"Middle-Class Capture": A Brief Survey.

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"**Capture**: ... *sb* 1541 ... 1. The fact of taking forcibly, or by stratagem, or of being thus taken, *esp.* the seizing as a prize. 2. The prize, prey, or booty so taken." (*Shorter Oxford Dictionary.*)

I. INTRODUCTION.

I have been asked to prepare a short survey of the literature in the area of so-called "capture" of welfare-state services. Although there is a vast literature on the evaluation of the modern welfare state, and on the issue of whether any particular groups or classes have benefited disproportionately or illegitimately from the operation of the system, the term "capture" is not easy to find in New Zealand or overseas writing prior to its appearance in the Treasury's 1984 briefing document, *Economic Management*.. It does, however, seem to be a common part of the Chicago idiom of the "Law and Economics" School. (See, e.g., Toma 1986. I am indebted to Mark Prebble for this reference.) It has recently come into wide use amongst participants in New Zealand debates, denoting usually the idea of some group appropriating resources to its own use at someone else's expense, under the aegis of state-sponsored welfare programmes.

Obviously, if such appropriation by a group is considered "just", then capture is the desired outcome; if "unjust", the opposite. Although Treasury writings use the term in both situations (cf 1987 Vol.2 p.272, "societal benefits may not be fully captured by the individuals being educated or their agents"), the word "capture" is most frequently encountered in contexts where it conveys a tone of disapproval. "Capture" seems to be perceived as a problem, rather than merely a process.

There seem to be three situations which attract the label "capture". (This classification is based on ideas from Jones 1983 Chapter 4, fitted to what I have encountered of the contemporary New Zealand oral and written tradition.) First is "consumer capture" - the situation where some group of users of state-provided services or benefits secure preferential treatment against the wishes or interests of other users. Second is "provider capture" - the situation where those who supply state-provided services pursue their own interests at the expense of the interests of consumers. Third is "administrative capture" - the situation where government departments, not directly involved in the production or delivery of state-provided services, act to advance their own objectives at the expense of the quality of those services. The first two of these are particularly strong as themes in the various so-called "critiques" of the welfare state which have emerged in recent years from both the Right and the Left of the ideological spectrum. The third issue has arisen forcefully in the current debate over the restructuring of the

New Zealand public service along lines advocated by the Treasury and the State Services Commission.

The paper which follows begins with some exploratory discussion of concepts and schools of thought; then addresses the above three issues in turn, and finally draws a couple of brief conclusions. Given the scale of the literature, it constitutes no more than a preliminary reconnaissance.

II IS "CAPTURE" REALLY THE RELEVANT CONCEPT?

Despite the wide currency of the word "capture" in recent New Zealand debate, there are grounds for regarding it as an unfortunate metaphor, which may itself illegitimately predispose participants in the debate to reach particular types of view about the welfare system. Not only does the "capture" metaphor imply a conflict rather than consensus view of society; it further tends to fit more readily into a line of discourse opposed to the very concept of a "welfare state", than into the ongoing social-democratic debate over how the welfare state should be organised. An implication of this section is that the "capture" metaphor should be used, if at all, only with the greatest care and with explicit qualifications.

Economists have traditionally been suspicious of concepts such as "capture" because of the implied connotations of a zero-sum game. A prize or prey has to be "captured" from some other, non-consenting, party, and the clear implication is that the victim is made worse off by the transaction. Mainstream economic theory, in contrast, rests upon a view of the world in which most observed outcomes are interpreted as the results of positive-sum games, in which both (or all) parties are better-off even where the gains are assymetrically distributed. The welfare state of Savage and Beveridge, with its universal subsidised provision of basic services such as health and education, and its commitment to a range of "non-targeted" cash income supplements for groups such as the old and the parents of young children, rested explicitly upon a positive-sum vision. The rationale for the welfare state was to turn away from zero-sum redistributive battles (the "class struggle") towards the pursuit of a better society for all, from which the working class would benefit in partnership with other classes. While there was often an explicit hope that subsidised provision of basic needs to all would result in the reduction or removal of inequalities in society, this possible redistributive effect of non-market provision of basic needs was subsidiary to the wider aims so long as overall welfare was enhanced and the lower classes gained in the process.

