later than seven years after assessments first begin. Even the definition of a majority is complex. For instance, the referendum majority provides: “A [secretarial] order may provide for its approval in a referendum—(1) by a majority of those persons voting; (2) by persons voting for approval who represent a majority of the volume of the agricultural commodity; or (3) by a majority of those persons voting for approval who also represent a majority of the volume of the agricultural commodity.” Advance registration procedures are spelled out in the law, thereby requiring subsequent changes to also be made by law. Finally, it is the AMS that is charged with helping the boards administer the referendum process.

Notwithstanding this mandated oversight, the promotion programs, which cost producers and importers hundreds of millions of dollars a year, have been criticized by policy opponents and media critics for inappropriate spending, lax accounting, and lavish entertainments. One consequence of this publicity was that the Secretary instituted a task force to make recommendations on how the department might better oversee the boards and their programs. The report, issued in December 1999, called for implementation of 21 recommendations, all of which then-Secretary Dan Glickman endorsed. Proposed changes were submitted to the Federal Register for public comment on December 17, 1999, and the deadline for comments was extended on February 7, 2000. However, it is unclear whether these reforms were ever instituted.

Some of the agricultural advertising (check-off) programs have also faced court challenges. Small farmers providing “boutique” products have sued the Department of Agriculture, claiming the fees were “government compelled speech”—a violation of the First Amendment of the U.S. Constitution. In some of these cases, the plaintiffs have won.

Over the years, departments and agencies have found it useful and advantageous to ask Congress to create, or authorize a department to create, nonprofit organizations to perform functions that

55 In 2003, AMS reported that the assessments for all promotion programs came to over $700 million. Agricultural Marketing Service, “AMS Commodity Research and Marketing Boards” (Washington: April 28, 2004). An e-mail and phone call to AMS in late January 2009 seeking a more recent figure failed to elicit a response.
57 See Department of Agriculture, Agricultural Marketing Service, “Guidelines for AMS Oversight of Commodity Research and Promotion Programs,” 64 Federal Register 70682-70686; and 65 Federal Register 5853, February 7, 2000. No further notices concerning these reforms have been published in the Federal Register. An e-mail and phone call to AMS in late January 2009 seeking further information failed to yield a response.
58 E.g., Joseph S. Cochran v. Anne Veneman, Department of Agriculture Secretary (3rd Cir. 03-2522, Feb. 24, 2004); Michigan Pork Producers Association, Inc. v. Veneman (348 F. 3d 157 (6th Cir. 2003)); Livestock Marketing Association v. U.S. Department of Agriculture (335 F.3d 711 (8th Cir. 2003)); and United States v. United Foods, Inc. (533 U.S. 405 (2001)) In other instances, these programs have been found to be constitutional. See Johanns, Secretary of Agriculture, et. al. v. Livestock Marketing Association (125 S. Ct. 2055(2005))
the department itself finds difficult to integrate into its regular policy and financial processes. This is true, for example, when a department or agency receives gifts of real property and monetary gifts. The National Park Foundation is the most prominent example of such an organization, but there are others, such as the National Fish and Wildlife Foundation.

The Department of the Interior, and especially the National Park Service, received gifts of land and monies from time to time to promote the programs of the department. With respect to the National Park Service (NPS), a National Park Trust Fund was established by Congress in 1935 to receive and hold such gifts. In 1967, the trust was superseded by the National Park Foundation (NPF), established pursuant to law (81 Stat. 656; 16 U.S.C. 19e-19n). The NPF is a congressionally chartered nonprofit corporation organized to accept and administer gifts given to the NPS. The board of the NPF has as its members the Secretary of the Interior, the Director of the NPS, ex-officio, and “no less than six private citizens appointed by the Secretary.” In recent years, the board has had more than 20 members. The term for private citizens on the board is six years. The Secretary of the Interior is chairman of the board and the Director of NPS is secretary to the board. The board elects a president of the foundation who serves at its pleasure. Membership on the board is not deemed to be an office of the United States. The NPF has perpetual succession.

Funding for the NPF comes from private gifts. One of the main initial purposes of the foundation was to permit the NPS to have a means whereby it might receive gifts and invest these funds in something other than federal government securities. The foundation is not on-budget and its employees are not federal employees. In FY2010, the NPF provided over $22.3 million in program grants and program support to the National Park Service.59

The foundation is viewed as an adjunct activity of the department and NPS, and is controlled by these agencies. The appointment process to the board is the Secretary’s principal insurance that the NPF will adhere to the general policy framework of the department.

Finally, the situation of the Securities and Exchange Commission (SEC) and its two adjunct organizations is worth noting. Congress established the Securities Investor Protection Corporation (SIPC) in 1970 (84 Stat. 1636) to assure that cash and securities held in brokerage firms are protected from loss caused by securities firms’ failures. The SIPC is a nonprofit corporation under the District of Columbia Nonprofit Act, which provides that it “shall not be an agency or establishment of the United States Government.” Of the seven-member board of directors, one is appointed by the Secretary of the Treasury from among the department’s officers and employees; one is appointed by members of the Federal Reserve Board from among its officers and employees; five directors are appointed by the President subject to the advice and consent of the Senate. The President designates the chairman, who is also the corporation’s chief executive officer.

Although the SIPC is a nonprofit corporation under the D.C. law, it is effectively a subsidiary of the SEC. The corporation’s bylaws are subject to the SEC’s adoption, amendment, or rejection. The hybrid nature of the SIPC is revealed by various legal characteristics. The SIPC is not under any of the general management laws, including the Government Corporation Control Act (31 U.S.C. 9102). However, to the extent that the bylaws and rules of the SIPC are approved or

disapproved by the SEC, they are subject to the Administrative Procedure Act (5 U.S.C. 551 et seq.). The corporation also has borrowing authority and a line of credit from the Treasury.

