

# WITHER THE STATE?



POLITICS AND PUBLIC ENTERPRISE IN THREE COUNTRIES

IRA SHARKANSKY

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in Three Countries

Ira Sharkansky

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**THE  
INCOHERENCE  
OF  
WELFARE  
STATES**





The state grows, but it also declines. It does more while doing less. It confounds those who would understand and control it, while it adds to the benefits offered to its citizens. The nature of the state changes. Observers are unable to describe its activities or measure its size. State officials will not, or cannot, report the true size of the budget or the work force. The modern state defies definition. And because they cannot say exactly what it is, participants in the state have as many problems controlling it as observers have describing it. Both politicians and political scientists suffer from confusion about the thing that is central to their careers.

The blurring of the state is partly a matter of deception and partly a matter of coping with demands that run counter to one another. There are great pressures on politicians to offer more services without increasing taxes and without increasing the work force. Politicians, who already have difficulty supervising the far-flung departments of government, seek to avoid additional departments and more employees. How to do more with less is a central question of the welfare state. It is possible to do more while seeming to do less, at least in the short run and with narrow definitions of the state's responsibilities. This is a po-

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litical shell game. A clear understanding of the state suffers in the illusion of doing more with less.

States do more while they do less by assigning activities to corporate bodies that are not, strictly speaking, part of the state. Just how this happens depends on conditions within each country. For example, from 1955 to 1976 the federal government of the United States has, in certain respects, actually become smaller in size. The number of U.S. federal employees declined from 146 per 10,000 population to 134 per 10,000 population. Yet no one could claim that the federal government did less in 1976 than it did in 1955. It shrunk by assigning elsewhere new activities and some old established programs. Washington transferred some activities to state and local governments; it assigned others to private firms or foundations operating as contractors for government agencies.

The inclination to use business firms or other private units as government contractors is distinctly an American style of conducting public activities outside the borders of the state. By tradition the United States is a country of free enterprise. It is fitting to use business corporations to implement many of the programs that have turned the United States into one of the most generous of welfare states.

In other countries there is less preoccupation with free enterprise, and less tendency to assign the state's activities to private business. The more common pattern in wealthy Western societies is to assign responsibilities to government-owned companies or to special authorities created by acts of the legislature. Such special authorities also exist in the United States, and there are some U.S. companies owned by the government. As in the case of firms operating under contract to the government, these government companies or special authorities are distinct from the state even while they are doing the state's business. Typically the employees of government-owned companies or special authorities—like the employees of private firms under contract to American governments—are not considered state employees. The revenues and expenditures of these bodies are not included in the state's budget. Usually there is no central listing of government-owned companies, special authorities, or government contractors. These entities exist in a gray area on the margins of the state. Because they are big and important, they create problems for officials of the state, for clients who would receive their services, and for political scientists who would understand their policies.

There have long been creatures on the margins of the state. The United States has relied on government contractors since the Revolutionary War. And since then it has suffered from firms that did not de-

liver the goods promised, or delivered goods of shoddy quality or at exorbitant prices. In like manner, for many years there have been special authorities with responsibilities to construct public works and run public utilities. Governments have long found themselves owning companies, either by design or when private firms defaulted on their obligations and surrendered their assets to a government office.

Now the margins of some states have grown larger than government itself. The size of these creatures warrants renewed attention. Because they are largely self-governing, these bodies have, in their growth, threatened some of political science with obsolescence. Concerns about elections, legislatures, chief executives, and government departments have limited appeal if governments isolate most of what they do from these devices of political control.

There is some conjecture in the statement that the margins of the state are larger than its core. Estimates are necessary because the margins are so little examined. They come in for scant attention by official records of "governmental" activity. Most political scientists and journalists focus on the conventional institutions of the state and ignore the margins.