The recent re-emergence of a critique which views the welfare state (along with most other forms of government intervention) as a zero-sum or negative-sum game arises largely from the attack, by a particular body of economic theorists, on the view that government intervention can deliver net welfare gains relative to a free market. situation. (See, e.g., Cheung 1978; Buchanan *et al* 1980, Chapters 1, 2, 20, 22.) This body of theory either discounts alleged externalities, public-goods and economies of scale, or else asserts that any social gains from intervention are likely to be offset by the waste involved in the associated "rent-seeking" activities. Other work by these and similar writers portrays government as unable either to distill any coherent "public

interest" (cf the criticism of so-called "idealist democracy" in Buchanan and Tullock 1962) or to deliver policies which efficiently advance such a public interest by detailed intervention (cf Buchanan 1972).

Obviously enough, if one starts from a presumption that the net benefits arising from large-scale state activism are zero or negative, it must then follow that benefits secured from the state by any one group must have been so secured at someone else's expense. If, on the other hand, one retains the view that the welfare state is an effective (however imperfect) instrument for raising aggregate welfare in comparison with the free-market state of the world, then the fact that some particular group obtains identifiable benefit from the state is not in itself cause for concern, and does not necessarily imply any antagonistic relationship vis-a-vis other groups. One can with equanimity contemplate high incomes and job security for health professionals, teachers, public servants *et al* , if one believes that in return for such rewards these groups deliver the right sort of high-quality services, commitment, and universal access to basic needs, at a lower overall cost than would be possible via the market alternative.

Turning to the "demand" side of the welfare state, it has often been observed that in practice certain parts of the modern welfare state system tend towards a distribution of benefits which reproduces (albeit in a modified form) the inequalities of income and well-being embedded in the existing class structure and that "over time, the middle class will dominate the welfare state" (Jones 1983, p.89).

There has been a long, and ultimately unresolved, debate over the question of whether the net impact of the overall "welfare-state" package is redistributive. Only at the level of individual case studies of particular parts of the package is it possible to sustain strong claims about the incidence of benefits relative to some (generally arbitrarily) specified distributive norm. Ambitious attempts to claim "success" or "failure" for the welfare state as a whole on the basis of distribution data (see, e.g., Le Grand 1982) have so far proved unsatisfactory and unconvincing, both because of data problems and because of the lack of agreed criteria of success. Theorists of a positive-sum welfare state usually see the state provision of services as primarily a means to improve system-wide delivery of such services, with redistributive goals, if any, secondary. In such a world, the criterion of distributional equality cannot on its own provide sufficient grounds for evaluation.

In a zero-sum world, however, the issue of whether this aspect of the welfare state is redistributive would be vital to an evaluation precisely because the other, primary, justifications for governmental provision are inoperative.

Use of the word "capture" in recent discussions of monospsonistic or monopolistic elements in the "welfare sector" appears to carry (and often to be intended to carry) the zero-sum presumption. The fundamental critique of the welfare state, in other words, is prior to and embedded in the word. It is in this sense that we should probably interpret the "capture" concept used in the 1984 and 1987 briefing papers from the New Zealand Treasury, since Treasury has adopted a posture of scepticism towards the social-democratic vision of a benevolent state advancing the public interest by direct intervention.

If this is a fair reading of their position, then Treasury's use of the word "capture" implies prior acceptance of a set of highly-controversial propositions about the nature of both state and society. It follows that it will always be important to tease out precisely what is meant by those who use "capture" as an analytical concept in the New Zealand debate. The risk in loose usage of the term is that readers may inadvertently read into it the (possibly unintended) corrollory that government intervention is a zero-sum game.

III. COUNTERFACTUAL WORLDS

We may take it for granted that "capture", whatever it means, is interesting only insofar as it changes the state of the world relative to some norm or reference state - a non-"captive" world. It is immediately possible to distinguish two main strands in the debate:

1) Authors whose "counter-factual" world of reference is some state of the world other than the welfare state - for example, a free-market system with no welfare state interventions, or a non-capitalist system superseding the mixed economy;

2) Authors whose "counter-factual" is some concept of a welfare state which has not undergone "capture".

The distinction obviously hinges on the definitional question of what is and what is not a "welfare state". As a working definition for the purposes of this paper, I shall exclude arrangements of the kind described by "New Right" writers, with the state's role limited strictly to defining property rights, and undertaking a redistribution of money incomes through taxes and transfers on the sole criterion of pre-tax money income. I shall exclude also non-capitalist (e.g. socialist) forms of social organisation. The welfare state is thus understood as a mixed economy in which the government accepts some direct responsibility for ensuring the delivery of basic needs ("welfare") to its citizens, other than by the mere redistribution of money incomes. Great precision of definition is not essential, once it is seen that the underlying political issue for welfare states such as New Zealand is whether to re-jig the existing social contract or scrap it and start from a different basis.