Congress, in 2002, established the Public Company Accounting Oversight Board (PCAOB) (116 Stat. 745) to oversee the audit of public companies that are subject to securities laws. The board is also a nonprofit corporation under the DC Nonprofit Corporation Act. Officers of the board are not officers of the United States. Yet the board is required, under supervision of the SEC, to “establish or adopt, or both, by rule, auditing, quality control, ethics, independence, and other standards relating to the preparation of audit reports by issuers.” The SEC appoints the five members of the full-time board, after consultation with the chairman of the Board of Governors of the Federal Reserve System and the Secretary of the Treasury. The Commission may remove members of the board “for good cause.” The rules of the board are subject to the approval of the Commission. Some observers were troubled that at the organizing meeting of this “private” board on January 9, 2003, the board voted themselves annual salaries of $452,000, or $52,000 more than the President of the United States and $207,000 more than the chairman of the SEC. Similar private sector salaries were set for staff.

The stories of the SIPC and the PCAOB illustrate how the government can create a hybrid organization, in these instances organizations with predominately private-sector legal characteristics, to implement government policies and regulations. Ultimately, the SPIC and the PCAOB are agents of and accountable to the government through the SEC. The wisdom (and for some the legality) of this practice of delegating governmental functions to ostensibly private parties is a legitimate subject of debate.

**Organizations Independent of, But Dependent Upon, Agencies**

The Henry M. Jackson Foundation provides an example of an organization independent of, but dependent upon, an agency of the federal government. In 1982, Congress passed legislation to establish a Foundation for the Advancement of Military Medicine (P.L. 98-36; 97 Stat. 200). Five months later, the foundation was renamed the Henry M. Jackson Foundation after a Senator with a long record of support for military medicine. The enabling legislation provided that the foundation

> shall not for any purpose be an agency or instrumentality of the United States Government. The Foundation shall be subject to the provisions of this section and, to the extent not inconsistent with this section, the Corporations and Associations Act of the State of Maryland.

This language indicates there is intended to be legal distance between the nonprofit organization and the United States government.

The mission of the foundation, by contrast, emphasizes that a close organizational relationship be established between the foundation and the Uniformed Services University of the Health Sciences (USU) of the Department of Health and Human Services.

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It shall be the purpose of the Foundation (1) to carry out medical research and education research projects under cooperative agreements with the USU; (2) to serve as a focus for interchange between military and civilian medical personnel, and (3) to encourage the participation of the medical, dental, nursing, veterinary, and other biomedical sciences in the work of the Foundation for the mutual benefit of military and civilian medicine (10 U.S.C. 178).

The nine-member board of the foundation includes two current Senators and two Representatives serving in an ex-officio capacity.

The foundation works to develop a research infrastructure involving federal military medical personnel and private medical personnel and facilities. It is affiliated with the USU and receives funding from private sources as well as the USU. The foundation provides research and grants management services to military medical researchers; manages clinical trials and develops private-public partnerships; and provides general support for military medical education. The foundation employs 1,600 persons and supports or administers over 1,000 research projects.61

The question arises: why is such a foundation needed? The foundation has said, “Because government employees cannot accept money or in-kind gifts from private sources, the Foundation serves a vital function by facilitating collaborative relationships between private industry, academia, and military medicine.”62

Similarly, the Department of Veterans Affairs (VA) has a network of nonprofit corporations attached to its medical centers. By law (P.L. 100-322; 102 Stat. 487), the Secretary may authorize the establishment at any VA medical center of a nonprofit research and education corporation (NPC), to be chartered under the resident state law, “to provide a flexible funding mechanism for the conduct of approved research.”63 The law reads: “Except as otherwise required in this subchapter or under regulations prescribed by the Secretary, any such corporation, and its directors and employees, shall be required to comply only with those Federal laws, regulations, and executive orders and directives which apply generally to private nonprofit corporations.” (38 U.S.C. 7361(a)).64

As of 2009, the latest data available, 86 NPCs existed, with at least one in 41 states.65 They derive their funds from both federal and non-federal sources. In 2009, NPCs reported $240.7 million in revenues, and $241.9 million in expenditures.66

The Secretary appoints the boards of all corporations, which must in each instance include the director of the medical center, the chief of staff and assistant chief of staff of the medical center,

63 These entities have also been referred to as medical center research organizations.
65 These data were drawn from National Association of Veterans’ Research and Education Foundations (NAVREF), Department of Veterans Affairs (VA) Affiliated Nonprofit Research and Education Corporations (NPC), 2009 Annual Report with Supporting Financial Documents (Bethesda, MD: NAVREF, 2009), p. 1.
66 Ibid., pp. 2 and 5.
and such other public members as the bylaws of the corporation direct. Each of the corporations has an executive director appointed by the board of directors with the concurrence of the Chief Medical Director of the department. The corporation may employ such employees as it considers necessary and fix their compensation. The corporations come under the jurisdiction of the department’s Inspector General. The directors and employees of the corporation “shall be subject to Federal laws and regulations applicable to Federal employees with respect to conflicts of interest in the performance of official functions” (38 U.S.C. 7366(c)(1)).

The medical center research organizations concept is not without its critics. Some NPCs have been faulted for expending funds on items not directly related to research (such as gifts and entertainment) and have been cited as in need of improved “accountability and oversight related to the administration of funds.”\(^\text{67}\) However, GAO also has reported that NPCs, have enhanced VA research efforts. Funds collected by these nonprofits have been used to renovate laboratory space, purchase equipment, maintain VA research libraries, and cover travel expenses to conferences. In turn, the research environment has been able to attract highly qualified physicians, who often provide patient care, as well.\(^\text{68}\)

**Nonprofit Organizations Affiliated with Departments or Agencies**

There are also nonprofit organizations, chartered under state law, that voluntarily affiliate with a departmental or agency program. This option has recently been reflected in law and applied by the Department of the Interior. As discussed above, the National Park Foundation (NPF) is appropriately viewed as an “adjunct organization under the control of a department or agency,” in this case the National Park Service of the Department of the Interior. The NPF was authorized by the National Park Omnibus Management Act of 1998 (P.L. 105-391; 16 U.S.C. 190) to encourage the creation of nonprofit organizations with state charters to “assist and promote [philanthropy] at the individual national park unit level.” The intent of this program is to create a large number (“the greatest number of national park units practicable”) of local fund-raising partner organizations (“Park Partners”), each tied to a specific national park or national park program. For purposes of this report, it is worth noting that these Park Partners are to be created by persons within a community under their own state laws.