One estimate out of Washington is that more people work for private firms under contract to the U.S. government than work for the government directly. More precise estimates dealing with the Department of Health, Education, and Welfare — one of the most active civilian users of government contractors — is that 750,000 people work under contract to HEW, whereas only 157,000 are employees of HEW. Again it is necessary to stress the vagueness of these figures. Not only are they estimates of no clear certainty but they do not allow any equation of a government employee with a contractor's employee. Many of the contractors' employees may work only part-time on projects for HEW. In other words, the estimates are not offered as "full-time equivalents."

Other information suggests that special authorities may have grown larger in some respects than the governments associated with them. Special authorities attached to American states and localities are said to borrow more than all state and local governments combined. Special authorities spend some \$10 billion a year on new facilities. By way of comparison, California and New York spent \$983 million and \$1.8 billion on capital projects in 1974.<sup>1</sup>

The State of Israel acknowledges that it owns a majority of the stock in 105 companies, according to the 1976-77 report of its Government Companies Authority. There is no central listing of those com-

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panies in which the government owns less than 50 percent of the stock, the subsidiary companies owned by the 105 government-owned companies, or the joint ventures held partly by government-owned companies and partly by other investors. The civil servants of Israel and the officers of government-owned companies show the entrepreneurialism to be expected from employees of the Jewish state. They have been aggressive and imaginative in creating subsidiaries and partnerships. A result is that government leaders do not know what they own, or what they might try to control.

The leaders of Israel's Labor Federation, the Histadrut, are also in the dark. The Histadrut has been developing companies since the 1920s. It has acquired a role in every sector of the economy, and owns or participates as a shareholder in the largest companies of Israel. When the government and the Histadrut seek partners, they usually find one another. One estimate has the Histadrut as whole or part owner of 2000 companies.<sup>2</sup> The roundness of the number does not encourage confidence in its accuracy.

The State of Victoria, in southeastern Australia, claims to have made an important contribution to the development of bodies marginal to the state. A common variety of such bodies, statutory authorities, began with the creation of Victorian Railways in 1856. Today statutory authorities provide banking, energy, transportation, town planning, housing, and a host of other services throughout Australia. There appears to be no single list of Commonwealth of Australia plus state government authorities.

Nevertheless, in keeping with the orderliness of Australians, they can produce better estimates about the size of their margins than can the other governments in this study. The Public Service Board of Victoria notes that core departments of the state government employ about one sixth the number of persons attached to the statutory authorities of the state. This means that the Public Service Board, which supposedly monitors and controls the state's public servants, is responsible for only 16 percent of the larger concept of the public sector that includes the state and its margins.

British observers use the acronym QUANGO for bodies on the margins of their state. The term stands for "quasi-autonomous government organization." Critics estimated that about 900 QUANGOs make available some 8000 paid and 25,000 unpaid appointments, which might be filled outside the framework of conventional civil service procedures.<sup>3</sup>

## A UNIVERSAL PROBLEM WITH NATIONAL VARIANTS

The proliferation of governmental activities on the margins of the state seems to be a universal trait. At the heart of the matter is the public demand for governmental activity, which results in so many programs that they spill beyond what government officials can control. This can be summarized in a bold sentence that will require some discussion: *All modern states are welfare states, and all welfare states are incoherent.*

This contentious statement begs definitions. In fact, "modern states," "welfare states," and "incoherence" can only be clarified. Their semantic and ideological connotations defy definitions that will escape the charge "that is not what the word *really* means."

In a "welfare state," the government or its agents provide a wide range of social services. Individuals are not left on their own to go hungry, unclothed, ignorant, unhoused, or to suffer the ravages of disease without care. Powerful individuals or firms cannot seek profit without regulation.

"Welfare" is a term that goes beyond its use in American politics. To many Americans, "welfare" means income support, or public assistance, or what Australians call the "dole." As used in this book, however, "welfare" refers to the full range of social programs and regulatory powers assumed by modern states. Included in the programs of a welfare state are income support, schooling, health care, housing, economic stability, environmental protection, and the monitoring of business practices. A welfare state assumes responsibility to enhance opportunities for jobs, to protect citizens against inflation, and to guard the national economy from problems originating beyond its borders. Welfare states differ, to be sure, in the extent and manner in which they provide services or regulate private behavior. The problem of definition is made no easier by the universality of welfare states. There may be no nonwelfare modern states available for comparison. It is possible to discern a nonwelfare state in the fantasies of certain Republicans and others farther to the right in the United States, but their references are to the dim past of the 1920s.