This distinction is important because it isolates the two main ways in which the "capture" idea has come to be used.

For writers adopting the first counterfactual approach, middle-class/professional dominance tends to be viewed as an inevitable feature of the welfare state in its modern form, which dooms the welfare state to "failure" in its alleged project of advancing general well-being. The welfare state, it is claimed, is conceived, organised and run by "middle-class" or other vested-interest groups, for the benefit of their own kind instead of (or as well as) the (incidental) benefit of the underprivileged. By thus revealing the underlying nature of the welfare state, it is hoped to discredit it as such and open the

way for alternative social strategies. The main strands of work along these lines may be identified (very loosely) as New Right, Marxist Left, and Green.

Writers on the New Right (e.g. Seldon 1981, Friedman and Friedman 1980) yearn for the "withering" of the welfare state and a return to a free-market economic system with state intervention limited to the redistribution of purchasing power to enable all members of the society to exercise effective rights as consumers. Underlying their work is a profound scepticism, amounting at times to cynicism, about the possibility of a modern state representing any coherent conception of the "social good" or "public interest". There are two legs to this argument: first, that defining and identifying a meaningful "social welfare function" is impossible if one begins from a philosophical starting-point of libertarian individualism (which these writers espouse); and second, that it is in practice impossible to devise constitutional or political arrangements which will reliably immunize the state apparatus from the sort of low-level corruption represented by the idea of "capture". From these propositions follows a minimalist argument on the scope and role of the state, and a consequent head-on challenge to the welfare state as defined above. (A summary of this position is provided by Taylor-Gooby 1985, pp.121-124.)

Some writers on the Marxist Left (e.g. Gough 1979, Bedggood 1980) see the welfare state as a capitalist creation which dominates the working class and the poor rather than liberating them. The starting-point for such analyses is the view that capitalism is inherently a class system in which the "superstructure" of state institutions cannot help but reflect the relations of domination and exploitation in the economic "base". There are substantial debates among Marxist writers on the question of whether the welfare state represents an historical victory for the working class, a new form of capitalist domination, or a neutral battleground over which the class struggle is fought. (A summary of some Marxist views is in Taylor-Gooby 1985, pp.135-141.) A number of writers (e.g. Poulantzas 1978) emphasize the "relative autonomy" of the bureaucracy in the modern state and the possibility of capture of the state by the white collar "petty-bourgeoisie" . Analyses of this kind echo a long-standing tradition in the sociological theory of elites and bureaucracy, developed by non-Marxist writers such as Weber (1968 Vol. 3 Chapter 11), Michels (1966), Mosca (1939), Mills (1956) and Burnham (1945). The conclusion tends to be that there are enormous, and possibly insuperable, problems in the way of any project of advancing a shared, consensual "public interest" in the environment of a class society.

The "Green" perspective is epitomised by the work of Ivan Illich on professional dominance of health, education, and other social services, and Schumacher's "small is beautiful" defence of small-scale decentralised forms of economic organisation. (Some feminist critics of the welfare state as a system of male domination should probably be included under this heading.) Here the implicit counter-factual tends to be a democratised, decentralised society based on cooperative principles. The focus in these analyses is almost entirely on the supply side of the welfare state system; the problem is perceived as the self-aggrandisement of professional monopolistic suppliers of basic needs such as health and education, and solutions are sought which break down those monopolies and open the system up to alternative forms and modes of provision. Trust-busting attacks on medical practitioners, teachers, social workers and similar bodies

need not, of course, imply any diminution of the scope of state provision. The Green critique, however, is generally taken to imply radical changes in the role and nature of the state, in order to give consumers/voters more genuine participation in the design and provision of basic needs; and in some manifestations it revives older anarchist visions of an alternative social order.

It is hard to find a term broad enough to encompass these very diverse strands of political thought, but it may be helpful to characterise them as possessing a "utopian counterfactual", given that their reference-point for evaluating the existing welfare state is an alternative state of the world, even when their detailed policy prescriptions turn out to be reformist rather than revolutionary.