It is intended that the Park Partners will voluntarily “affiliate” with the foundation. The law instructs the foundation to include in its program encouraging the creation of Park Partners:

1. a standard adaptable organizational design format to establish and sustain responsible management of a local nonprofit support organization for support of a national park unit;

\(^{67}\) Statement of Michael Slachta, Jr., Assistant Inspector General for Auditing, in U.S. Congress, Subcommittee on Oversight and Investigation and Subcommittee on Health, House Committee on Veterans’ Affairs, VA Research and NonProfit VA Research and Education Corporations, 107th Cong., 2nd sess., May 16, 2002 (Washington, GPO, 2003), pp. 4-6, quote at p. 5.

(2) standard and legally tenable bylaws and recommended money-handling procedures that can easily be adapted as applied to individual national park units; and

(3) a standard training curriculum to orient and expand the operating expertise of personnel employed by local nonprofit support organizations. (16 U.S.C. 19o(d)).

A number of Park Partner organizations, some in existence prior to the law, are operating today in support of specific parks such as Grand Teton, Glacier, and Sequoia. Since there are over 375 park properties within the system, the number of possible Park Partner nonprofit corporations is considerable. Although the clear intention of the legislation is that the local nonprofit corporations become affiliated with the Park Partner program of the foundation, the ultimate authority and accountability of the corporations remains with the local organization. The law provides: “An affiliation with the Foundation shall be established only at the discretion of the governing board of a nonprofit organization.” (16 U.S.C. 19o(f)(2))

**Venture Capital Funds**

Hybrid organizations assigned by Congress to the quasi government perform a wide variety of functions in both the domestic and international arenas. With respect to the latter, the case of “venture capital funds” is especially interesting, a term which encompasses more narrowly defined “enterprise funds” and “investment funds.”

The fall of Communism in eastern Europe and elsewhere in 1989 prompted interest by the United States, and especially Congress, in assisting those nations committed to a transition from a centrally planned to a market economy. The Support for Eastern European Democracy Act of 1990 (SEED) authorized the establishment of two “enterprise funds,” one in Poland and the other in Hungary (P.L. 101-179; 22 U.S.C. 5401). More recently, the desire to promote a transition to democracy in Egypt and Tunisia has prompted the proposal of enterprise funds.

The impetus for the enterprise fund concept came about from the belief that a non-governmental entity was needed to implement this kind of program. The intent of Congress in SEED was to create venture capital funds that would be designed along private sector lines, managed by private sector executives, and be free of most government administrative constraints.

The enterprise funds were chartered as private nonprofit corporations under the laws of the state of Delaware, but are funded by government appropriations. Their purpose was to develop the respective national private sectors through “loans, grants, equity investments, feasibility studies, technical assistance, training, insurance, guarantees and other measures” (22 U.S.C. 5421(a)(2)). The statute stated that the funds could be “made available to the Polish-American Enterprise Fund and the Hungarian-American Enterprise Fund and used for the purposes of this section notwithstanding any other provision of law” (22. U.S.C. 5421(c)).

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70 Later the legislation was amended to authorize the creation of enterprise funds in other eastern European countries, including the republics of the former Soviet Union, and the southern Africa region. By the end of 1995, there were 11 such funds.

71 Senator John F. Kerry introduced S. 618, the Egyptian-American Enterprise Fund Act, into the 112th Congress on March 17, 2011.
At the same time as the enterprise funds were being established, the Overseas Private Investment Corporation (OPIC), a wholly owned federal government corporation, was itself becoming involved in promoting private investments through “investment funds” established in the former communist states. OPIC’s principal mission is to provide political risk insurance and loan guarantees to U.S. corporations that make investments in selected developing countries. Although OPIC is prohibited from making direct equity investments, it may achieve approximately the same results by guaranteeing loans made to private, profit-seeking corporate investment funds. “OPIC-supported funds are among the largest providers of private equity capital to emerging markets. Since 1987, OPIC has committed (as of FY2005) over $2.6 billion in funding to 32 private equity funds.”

In the case of both the enterprise funds and OPIC’s investment funds, the intent was to have a pool of money to be assigned by a private management team to promising new or existing ventures. It is not the intent of this report to evaluate the programmatic success or failure of these investment programs, that is best found elsewhere. Principal attention here is directed to some of the organizational characteristics of these venture capital funds and how they relate to the executive and legislative branches.

With respect to enterprise funds, it was the intention of Congress that executive branch oversight of the funds be limited, a “hands off” policy. Initially, State Department and AID oversight of the enterprise funds consisted principally of an annual review by the AID IG, audits performed by certified public accounting firms selected by the enterprises, monthly reports on grant cash balances, semiannual reviews of the investment portfolios, and brief visits to both the U.S. and overseas fund offices. Various news accounts of alleged excesses and failures of the funds prompted both Congress and the executive branch, however, to subsequently strengthen the oversight of AID, although the funds retained most of their autonomy.

The enterprise funds were chartered as nonprofit corporations under the laws of the state of Delaware and governed by a board of directors “designated” by the President of the United States and elected by the existing board members. Their directors are not “officers” of the United States and hence are not subject to Senate confirmation.

The OPIC investment funds are not in the business of directly providing capital themselves, rather they provide guarantees to private lenders who, in turn, lend money to recipients. OPIC is a government corporation enumerated in the Government Corporation Control Act and, as such, is a regular agency of the United States subject to the general management laws, except where exempted. It is governed by a 15-member board of directors, a number that includes in an ex officio capacity various senior presidential appointees, as well as seven direct presidential appointees (22 U.S.C. 2193(b)). The board is chaired by the Administrator of AID. It is the President who appoints OPIC’s president, subject to Senate confirmation.

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Congress requires OPIC to undergo annual budgetary review, and the office is sometimes criticized on the basis that its insurance programs amount to a subsidy to some prosperous American corporations at taxpayers’ expense. OPIC has been able to keep relatively close oversight of its investment funds through its active role in selecting fund management and in negotiating terms of the loan guaranty agreements, terms that generally provide for favorable returns to OPIC. The objective of OPIC’s investment fund oversight is to insure compliance with the loan agreement, not necessarily to review or evaluate the fund’s investments in terms of good economic returns. Thus, compliance, rather than performance, is the primary focus of OPIC’s fund oversight.

