

Difficulties with Autonomous Agencies

There are diverse, competing, and frequently conflicting claims about the advantages of creating semi-autonomous entities within the public sector. Without a clearer understanding of what autonomisation can achieve and under what circumstances, the confusion of claims is allowing a debate over form to precede a debate over function. The consequence is that many autonomisation adventures have been well packaged but unproven, while others have been successful but unsung.

Agencies; a wrench placed in the machinery of government?

Autonomisation is not a new invention. Prior to the creation of Next Steps Agencies in the UK there were between 1000 and 5000 non-Departmental public bodies, state-owned enterprises, and health service providers. Similarly, there is a long Latin American tradition of "decentralised" entities (autonomous institutes, public enterprises, etc.). In general, machinery of government changes have taken place at an evolutionary rather than revolutionary pace; and given the uncertainties around design and the risk of errors this is probably appropriate. It appears, however, that the autonomisation debate may have altered this evolutionary path, with autonomisation emerging as a solution urgently in pursuit of a problem.

Types of agencies

It is possible to distinguish two primary types of autonomisation: type 1 agencies (agencies that act within the executive; typically "executing agencies") and type 2 agencies (agencies that act to restrain the executive; typically "statutory commissions" or autonomous regulators). As arm's-length instruments of line ministries for policy implementation, type 1 agencies are expected to improve operational efficiency in service delivery areas through greater managerial discretion and flexibility with relatively secure funding and organisational autonomy. Type 2 agencies, on the other hand, are designed to give statutory independence to agencies in charge of functions that require protection from politicians; short-term orientations and capture by government in turn, including long-term policy-making (e.g., monetary policy) or quasi-judicial/regulatory functions. Within each type, agencies can be more or less institutionalised. Institutionalised agencies are subject to more deeply entrenched checks and balances, and tend to form a class of agency rather than one-off. By contrast, governments may create autonomous agencies as ad hoc responses to respond to particular political problems, to protect priority activities from opposing political influences, or to bypass the low technical capacity of public sector personnel.

Type 1 (Operational efficiency in service delivery); Type 2 (Statutory independence for policymaking & quasi-judicial functions)

Institutionalised ad hoc responses

- Swedish ambetsverk
- New Zealand Crown entities
- Canadian Special Operating Agencies
- UK Next Step agencies
- Bolivia's Customs
- Peru's Customs

Roads boards
Social funds
Independent central banks
Supreme audit institutions
Independent regulatory agencies and commissions
Peru's INDECOPI

Relatively little is known about the success factors behind sustainable and effective agencies. Despite considerable managerialist rhetoric, it seems improbable that intra-public sector contracts are a particularly significant ingredient in type 1 agencies. Despite the celebration of their success in the new public management reforms of New Zealand and the UK, it is at least arguable that the result owes more to the tradition of discipline within the civil service than the particular nature of the contract with the agency. Experience from State Owned Enterprises is that performance contracts within the public sector are rarely effective in constraining enterprise behaviour.

Externalities and collateral damage

Although the case for and against agencies is generally made in relation to the specific task of an agency, a broader examination may reveal areas in which agencies have potentially deleterious impacts on the public sector as a whole:

Policy Lock-In. Are autonomous agencies undermining policy objectives by creating constituencies that will compel governments to maintain existing policies?

Agencies are created but rarely closed or merged. Policy becomes what the agencies do, not what the government proposes. This can also create unhealthy institutional rivalry between the agency and the parent ministry which is legally responsible for a given policy domain. In dysfunctional bureaucracies where agencies are created to circumvent the ineffectiveness of the traditional ministries, it is often the case that agencies dominate de facto policy-making to the detriment of the parent ministry. Since agencies commonly lack formal mandate and authority for inter-agency policy co-ordination, the dominance of an agency in a particular policy domain could cause a serious problem of intra-government policy co-ordination. The result is often a bureaucracy that responds poorly to changing priorities.

Policy Creep. Are autonomous agencies adopting quasi-fiscal activities that stretch beyond the original policy intention of government?

Autonomous status can encourage agencies to engage in quasi-fiscal activities (e.g., fee-based services, special concessions to certain groups) that serve the same role as taxes and subsidies, and exceed the original policy intention of government.

Budget Balkanisation. Are autonomous agencies undermining the coherence of the budget?

Unchecked agency creation can destabilise the budget in three ways. First, it can create an argument for earmarked funding, which undermines the strategic ability of government to shift funds to emerging priorities, thereby leading to budgetary rigidities and over-stretched funding. Second, it can create scenarios (aka. "bleeding stump" arguments) in which government must provide additional resources or face the unthinkable; e.g., teachers on strike, nurses without jobs, etc. The arm's-length nature of agencies makes "bleeding stump" arguments more likely since the

imminent problem is less easily identified by the central agencies. Third, unchecked agency creation can create contingent liabilities for government by borrowing against assets or making other commitments.

Patronage Den. Are autonomous agencies facilitating patronage?

Unchecked agency creation can institutionalise patronage in appointments if the agency becomes the implicit bailiwick or property of a coalition party. This undermines the credibility of merit protection regulations for all agencies by offering a haven for patronage appointments. Particularly in governments backed by unstable coalitions, autonomous agencies; with the implicit promise of a distinct sphere of influence and public profile; can provide an easy route for appeasing fractious coalition members.

Special privileges. Are autonomous agencies distorting public sector incentives?

In order to attract qualified staff, autonomous agencies are often given exceptions from the government personnel regime to offer higher salary scales as well as other attractive benefits. The uneven incentive structures within the public sector make it difficult to lure competent individuals to traditional ministries, while those who remain in the non-autonomous parts of the government become unmotivated or even resentful of those receiving better incentives and benefits in autonomous agencies.

Implications

Autonomization is attractive to both reformers in countries and to donors because it allows quick circumvention of a number of institutional dysfunctions that plague public sectors in developing and transitional countries. However, there are significant costs associated with inappropriate autonomization. Therefore, benefits and costs should be weighed in each concrete circumstance. A model of autonomisation that worked in one context may very well prove to be wholly inappropriate in another setting. A key challenge is to remove the magic bullet associations with autonomization, and restore it to its position as one dimension of institutional design among many within the public sector. The perennial issue when considering government provision of goods and services is not "How can we use autonomisation?" The fundamental questions are "What is wrong with the present arrangement?" and "What would successfully solve that problem?"

The Public Agencies International Research Network (PAIR-NET) is a closed, secure forum for exchanging research and practice among scholars and practitioners active in agency programs. It is part of a wider program of activity on public agencies, including research, conferences and workshops. Details are available at <http://www.mailbase.+ac.uk/lists/pair-net/>.

Recommended reading

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