In contrast, writers in the second broad tradition identified above may be characterised as possessing a "social-democratic counterfactual" in the sense that their critique of actual welfare-state institutions is anchored by reference to some preferred way of organising and running the welfare state in a mixed economy. For these writers the agenda is one of remedial reform - the construction of programmes for the reconstruction of the welfare state rather than its replacement. Evidence of "middle-class capture" is deployed to show [avoidable] deviation from some ideal-type welfare state; policy should be redirected to minimise such deviation. The reference-point for evaluation of the existing welfare state is some more-or-less-clearly-articulated set of objectives which the welfare state is intended to meet, and there is generally only a partial acceptance of philosophical individualism as a starting-point (although some recent writers such as Weale have sought to re-establish welfare-state principles on this basis). Harris (1987) offers a survey of the problems with individualism, and a reconstruction of the "citizenship theory" which he considers is the real underpinning of the modern welfare state as a political ideal. While these writers recognise "capture" (or rather, the set of problems covered in this paper) as an issue to be confronted in the real world, they view it as susceptible to cure, and retain the concept of a beneficent state motivated by a coherent ethical vision.

At a higher level of philosophical abstraction, the same issues have been worked through by McIntyre (1981), who argues that the individualist premises of the Enlightenment have proved incapable of supporting any logically-derived notion of collective or social "good", and that the Enlightenment must therefore be regarded as having failed to supplant the Aristotelian view of individuals as primarily members of political communities, from which they derive their roles in life, and which embody collective definitions of "the good for man". The philosophical discussion in NZ Treasury (1987 Volume 1 Annex 2) takes the same view on the first point - the impossibility of deriving any satisfactory social-welfare function from individualistic premises. Treasury, however, by retaining those premises rather than rejecting them as McIntyre does, is led to conclude that the role of the state must be strictly limited if it is to rest upon a sound philosophical foundation. The choice of premises, clearly, matters a great deal in any attempt to define the legitimate scope and role of the state.

The perceived extent of "capture", its likely long-term effects, and the policy implications, will be seen in different ways depending on the underlying philosophy of a particular writer or group of writers. In the following sections of this paper we shall

attempt to clarify different meanings of the word "capture", and alternative ways of interpreting evidence adduced in support of the claim that "capture" has occurred. It will be argued that there exist sufficient disagreements about exactly what the problem is, to caution us against programmatic statements that use alleged "capture" as the justification for sweeping policy changes. By examining the use made by a particular writer of evidence of distributional bias in state provision, we can identify the philosophical tradition in which that writer is working; but we cannot thereby resolve fundamental philosphical disagreements about the legitimate role and scope of the state.

IV. "CAPTURE" AS AN EXPLANATORY HYPOTHESIS.

As already noted, the terms "middle class capture" and "professional capture" are not widely used in the international literature, although the idea that middle-class groups exercise influence out of proportion to their numbers in a modern bureaucratic system is of course widespread. Use of the term "capture" clearly carries a set of meanings additional to the mere exercise of influence; it implies a degree of subservience of the institution to the captor group. The word "capture" does not appear in the work of Julian Le Grand, nor (so far as I have been able to discover) in that of James Buchanan - the two authors who appear to have been most influential in shaping the approach of the NZ Treasury (1984, 1987) - but the use of the term in Treasury (1984) seems to imply acceptance of "Director's Law" (Stigler 1970) while that in Treasury (1987) more-or-less corresponds to the idea of "rent-seeking behaviour" as found in Buchanan et al (1980).

The dictionary definition of "capture" involves a result which is secured by deliberate action, involving either the direct exercise of power, or the use of stratagems, or both. (See the Oxford Dictionary definition at the beginning of this paper.) For an institution to be "captured" by a class or group, strictly speaking, there would need to be some more or less articulated policy pursued by the group collectively, or by its members individually, leading to the institution becoming a "prize" or "prey". The aim would be the self-aggrandisement of the class or group at the expense of its rivals, and one would expect to see evidence of "capture" both in discernable influence by the captors over decisions made by the relevant institution, and in the distribution of benefits (spoils) generated by the institution in carrying out its functions.

If, therefore, it is observed that some reasonably well-defined class or group is benefiting to a disproportionate extent from the operation of some agency of the state, or is influencing the supply process in ways that appear to serve that group's interests, then one possible explanation for such a pattern would be that the class or group had "captured" the institution and was manipulating it to that group's own advantage.ate.

It is immediately evident that alternative, rival explanations could be offered for such a concentration of benefits or influence. Two are of particular relevance to the present paper. They are

1) Group A may receive an apparently disproportionate share of the benefits from institution B as a result, not of any deliberate policy or manipulation, but simply as the unintended consequence of the operation of wider, impersonal forces embedded in the economic system as a whole. Use of the word "capture" in this context is misleading if we retain the sense of deliberate predatory activity, and a more neutral term would seem appropriate. It is noteworthy that Le Grand (1982), who offers such an impersonal market-driven explanation for his evidence on the UK [discussed below], makes no use of the term "capture"; nor does it appear in his subsequent work (e.g. Le Grand 1984, Le Grand and Winter 1987) which deals explicitly with the power of the middle-class to obstruct retrenchment of government spending.