In reviewing the comparative experience of enterprise and investment funds as part of a larger national venture capital promotion exercise, Koppell concludes that the federal government has the best opportunity to maintain a modicum of accountability over these institutions through enforcement of regulatory practices, rather than attempting to run these quasi governmental bodies through direct administrative means. Koppel does not award the board of directors concept high marks as an effective method to promote accountability.

The issue of tenure is pertinent to venture capital funds. Are they intended to be permanent or temporary? Although Congress did not address this question directly with respect to enterprise funds, arguably they were designed to serve as temporary entities set-up to aid nations in their transitions to market-based economies. Accordingly, in September 2001, the Polish-American Enterprise Fund (PAEF) returned $120 million of its assets to the U.S. Treasury and transferred $180 million of its assets to the newly created Polish American Freedom Foundation—an entity which had previously received $80 million from PAEF. The funds are to be used to provide grants to promote economic reform, leadership development among Polish citizens, a stronger civil society, improved local government, and more. Similarly, the Hungarian-American Enterprise Fund has said that it would liquidate itself and return funds to the U.S. Treasury.

Venture capital funds are not exhausted by discussion of international enterprise and investment funds. In the past decade, venture capital funds have been established to fund research into technology. The first of these was “In-Q-Tel.” The announced purpose of In-Q-Tel is to permit the Central Intelligence Agency (CIA) to invest in, and thereby encourage, corporations producing technology the agency believes it will need to perform its mission in the future. Capitalized by $150 million in government funds, this nonprofit corporation is expected to be self-sufficient. On the board of directors are private corporate executives from firms such as Lockheed Martin. In the words of Gilman Louie, In-Q-Tel’s former CEO:

The best thing about In-Q-Tel, to me, is that it’s risky. The CIA and the rest of the government need to catch the entrepreneurial, risk-taking spirit that’s driving the Silicon Valley technology revolution. The CIA’s new venture may fall flat, but so what. Washington has been a zero-defect culture for too long. If we want a CIA that performs better, we’ll need to take more risks—and give our government freedom to fail.

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79 See http://www.haesf.org/about_haesf/history.html.
In-Q-Tel is not the only domestic entity of this type. In January 2002, Congress authorized the Department of the Army to create a “non-profit venture capital corporation” (P.L. 107-117, sec. 8150). The Army subsequently established OnPoint Technologies. The National Aeronautics and Space Administration has hatched its own venture capital fund, Red Planet Capital. One of the organizers of this latter entity explained, “We will invest with others in companies making products that aren’t being made elsewhere and that NASA might be able to use.” Initially, it was reported that Red Planet Capital’s ultimate objective was to produce technologies that may be developed further by NASA and be used to explore Mars. However, the current status of Red Planet Capital and its goals are unclear. It now calls itself Astrolabe Ventures and its website states that it “will consist of two venture funds (one based in Europe, the other in the United States) investing in companies that target strong commercial markets with technologies that are relevant to aerospace and related industries such as transportation and manufacturing.”

Venture capital funds in which the federal government participates, either as the only party, or in cooperation with other parties, are often controversial. This is so because such funds require the government to participate in the private equity market and, in the eyes of some, to pick “winners.”

**Congressionally Chartered Nonprofit Organizations**

Within the quasi government, a category of entities can be collectively identified as “congressionally chartered nonprofit organizations,” also referred to popularly as “title 36 corporations.” The charting by Congress of private organizations with a patriotic, charitable, historical, or educational purpose is essentially a 20th century practice. There were nearly 100 organizations listed under Subtitle II, “Patriotic and National Organizations.” Typical among these chartered organizations is the Agricultural Hall of Fame; Big Brothers and Sisters of America; and the American Legion.

Congress has authority to establish organizations within both the governmental and private sectors. In the governmental sector, the authority and responsibility to establish all agencies and all offices to be filled by appointed officers of the United States is clear. The actions of all agencies and officers of the United States are determined by public law. Congress also has authority to charter (establish) new private corporations, both for-profit and nonprofit. While Congress has exercised its prerogatives to charter for-profit corporations infrequently, there have nevertheless been several important instances, such as the establishment of the fully private, stockholder-owned Communications Satellite Corporation (ComSat) in 1962 (76 Stat. 419; 47 U.S.C. 701). Much more frequently, Congress has chartered nonprofit organizations, either in the first instance, or as a rechartering of an existing state chartered nonprofit organization.

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81 See the website of OnPoint, at http://www.onpoint.us/.
85 Title 36 of the U.S. Code, where congressionally chartered nonprofit corporations are listed with their charters, was recodified by law in 1998 (P.L. 105-225).
Title 36 corporations can, and generally do, function simultaneously under both federal and state charters. Indeed, in most instances, organizations were chartered and functioned under state laws before, often long before, receiving federal charters. Congressional authority with respect to organizations functioning essentially under state law, however, has not been free of controversy. The basis of the controversy often comes down to fundamental issues of managerial accountability, fiduciary responsibility, and rights that inhere to governmental organizations, but not to private organizations, such as the right to the full faith and credit of the United States treasury.86

In chartering patriotic, charitable, and professional organizations under Subtitle II, such as the National Academy of Public Administration (36 U.S.C. 1501), Congress does not make these organizations “agencies of the United States,” nor does it confer any powers of a governmental character, or assign any benefits. These organizations do not receive direct appropriations, they exercise no federal powers, their debts are not covered by the full faith and credit of the United States, and they do not enjoy original jurisdiction in the federal courts.

In effect, the federal chartering process usually is honorific in character. This honorific character may be misleading to the public, however, when such organizations feature statements or display logos that they are “chartered by Congress,” thus implying a direct relationship to the federal government that often does not exist. In addition, there may be an implication that Congress approves of the organizations and is somehow overseeing their activities.