A "modern state" is one based on a well-developed economy, and with a certain degree of political stability. Democracy is not a prerequisite. A certain level of resources and a certain level of administrative capacity are important, however, in assuring that the services promised in legislation are actually delivered, more or less, to the population.

Not counted among modern welfare states are many poor countries whose constitutions or laws promise a full range of education, health services, and pensions but whose economies lack the wherewithal to make such programs widely available.

What modern states are also welfare states? All but the poorest European countries qualify, both East and West. Included, too, are Canada and the United States, as well as Japan, Israel, Singapore, Australia, and New Zealand. Such a list is meant to be illustrative more than exhaustive. Omissions should not be viewed as condemnations. Some omissions reflect an uncertainty as to how well delivered are the country's promises of social services.

"Incoherence" is another loaded term. It sounds bad. Perhaps it means that welfare states are bad states? Not at all. "Incoherence" is descriptive. It is meant not to condemn but to portray a common feature of modern welfare states. If being a welfare state and being incoherent are inevitable for modern states, there is little point in condemnation.

"Incoherence" means a lack of understandability. Modern welfare states are so complicated that people who should be able to know what is going on cannot do so. There is something about being a welfare state that assures complexity to the point of incoherence. Popular demands for extensive services cause public agencies to proliferate. There may be a way of organizing to assure coherence in the eyes of officials or citizens, but no one has succeeded in doing this. The assignment of units to the margins of the state may create an illusion of tight control over the core departments of the government. However, the bits that are simple and neatly arrayed in government departments are becoming a smaller percentage of what the government is really doing.

There are different aspects of incoherence, each with its implications for clients, politicians, and other government officials. One aspect of incoherence is a lack of manageability. By this I mean that different phases of related processes cannot be fitted together because of administrative snafus. Classic are the cases of Soviet industry that produce too many of some components but not enough of others. Partly finished tractors clog the final assembly plant because of shortages in engines, wheels, or axles.

The different pieces of social programs also must come together. More than 330 separate programs funnel out from the U.S. Department of Health, Education, and Welfare to states and localities. Different offices handle activities that must be assembled together for effective delivery, such as counseling plus training and job placement. Many clients lack the ability to figure out the system and go after what they

need. Interoffice hostility and sheer ignorance on the part of bureaucrats stifle effective referrals. There is a high incidence of clients visiting the wrong offices and being sent elsewhere.

Incoherence deters political accountability. Elected members of the legislature cannot supervise important features of the public's business because they cannot learn who is responsible for what, or how to bring about desired changes in programs. Often problems of accountability arise because legislators earlier encouraged the transfer of activities to contractors or special authorities, and gave assurance of "autonomy" to these bodies as protection against "political interference." Yet some degree of "political interference" is essential to political accountability. How can legislators represent the people if they cannot probe the public's business?

The aimless pursuit of a responsive clerk is a part of modern life. A politician can help a citizen by adding the prestige of office to the quest. This is political accountability at the street level. If the errant clerk works for a special authority or a government contractor, however, there are added problems for both the client and the politician. The legislature may lack the clout of budget approval over a special authority. A private company that collects garbage may have an assured monopoly over the life of a contract, with no competition waiting in the wings. It takes a lot of money to buy the equipment needed for such a task. Once a community decides to contract-out trash collection, it may find itself stuck with one contractor and little control over its services.

The diversity that comes with numerous autonomous bodies means that records are kept in peculiar ways, according to no common format. Information sought by politicians in order to help constituents may be available in raw form but capable of assemblage only at great expense. The Wisconsin Department of Administration headed off one legislative request for information about government contractors by asserting that it would require examination of 1.5 million documents!