2) The apparently-favoured group may have been recruited to their present position, obtaining their benefits by virtue of invitation rather than capture. The decision to hire qualified medical staff to perform services in a hospital means that, by simple logic, such people will be the dominant group performing those services in that setting. The observation of their numerical or professional dominance cannot in itself establish anything about the process leading to that situation. The same applies to, e.g., the observation that middle-class people receive National Superannuation; this arises from the nature of the legislation, reflecting the intentions of the legislature. Without scrutinising the basis for the original decision to make a particular benefit universal, we cannot say whether it arose directly from the exercise by the middle classes of their political power, or from a principled decision in favour of universality, or from the desire of non-middle-class groups to "pay-off" the middle class and thereby render the welfare system sustainable in the longer run. All three possibilities can be argued with plausibility, and the only way to reach a judgement will be to inspect the historical record for the particular case.

Where, therefore, some group is alleged to be securing more than its "fair share", the idea of "capture" will provide only one of (at least) three possible models to account for the anomaly. Existence of an anomaly will not suffice to establish that "capture", in the sense of the exercise of deliberate predatory agency, has occurred. To be persuaded by a strict "capture" explanation, we would need to be shown grounds for discounting the alternative explanations that (a) rather than creating the distortion, the institution in question has merely failed to eliminate pre-existing distortions in the wider social or economic system; or (b) the favoured group has been deliberately so favoured for good reasons unrelated to predation.

Recognition of this problem of drawing conclusions about political processes from statistical data about economic outcomes probably accounts for the shift in the ground of the local debate over capture, from a focus in the first half of the 1980s on cross-section distributions of taxes and expenditures, to the direct analysis of processes of public choice in the second half of the decade. The so-called "egalitarian critique" of the welfare state has been rather superseded by models which derive strong *a priori* hypotheses about political and administrative behaviour from postulates of individual maximising behaviour subject to particular sets of constraints and incentives.

We can illustrate this shift in thinking in the New Zealand case by reference to the passages on capture in the 1984 and 1987 Treasury briefing documents (Treasury 1984

pp.258-259, and 1987 pp.41-45 and Chapter 2). The next two sections consider "Director's Law" and Le Grand's "egalitarian critique", which has provided the inspiration for the "client capture" model in Treasury (1984). The following sections then discuss the application of Buchanan-ite ideas from the "public choice" literature, which has switched the focus to models of "professional capture" and "administrative capture".

V DIRECTOR'S LAW

We begin on the demand side of the welfare "market", with the issue of whether the benefits of the welfare state are distributed in accordance with some acceptable idea of "fair shares" based on an intelligible concept of social justice. In the recent economics literature the classic paper most often cited is Stigler's 1970 exposition of "Director's Law" that "Public expenditures are made for the primary benefit of the middle classes, and financed with taxes which are borne in considerable part by the poor and rich" (1970 p.1). Stigler's paper typifies both the methodology and the underlying philosophy of a great deal of subsequent writing in the "public choice" tradition. First, he admits that the supposed law is "empirical" - that is, inductively derived by generalising from particular instances. Secondly, he disclaims any intention of undertaking the "vast empirical studies" which would be required, he thinks, to establish the law "rigorously" (1970, p.1). Third, he asserts the "plausibility" of the law, and seeks to enhance this plausibility by constructing an *a priori* story on the following basis (1970, p.1):

> The philosophy of Director's Law is as follows. Government has coercive power, which allows it to engage in acts (above all, the taking of resources) which could not be performed by voluntary agreement of the members of a society. Any portion of society which can secure control of the state's machinery will employ the machinery to improve its own position. Under a set of conditions to be discussed below, this dominant group will be the middle income classes.

The conditions which lead to the middle classes securing control are, Stigler claims, those of democratic politics with universal suffrage, in which the middle classes occupy the strategic middle ground between the rich and the poor. (This has subsequently become known as the "median voter theory".) "In the long run", Stigler suggests (1970 p.9), "the middle classes may have been beneficiaries of [the expansion of government] because they were in coalition with the rich in the nineteenth century, and are entering into coalition with the poor today".