Recently, the non-agency character of Title 36 corporations may have been breached. The “privatization” of the Defense Department’s Civilian Marksmanship Program and its assignment to a newly created Title 36 corporation, the Corporation for the Promotion of Rifle Practice and Firearms Safety (36 U.S.C. 407), raises questions about the limits, if any, to Congress’s authority to assign a “private” label to functions of a governmental character.87 While this corporation has some admittedly governmental attributes (e.g., upon the dissolution of the corporation, its assets would be sold and the proceeds revert to the U.S. Treasury), Congress has declared in its enabling statute that “the corporation is a private corporation, not a department, agency, or instrumentality of the United States Government.” Furthermore, the law provides that “an officer or employee of the corporation is not an officer or employee of the Government.” Whether Congress has the constitutional authority to establish an entity “private,” when in fact it has “governmental” attributes, has been subject to debate and judicial opinion.88


87 The 2004 omnibus appropriation act (P.L. 108-447, Div. K, Sec. 146) declared that the National Veterans Business Development Corporation (NVBDC), thought by some to be a wholly government corporation, to be wholly private. On NVBDC as a government corporation, see Office of the Legal Counsel, United States Department of Justice, Memorandum for Jennifer Newstead, General Counsel, Office of Management and Budget, March 19, 2004.

88 The Supreme Court in a 1995 case (Michael Lebron v. National Railway Passenger Corporation; 513 U.S. 374) addressed the question of whether Congress can declare, by statutory language, that a corporation created by Congress and assigned attributes of the state, is a “private corporation.” The National Railway Passenger Corporation (AMTRAK), established by Congress (45 U.S.C. 451) and, at that time, enumerated as a “mixed-ownership corporation” under 31 U.S.C. 9101(2), was sued by Michael Lebron for rejecting on political grounds an advertising sign he had contracted with them to display. Lebron claimed that his First Amendment rights had been abridged by (continued...)
Private, nonprofit organizations seeking federal charters under Title 36 presumably perceive value behind such charters, and indeed, such may be the case. Less apparent, however, are possible risks that might result from private, nonprofit organizations of having such a charter. A chartered private organization may lose some of its private rights and be made subject to management laws and regulations generally applicable only to agencies of the United States. Such a situation came about in 1997 when Congress amended the Federal Advisory Committee Act (5 U.S.C. Appendix; 86 Stat. 700) so as to include two Title 36 corporations, the National Academy of Public Administration and the National Academy of Sciences, under specific provisions involving the appointment, permissible activities, and reports of corporation committees doing work for executive agencies (P.L. 105-153).

This is the first instance in which Congress has made Title 36, Subtitle II corporations subject to the provisions of a general management law, and, while the action may be supportable on public policy grounds, it does, to the extent of applicable provisions, diminish the private character of the affected organizations. As such, it constitutes a precedent with implications.

Congress and the President have raised questions in the past about the consequences of granting charters to private organizations. In vetoing a corporate charter in 1965, the President raised several questions about the wisdom of continuing to grant charters on a case-by-case basis “without the benefit of clearly established criteria as to eligibility.” Congress, in 1969, responded to this presidential concern by setting out five “minimum standards” to be met by a private organization seeking a federal charter from Congress. These standards, however, did not resolve all of the questions concern the process of granting a charter, or of overseeing nonprofit organizations.

At present, federal supervision of congressionally chartered nonprofit organizations is limited. All “private corporations established under federal law,” as defined and listed in Subtitle II, are required to have independent audits annually, and to have the reports of the audits submitted to Congress (36 U.S.C. 10101). In practice, these audit reports tend to be received by the House Subcommittee on Citizenship, Refugees, Border Security, and International Law. All received audits are sent to the Government Accountability Office for review. Public access to the records...

(...continued)

AMTRAK because it is a government corporation, and therefore an agency of the United States. AMTRAK argued, on the other hand, that its legislation provides that it “will not be an agency or establishment of the United States government” and thus is not subject to constitutional provisions governing freedom of speech. The Court decided that while Congress can determine AMTRAK’s governmental status for purposes within Congress’s control (e.g., whether it is subject to statutes such as the Administrative Procedure Act), Congress cannot make the final determination of AMTRAK’s status as a government entity for purposes of determining constitutional rights of citizens affected by its actions.

92 Exceptions to this rule exist. The Corporation for the Promotion of Rifle Practice and Firearms Safety, created in 1996 by Congress, and not incorporated first in a state, is exempted (36 U.S.C. 40707) from the audit requirements otherwise applicable to Title 36 corporations (36 U.S.C. 101).
93 See, for instance, U.S. General Accounting Office, Federally Chartered Corporation: Review of the Financial (continued...)
and reports of Title 36 corporations varies. For example, the charter of the National Ski Patrol (36 U.S.C 1527) requires that its annual report be submitted each year to Congress but forbids the public printing of it. The Senate Judiciary Committee has tended to defer to the House committee on these matters. Neither the Judiciary Committees of Congress nor the Government Accountability Office tend to look over the shoulder of these organizations, or to conduct audits on their own authority.

In April 1992, House Subcommittee on Immigration and Claims Chairman Barney Frank announced that the subcommittee would no longer consider requests for charters. The reason, Frank reportedly said, was that the charters were “a nuisance,” a meaningless act; granting charters implied that Congress was exercising some sort of supervision over the groups and it was not. “When I first raised the issue, ‘What is a federal charter?’ The answer was, a federal charter is a federal charter is a federal charter.... You could make up an organization for the preservation of Albert De Salvo, the Boston Strangler. We’d have no way of checking into it.”

In the 104th Congress, the House subcommittee issued an internal policy directive that it would no longer consider any legislation to grant new federal charters because such charters were unnecessary for the operations of any charitable, nonprofit organization and falsely implied to the public that a chartered organization and its activities somehow enjoyed congressional approval. The moratorium was continued in the 105th through 111th Congresses. It is unclear whether the moratorium has been or will be renewed in the 112th Congress.

This subcommittee moratorium did not, however, stop all requests for new federal charters from becoming law. Notably, it remains possible for another committee, or for the full Congress in its plenary capacity, to “charter” nonprofit organizations and have them listed in Title 36. Most recently, during the 110th Congress a federal charter was given to the Korean War Veterans Association, Incorporated (P.L. 110-254).