Problems of incoherence also surface in foreign policy. When the colony of Rhodesia broke away from Great Britain and declared its independence, Britain joined other nations in declaring an economic boycott. Some years later it became apparent that Rhodesia continued to receive substantial oil supplies from British Petroleum, one of the companies on the margin of the British state. British government officials claimed that the company took advantage of complex dealings with intermediaries to keep its trade with Rhodesia hidden from its governmental masters. At a certain point the government seemed to learn what

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was happening and then let it continue in the hope that others would also fail to notice.

Democracy is not essential to incoherence. The free play of interests in well-to-do countries of the West may aggravate tendencies toward incoherence. With more groups actively demanding programs, there may be a higher probability of more service providers, and more confused lines of authority. Yet the problem also occurs in the regimented states of Eastern Europe.

Principal actors in Soviet urban politics are officers of various ministries, the Communist party, and government enterprises. Local members of these bureaucracies depend on higher levels of their own organizations; there is no coordination at the local level. If the local party or government wishes to change the policies of industry, it must convince higher-echelon industry, party, and government officers to change programs at the top of the industry's hierarchy. Such an action may require extensive reconsideration of nationwide priorities. The spillovers of such decisions can affect economic planning for other locales whose industries would be affected by requested changes. In such exercises, there emerges the weight of the multiple bureaucracies that are both the mechanisms and the problems of Soviet policy making.

In concrete terms, such problems stand in the way of Soviet local government and party personnel altering the activities of local enterprises that create serious problems. Housing, mass transportation, and other services lag behind the creation of industry. Such services may be under the control of factory managers expected to provide amenities for their employees but rewarded by their superiors for industrial production. The Soviet system has struggled to change the orientation of factory managers from quantity to quality of production, and now it is struggling to develop some concern for the quality of life in the locales that surround the factories.<sup>4</sup>

The Soviet Union does not present the only case of incoherence among the regimes of Eastern Europe. A Polish expert summarizes local decision making in words that seem nearly universal:

*Everyone who has examined local power in Poland knows the difficulties encountered in obtaining information, or sometimes even the impossibility of getting answers to questions concerning roles in the decision process. In my opinion, the context... in which the majority of local decisions are made creates the situation in which the process seems unclear, even to the actors.<sup>5</sup>*



## WHAT ARE WE DOING?

The principal concern of this book is with the *margins* of the modern state and their relations with the *core departments of government*. These terms also defy precise definition. Details and terminology differ from one country to another. In general, core departments are those featured on a government's organization chart, directly responsible to the head of state through ministers or department heads. Their employees are members of the civil service, and their expenditures appear in the government's budget. On the margins of the state are those bodies related to the core departments but with substantial grants of autonomy from them. The margins include some units clearly attached to the government (e.g., the statutory authorities of Australia) even when they hire staff outside the framework of civil service and enjoy substantial grants of financial and managerial autonomy. Other bodies on the margins of the state may be responsive to both state and nonstate masters (e.g., the Israeli companies owned partly by the government and partly by other investors). Still other marginal bodies may be described as "entirely" private (e.g., companies that contract with American governments). Even these "private" companies design or deliver important features of government policy and serve as extensions or surrogates, albeit somewhat autonomous ones, of core departments.

## WHY PUT ORGANIZATIONS ON THE MARGINS?

Sometimes government officials put units on the margins of their state because they cannot supervise all the programs that citizens demand. Politicians also see an opportunity for themselves on the margins. They can assign a risky venture to the margins and call it independent. If it fails, the politicians consider themselves free of blame. If it succeeds, they can claim credit. In politics as in war, victory knows many parents; defeat is an orphan.

Patronage is another reason for assigning programs to the margins of the state. Insofar as special authorities or companies escape the rules designed to curb favoritism in government departments, a politician can use them to take special care of friends, past supporters, or family members. Units on the margin of the state can provide sinecures for civil servants who should be kicked upstairs. They also provide funds outside the state budget for special projects that might not win legislative approval.