Stigler's view of modern government as a prey to strategically-located vested interests was in tune not only with the long-standing US conservative suspicion of big government, but also with Marxian (especially New Left) critics of the capitalist state, and a growing body of liberal US opinion which considered that the federal welfare bureaucracy had taken on a life of its own (Wilson 1967).

Striking a responsive chord is one thing; establishing a "law" as superior to competing theories is quite another. The view of the state and the political process espoused by Stigler is both ideologically-loaded (the image of the state is of "coercion" rather than promotion of the public interest) and tautological (any group which appears to reap disproportionate benefits is presumed to have secured them by "securing control of the state's machinery" rather than by legitimate means). Alternative paradigms of government behaviour such as democratic pluralism (the usual social-democratic story of how the government comes to represent the "public interest") or countervailing power (Galbraith's theory of mutually-cancelling bilateral monopoly in government and business) are swept aside rather than dissected. So is the ideal-type of the selfless, public-spirited administrator. These criticisms continue to apply to much of the work of the "public choice" school of economists headed by Ronald Coase, James Buchanan and Gordon Tullock.

The central difficulty in the long-standing debate between these paradigms of government is the problem of induction. The various alternative models of the state have been built up and supported mainly by the accumulation of anecdotal evidence; and because anecdotes are in infinite supply and subject to conflicting interpretations, it is difficult to find crucial tests in which competing theories can be confronted with each other. It is impossible to "prove" any model of the state merely by assembling large amounts of qualitative or statistical evidence on the distribution of benefits. There has nevertheless been a large amount of research effort devoted to such a programme in the past decade, and the resulting information is undeniably of interest to all parties in the debate on the welfare state - however much they may draw different conclusions from the same evidence. The so-called "egalitarian critique" of the welfare state arises as part of this work.

VI THE EGALITARIAN CRITIQUE OF THE WELFARE STATE

There exists a substantial literature analysing the distribution of welfare services and benefits among the different classes of society. The UK case has been intensively studied, and several of these empirical studies, especially that by Julian Le Grand (1982), have been very influential on policy thinking in New Zealand. Le Grand's central result, widely replicated by other studies in the UK and elsewhere, was that middle and upper income groups appeared to be the prime beneficiaries of the British welfare state, in the sense that they received/consumed an above-average per capita share of the total supply of benefits and services. Harris (1987, p.46) summarises a widely-held view of the UK experience as follows:

> The welfare state, in fact, is not noticeably redistributive across class lines. Most redistribution is intra-class and across an individual's lifetime. Welfare operates more as a scheme of compulsory insurance than as compensation. Similarly, the evidence suggests that the welfare state has failed to secure a more equal distribution of life chances. Even though rates of social mobility have improved in the post-war period, relative rates have changed little, with the upshot being an increasingly homogeneous and marginalized unskilled working class.

A summary and discussion of Le Grand's 1982 book enables us to identify the type of evidence commonly used in studies of this kind, and to focus on some of the problems in drawing policy conclusions from such evidence. At the outset, it should be repeated that the word "capture" does not appear in Le Grand's book. His position is that "[t]he failure of public expenditure on the social services to achieve equality can be explained primarily by its inability successfully to counteract the influence of the more fundamental social and economic inequalities that still pervade British society.... Hence, for any strategy of equality to succeed, it has to tackle these inequalities directly." (1982 p.139).[my emphasis].

A major problem for readers of Le Grand's book is to identify precisely which counterfactual he is using. Le Grand himself proposes (1982, pp.16, 166) two criteria, and claims that both give the same result, so that he does not need to discrimminate between them in any systematic manner. The first criterion is the past pattern of distribution, in the period before the introduction of public provision of social services. The second is a hypothetical situation in which the relevant institutions of the welfare state were absent, but in which the British government had adopted a policy of radical redistribution of money income by means of the tax system. Against these benchmarks, he claims, the present structure of public provision in the UK represents no advance on the past, and its elimination would not worsen the degree of inequality in British society.

Le Grand's statistical evidence, however, turns out to rest mainly upon a comparison of the actual distribution of publicly-provided services with a hypothetical situation of full equality of distribution. (To judge by the review in *The Economist* 17 October 1987, p.104, Le Grand's reworking of his data in Goodin et al 1987 also uses this counterfactual.) His central claim [not supported by his evidence, as we shall see below] is that "almost all public expenditure on the social services in Britain benefits the better off to a greater extent than the poor" (1982, p.3), and his claims relating to the "failure" of the welfare state in Britain are based upon this comparison rather than on any very careful examination either of the past or of a counterfactual present without the welfare state. [This is not to say that he is necessarily wrong in claiming that state-provided services have left previous inequalities untouched - simply that he fails to establish that case.]