Instrumentalities of Indeterminate Character

Not all the hybrid organizations fit into categories within the quasi government. Some organizations are sui generis while others partake of so many varied characteristics that they are best viewed and considered separately. Illustrative of quasi governmental entities are three examples that arguably merit discrete review.

(1) American Institute in Taiwan

(2) National Endowment for Democracy

(3) United States Investigation Services

(...continued)


American Institute in Taiwan

In December 1978, President Jimmy Carter decided to establish full diplomatic relations with the People’s Republic of China, and did so effective January 1, 1979; the two countries exchanged ambassadors on March 1, 1979. As part of the arrangement, the President agreed to end the 1954 mutual defense treaty with Taiwan and close the U.S. embassy in Taipei, the capital of the Republic of China (Taiwan).95 This decision was strongly objected to by a number of Senators, who maintained that treaties could not be terminated unilaterally by the President.96 Congress, presented with a presidential fait accompli, prepared legislation that would permit a continuing relationship with Taiwan (Republic of China) without the relationship being officially diplomatic in character.97 The decision was to establish a hybrid body that would provide a de facto rather than de jure representation. Congress enacted the Taiwan Relations Act (P.L. 96-8; 22U.S.C. 3301), signed by the President on April 10, 1979, a key provision of which was the establishment of the American Institute in Taiwan (Institute) as a private, nonprofit corporation under the laws of the District of Columbia.

The institute, to be principally located in Taiwan, was nonetheless directed to maintain its headquarters in the United States. The officers and employees of the institute are officers and employees of the United States who are “separated” from their agency during the specified period of employment within the Institute. As a practical matter, most employees are Foreign Service officers “separated” from the Department of State, who remain entitled to governmental benefits during the separation period. It was anticipated that Taiwan would establish a similar organization to the institute, which it did.

In subsequent years, political relations between the United States and the Peoples Republic of China have had their ups and downs, a situation with tangential impact on United States-Taiwan relations. These political strains have, to all appearances, not adversely impacted the functioning of the institute. The institute has generally provided an effective channel for government to government relations. Although the legal status of the institute remains intentionally ambiguous, this has not yet resulted in any major public conflicts.

National Endowment for Democracy

In 1983, the Reagan Administration requested Congress to pass legislation for “Project Democracy” to promote and support the building of democratic institutions abroad, especially in countries newly emergent from totalitarian or dictatorial rule. Although the specific Administration proposal was not adopted, Congress did enact legislation that included approval for creating a National Endowment for Democracy (NED, or Endowment). The NED proposal

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95 For a discussion of the political elements behind the President’s decision to recognize the People’s Republic of China (and the consequent withdrawal of recognition from the Republic of China), see “New Relationship with Taiwan Approved,” 1979 CQ Almanac (Washington: CQ Press, 1980), pp. 99-117.

The National Endowment for Democracy Act reads: “The Congress finds that there has been established in the District of Columbia a private, nonprofit corporation known as the National Endowment for Democracy, which is not an agency or establishment of the United States.” (4411(a)). The purpose of NED is to encourage the development of free and democratic institutions throughout the world using the two major American political parties and labor and business organizations as the tools for promoting this policy.

Although the law did not specify the creation of grantee organizations, it was generally understood at the time that four “core organizations” representing the two major political parties, American labor organizations, and American business organizations would be created as private, nonprofit organizations. The NED would not conduct democracy programs itself but would rely on core grantees. Grantees include the National Democratic Institute of International Affairs (NDI); the International Republican Institute (IRI); the American Center for International Labor Solidarity (ACILS);98 and the Center for International Private Enterprise (CIPE), which is affiliated with the U.S. Chamber of Commerce.

The rationale given for creating a hybrid status for the endowment was that for NED to support democracy building programs, especially in inhospitable countries (countries where the United States is banned by law from providing direct foreign aid, such as the People’s Republic of China and Myanmar (Burma)), it must not be viewed as an arm of the U.S. government. Additionally, the core grantee organizations are one step further removed from the government, and thus provide a fourth-party administration of the infrastructure promotion system. The endowment was envisioned principally as a conduit for funds to the grantee organizations, but has developed on its own a network for funding of other private organizations.

Under the by-laws of the organization as registered in the District of Columbia, the NED has a board of officers and directors, which has ranged over time between 13 and 30 members.99 The directors elect the president of the NED and fill vacancies among their own number. The NED board is not subject to extensive government oversight and has retained the same individual, Carl Gershman, as president since the inception of the endowment in 1983. The current chairman of the board of directors is Richard A. Gephardt, a former Member of Congress.

Funding of the NED is provided by an appropriation in the Commerce, Justice, State Appropriations Act to the Department of State to award to the NED. The total NED appropriation for FY2011 was $117.8 million (P.L. 112-10).

While the NED considers itself to be private, it must be managed under requirements of several general management laws. For instance, the endowment must comply with the provisions of the Freedom of Information Act.100 Also, while the accounts of the endowment are audited by independent firms, they are subject to review, and may be audited, by the GAO.

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98 The American Council for International Labor Solidarity, an organization created in 1997, was the result of the merger of the Free Trade Union Institute and three other AFL-CIO regional labor institutes. CRS Report 96-222, National Endowment for Democracy: Policy and Funding Issues, by Susan B. Epstein.


100 “Notwithstanding the fact that the Endowment is not an agency or establishment of the United States Government, (continued...)
There has been debate in Congress over whether the United States government should be funding these types of organizations to “promote democracy.” The arguments pro and con necessarily impact the NED as well as its core grantee organizations. From the perspective of the quasi government, the NED is a classic example of a hybrid organization functioning under both private and public law. There is a range of opinion as to whether such a hybrid arrangement is necessary to achieve the results intended by the lawmakers.101 Furthermore, critics have accused the NED of mission creep and asserted that NED has been associated with efforts to influence the outcomes of ostensibly democratic elections.102

U.S. Investigation Services

As part of Vice President Gore’s “reinvention” program, a substantial downsizing of the civil service was ordered.103 Agencies were expected to be “creative” in making sure the work continued to be done, but with less personnel and less funds. Cuts in the mission, capacity, funding, and personnel of the central management agencies (i.e., Office of Management and Budget; General Services Administration; and Office of Personnel Management) were particularly significant. At OPM, the security and investigations unit of the agency was a potential target for downsizing because its securities clearance workload was declining due to the end of the Cold War and because there were fewer new hires generally throughout the executive branch.

The Director of OPM, James King, created a first, the establishment by the government of a private corporation whose employees would be persons transferred from a federal agency, the Federal Investigations Division of OPM, to a private firm to be eventually owned by its employees in what is known as a Employee Stock-Owned Plan (ESOP).104 The stated rationale was that it would save the jobs of the approximately 700 investigators who would no longer be needed and that it would save the federal government money by contracting with this new corporate body the investigations formerly performed in-house.

Director King of OPM let a contract to ESOP Advisors, Inc. for a feasibility study of the concept, a study that reported that the privatization process culminating in an ESOP was feasible. King then announced his intention to move forward rapidly. Two hearings were held by congressional committees.105 The principal points argued by the opposition dealt with civil rights and privacy issues associated with private parties conducting and storing sensitive investigatory reports, and the propriety and legality of having government agencies creating privately owned corporations creating privately owned corporations.

(...continued)

the Endowment shall fully comply with all of the provisions of section 522 of Title 5” (22 U.S.C. 4415(a)).

101 Despite being a not-for-profit chartered under the District of Columbia, NED is viewed by some as governmental. If this perception is widespread in other nations, then a major justification for NED’s status as a quasi governmental entity comes into question. NED, recall, was created as a private entity because it was not supposed to be viewed as an independent, nongovernmental entity.


with special, financially advantageous relations, with the sponsoring agency. To the surprise of some, OPM, however, determined to move on its own initiative and without explicit statutory authority.\textsuperscript{106}

To launch the corporation, OPM chose American Capital Strategies (ACS) to develop a business plan. ACS selected Marine Midland Bank of New York as a financial trustee and, together with Washington law firm Arnold and Porter, began to recruit a management team. They selected, with King’s agreement, Philip Harper, a former security industry official, to take the first step, incorporating the company to be known as the U.S. Investigation Service (USIS) under the laws of the state of Delaware in April 1996. The corporation at this point had a single share and a single employee—Harper.\textsuperscript{107}

The corporation was reincorporated in August 1996, at which time the 700 former Office of Federal Investigations employees were separated from the government and became private employees. In April 1997, it was reported:

[The] 700 employee-shareholders own about 91 percent of a company valued at $28.2 million. Harper and the other 11 company officers, who together put up an initial seven-figure investment, hold the remaining shares. Under the terms of its corporate charter, USIS is governed by a nine-member board of directors. The board’s five “inside” members include Harper and two others elected by employees; the three of them in turn nominate the two remaining members. However, as with most private companies, the board’s role is limited. It does not run USIS—that’s Harper’s job, along with his immediate staff—instead concerning itself strictly with ‘ownership issues’ like oversight. For example, it ensures that company resources are allocated in the best interests of employee shareholders, and it also approves key strategic decisions. Of course, such issues are made easy when you begin a business with the federal government as a guaranteed customer.\textsuperscript{108}

OPM then awarded the USIS a noncompetitive three-year contract under a “public interest” exemption in federal contracting law.\textsuperscript{109} It was reported that the OPM employees would not have moved to the new private corporation without a guaranteed, sole-source contract providing a modicum of security. The USIS has free access to government computer databases not otherwise available to the public or possible competing corporations. By any account, this government-sponsored, private corporation was given advantages and incentives not available to other private start-up corporations.\textsuperscript{110}

\textsuperscript{106} The USIS’s official public website says: “On July 8, 1996, USIS was formed on the initiative of the President and Congress as an employee-owned company” (see http://www.usis.com/history/history.html). USIS, unlike ComSat or the American National Red Cross, has no congressional or federal charter. For its part, OPM told Congress that “[w]ith respect to contracting with an ESOP trustee to establish an ESOP corporation, we determined that no statute prohibited OPM from contracting for these services and that expending funds to enter into such a contract was a necessary expense pursuant to applicable fiscal law authority.... Therefore, OPM’s decision to contract with an ESOP trustee does not require legislation.” Outsourcing of OPM’s Investigations Program, Hearings, 1995, p. 54.


\textsuperscript{108} Ibid.


\textsuperscript{110} Sanders and Thompson, “Reinventing Government,” p. 53.
Critics of the USIS and the privatization process followed in its creation tend to argue that background investigations are an inherently governmental function to be conducted by regular federal employees operating under all government management and security protection laws. They believe that legal accountability should be direct up through the agency, departmental and central management agency line to the President, and through the President to Congress. From their point of view, policy considerations, such as seeking to find jobs for otherwise underutilized or redundant employees, seeking lower unit costs, and the desirability of “profitability” for governmental activities, while of academic and political interest, are essentially not relevant as justifications for creating and supporting this hybrid organization. The critics argue that not all personnel investigations are alike and assert that the needs and requirements of the government (and indirectly of the public giving information to the government) are distinctive in legal terms from those applicable in the private sector. In their view, the issues are not economic in their fundamentals, but constitutional and legal. Moreover, the question arises: if OPM is free to transfer a portion of its workload and employees to the private sector, may other agencies do likewise?

The Clinton Administration and supporters of OPM’s decision to “privatize” this activity, saw, on the other hand, in the USIS experience, a creative response to a changing situation regarding a government agency and its activities. This perspective views USIS as a successful exercise, one with lessons to be applied in other situations. The USIS’s moves into the private sector market, including extensive contracts with the casino industry, were seen as the logical progression of a generic activity: personnel investigations.