Part 2 of Le Grand's book tackles, in successive chapters, the distribution of the benefits of public-sector expenditure on health care, education, housing, and public transport, in descending order of thoroughness. He does not deal at all with social welfare benefits - a significant omission, given that these are central to the income-redistributing side of the welfare state - nor with social workers, home help and similar services; but he does include some "tax expenditures" related to housing. His argument is that public-sector provision of the four types of services studied has no significant redistributive impact and is therefore discredited.

Chapter 3, on the National Health System, starts from 1972 General Household Survey data on the utilisation of the health system by different socioeconomic groups. These (volume) data were multiplied by the estimated per-unit cost of providing the services used, in order to estimate a percentage allocation of the total public health budget across

groups. The result was (Le Grand 1982 Table 3.1 p.27) that if the estimated total consumption of health services by each group was divided by the number of people in the group, the pattern of expenditure across income levels was fairly even, with some weighting in favour of the lowest socioeconomic group; but if each group's health-service consumption was divided by the number of sick individuals in the group, there was a clear bias towards greater per capita expenditure on sick people in the higher income brackets. The second of these calculations, in Le Grand's view, was the important one, since it measured the quantity of health services consumed relative to "need", with "need" measured by the reporting of sickness.Supplementary (anecdotal) data indicated that the better-off groups benefit from longer consultations and more sympathetic treatment by NHS staff, and that health status (which some people regard as a rough indicator of the outcome of the health system) is positively correlated with income.

Le Grand cited several earlier studies besides his own which obtained similar results - Abel-Smith (1958), Alderson (1970), Cartwright and O'Brien (1976) and Black (1980). He recognised also (Le Grand 1982 pp.29-30) some contrary evidence reported by Collins and Klein (1980), who used more detailed GHS data for 1974. Le Grand discounted the Collins/Klein results on the basis of problems in interpreting the data; but arguments of that kind cut both ways, and it must therefore be noted that Le Grand's own estimates of the distribution of health services have since come under attack from, e.g., Collins and Klein (1985) and Puffer (1986).

Having produced some evidence for his view that the rich have received more from the NHS than have the poor, Le Grand pursues several lines of discussion which bring him to the conclusions (1) that the NHS should be retained (though with modifications); (2) that unequal use of medical services is not the basic problem; and (3) that such unequal consumption is explicable in terms that require no resort to ideas of monospony power wielded by the middle classes as consumers.

The second of these points he develops by claiming (with some supporting evidence) that differences in health status amongst various socioeconomic groups are to be explained by income and environmental differences, rather than by differential access to health services. That is to say, a perfectly-equal distribution of health care across socioeconomic groups, or even a distribution skewed in favour of the poor, would not provide the key to equalising the health status of the various classes of British society. The really effective way to equalise outcomes in the health field, Le Grand claims, is to redistribute income. The health system should not be used as an instrument of egalitarianism because "there is little the Health Service can do to reduce inequality in its use or in the private cost of that use. The principal determinants are largely beyond its control." (1982 p.51).

Le Grand offers two explanations for inequality in consumption of health care. First, the costs of using the system are greater for the poor than for the rich (when costs are measured in terms of the monetary cost of travel plus the opportunity cost of time). Second, the NHS has been distorted by the exercise of monopoly power by professional supplier groups - the "provider capture" issue to which we return below. Both points open up lines of policy development which could aim to improve the existing system,

using as guidelines "equal use for equal need" and "equal cost to users" (1982, p.46) plus a conscious attempt to tailor the system to the needs and attitudes of the poor. Neither leads to any conclusion that the system of universal free public health care should be scrapped or reduced.

Le Grand, in fact, argues strongly in favour of the NHS, and against targeting or means-testing. As he puts it (1982 p.48)

> ...there are numerous reasons, quite unconnected with the question of equality, why the NHS should not be replaced by the private market. Market allocation of a commodity will be socially inefficient if the commodity has external benefits or substantial consumer ignorance associated with it, and medical care has both. There are monopolistic elements in, among other things, the supply of medical practitioners and of drugs. The NHS, being itself a (virtual) monopoly purchaser of these factors, can play an important roler in keeping down their costs. More generally, it has been argued (notably by Titmuss...) that non-market allocation systems increase the opportunities for altruistic behaviour and hence encourage a wider diffusion of that behaviour, a desirable end in itself.