The more recent activities of the USIS have raised new questions as to the appropriateness of the privatization process and the mixing of the governmental and private sectors. Exactly which assets were transferred to the USIS in the first place is not clear, but whatever they were was deemed to be worth $28 million. The inadequacy of this figure became apparent as the Carlyle Group soon was able to purchase a substantial block of shares. Its purchase of shares in the USIS appears to have been wise, timely, and fortuitous because the now private corporation underwent an incredible surge in business. In 1999 alone, the share value increased 702%.111

In January 2003, venture capital firm, Welsh, Carson, Anderson, and Stowe, purchased the stock owned by original ESOP employees for a reported $545 million.112

This brief description of the USIS, concludes this selective review of entities within the quasi government. Each category and entry has certain general characteristics worth noting as well as distinctive features. What is evident from this review is that certain basic philosophical issues are being debated, occasionally in direct terms but more often indirectly through the process of reorganization of the executive branch. This process is taking two forms: the reorganization of departments into agencies with agency-specific management laws,113 and the assignment of agencies and functions, both new and existing, to entities outside the executive branch, to the

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113 An example of the disaggregation of the management authorities in the executive branch is provided by the current exercise of excluding the Department of Defense, Department of Homeland Security, and other select agencies (e.g., Federal Aviation Administration) from most elements of Title V (Government Organization and Employees) of the U.S. Code.
quasi government discussed in this report. This process has not been without its consequences for both the institutional presidency and Congress.

**Conclusion: Paradigms in Conflict**

Many observers believe that the underlying attraction of the quasi government organizational option can be traced to an innate desire of organizational leadership, both governmental and private sector, to seek maximum autonomy in matters of policy and operations.\(^{114}\) With respect to the governmental sector, however, this natural centrifugal thrust of organizational management has been historically held in check by a set of strong counter or centralizing forces. The constitutional paradigm (model) of management was, and remains, based on laws and accountability structures. The President is chief manager of the executive branch and manages through the appointment of officers, the administration of general management laws, and the budgetary process. The highest value in this public law model of management is political accountability for the exercise of governmental power, not efficiency or some other value.\(^ {115}\)

A unified executive structure, coupled with hierarchical lines of authority and accountability, was a theoretical product of the founding fathers. The President was viewed as the chief manager of the administrative system. The governmental and private sector cooperated, but were kept legally distinct in the interests of protecting citizens' rights against a potentially arbitrary government.\(^ {116}\) Institutions not in the executive branch, but partaking of the attributes of governmental status were looked upon with suspicion as aberrations breaching the constitutional wall between the governmental and private sectors.

These management values, however, were challenged in the 1960s by a new management theory (public choice theory) emanating from academia, and found expression in the election of political leaders, here and abroad, committed to market principles. The underlying premise of the entrepreneurial management paradigm is that the governmental and private sectors are essentially alike in the fundamentals, and thus subject to many of the same economically derived behavioral norms.\(^ {117}\) The supporters of this position promoted their values and concepts of management internationally under the rubric of New Public Management (NPM) and domestically as part of the National Performance Review (NPR).\(^ {118}\)

\(^{114}\) "There is a persistent, universal drive in the executive establishment for freedom from managerial control and policy direction.... The desire for autonomy characterizes the operating administration and bureaus. As one observer has remarked, every agency wishes to be outside departmental structure or in the executive office of the President.... This desire for independence is an apparently innate characteristic of administrative behavior.” Herbert Emmerich, *Federal Organization and Administrative Management* (University, AL: University of Alabama Press, 1971), p. 17.


Skeptics of the new entrepreneurial management paradigm say the centrality of public law is displaced by the centrality of economic axioms; the focus of management, once the citizen, is now the customer; and departmental integration as the norm is replaced by agency dispersion and managerial autonomy. They see political accountability and due process being superseded by the primacy of performance and results, however defined. Critics believe that the historic wall between the governmental and private sectors is being breached not merely as a managerial convenience, but as a matter of policy; so rather than a wall, government entrepreneurs are forging a web of public/private partnerships.

Given the great differences between the basic premises guiding the two schools of thought, those favoring traditional public law principles versus those favoring entrepreneurial approaches, it is not surprising that their attitudes towards the quasi government are also at odds. Those advocating entrepreneurial management tend to place high value on managerial flexibility and the setting of numerical performance standards. Many are opposed in principle to hierarchical leadership structures and emphasize the desirability of change and managerial risk-taking. This set of values with respect to governmental management makes the hybrid organization within the quasi government an attractive option.

Those favoring the public law approach to management, on the other hand, argue that the purpose of government management is to implement the laws passed by Congress, not necessarily to maximize performance or to satisfy customers. While accountability and effective performance are generally compatible objectives, in those unusual instances where these values come into conflict, they believe that the democratic value of political accountability should take precedence over the managerial value of maximizing efficiency and outcomes. Many of the public law advocates, not unexpectedly, tend to see quasi governmental entities as instruments of relatively small constituencies whose interests are promoted over the interests of the whole people as represented in their democratic institutions. Thus, they often oppose such quasi governmental hybrid entities as GSEs because they believe those who benefit (shareholders and management) are separate and apart from those who stand at risk (the taxpayers).

Supporters of performance based criteria for government management stress the need for flexibility, competition, and performance as desirable goals. The pre-eminence of these values, in their view, provides the critical elements in developing creative and successful management. In this respect, therefore, many believe that the quasi government is where much of the future lies, away from what they characterize as the stultifying impact of alleged micromanagement, both congressional and executive, general management laws (e.g., personnel regulations), and budgetary constraints. In the quasi government, some argue, management can do whatever is not forbidden to do by law, thus providing the basis for innovation and partnerships. Accountability will be for performance, however it may be defined and measured, rather than to strict conformance to law. In the new entrepreneurial management paradigm, success, proponents say, will be measured by polling the customers on their trust and satisfaction of the delivery of governmental services.

Thus, the emergence and growth of the quasi government can be viewed as either a symptom of a decline in our democratic system of governance or as a harbinger of a new, creative management era where the principles of market behavior are harnessed for the general well-being of the nation.119 One thing is for sure, however: debate between the competing management paradigms

119 Elaine Ciulla Kamark, “The End of Government As We Know It,” in John D. Donahue and Joseph S. Nye, Jr., eds., (continued...)
is over important issues, such as the legitimacy and utility of the quasi government, and is likely to continue into the foreseeable future.

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