Means testing would increase

> both the time and psychological cost of using the service ..., even to those who had to pay no charge. The likely result would be to discourage both middle- and working-class use of the NHS, an outcome which many would view as undesirable in itself, and which, in any case, would have little impact on relative inequality.

The option of abolishing NHS is, nevertheless, considered briefly on p.48, where Le Grand speculates that if the reduction in government expenditure were returned to the poor as extra disposable income, the result could be to render health status more equal - by raising the standard of living for the poor - while making medical care more expensive, and hence less accessible, for all. He sets this option aside without any very serious consideration of the costs and benefits, largely because he clearly does not trust government to transfer to the poor any savings in the budget arising from abolition of the health system. But the tone of his discussion in Chapter 3 makes it clear that Le Grand would see no reason why abolishing the NHS should be necessary for, or in any way related to, a government-organised redistribution of income - if this were viewed as desirable in itself.

Chapter 4 tackles the public education system, obtaining results which at first sight are very similar to those for health. The rich consume more publicly-funded education per capita than do the poor. This is explicable in terms of a combination of rational consumer choice (the poor see fewer benefits from education, and face higher relative opportunity costs) and supplier behaviour (which tailors the system for the rich rather than the poor). Unequal educational status across classes is to be blamed on basic socioeconomic inequalities, not the education system per se. And as with health, Le Grand is sceptical of the efficacy of education in reducing inequalities in income,

employment or average rates of pay. Education is "not an effective tool for creating equality" (p.79).

The chapter ends with a very sweeping claim: "The provision of free education has created neither equality of use, cost, public expenditure nor outcome" (1982, p.79). This conclusion goes beyond the evidence presented in the body of the chapter. Le Grand's own calculations (1982, p.58, Table 4.1) make it evident that there is a fundamental distinction to be drawn between compulsory education (up to age 15) and post-compulsory education. Expenditure on compulsory education is strongly skewed in favour of the poor, and similar results are reported from Colombia (p.60). Expenditure on post-compulsory, and especially tertiary, education is heavily skewed in favour of the rich, a pattern reported also in studies of France, Colombia, Kenya, Malaysia and California (p.60).

When, therefore, Le Grand turns to the question of policy options, he does not contemplate reducing or abolishing the compulsory basic education system. On the contrary, he concedes that raising the leaving age could be an equalising reform (1982 pp.78-79). The burden of his criticism falls almost entirely on the tertiary education system, where the evidence is strong that publicly-funded provision is utilised disproportionately by the children of the rich, and where inequality appears to have remained unchanged over the past half century (p.61, on the basis of skimpy data from a single longitudinal survey). Tertiary education, therefore, cannot justify its claim to heavy public subsidy on egalitarian grounds; Le Grand recognises (1982 p.78) that there may be other grounds for subsidising tertiary education, but he offers only very limited discussion of these, confing himself largely to an unsubstantiated claim that there are few genuine externalities associated with this level of education.

Turning to housing, Le Grand again produces an eyecatching conclusion which glosses over crucial distinctions. His data (Table 5.1 p.88) show two separate and strongly-contrasting strands to housing policy. Public provision of housing (through subsidies on council housing and rent rebates to poor tenants) is dramatically pro-poor in its distribution. The equalising impact of expenditure policy, however, is more than offset by the distorted tax system of the UK, which allows mortgage interest tax relief but does not tax imputed income from owner-occupied housing. Le Grand's dramatic conclusion, that housing policy overall is biassed in favour of the rich, relies heavily on the aggregating-together of these two opposing policies.

The elimination of tax expenditures on housing emerges as Le Grand's main policy recommendation; if implemented, this would leave the other side of housing policy as a success story for the "strategy of equality".

Perhaps significantly, when he comes to the tax-expenditures issue, Le Grand eschews any attempt at explaining the reasons for the bias in policy. It should be noted that this is the first point in his study at which the notion of "consumer capture" seems consistent with the story being told. The tax treatment of mortgages and imputed income is indeed subject to strong group pressures through the political process, and may therefore be a case of the rich using political muscle deliberately to skew the system in their favour.

Finally comes public transport, in Chapter 6. Here again, Le Grand obscures as much as he reveals by aggregating together two very different parts of the overall system. Bus services appear to be used more by the poor; suburban rail services by the rich. At the same time, the rich have more cars and use them more than do the poor. Hence public subsidies to British Rail, and roading expenditures, benefit the rich more than the poor. Le Grand proceeds to draw the sweeping conclusion (1982, p.118) that if the aim is merely to promote equality then reform should "reduce, insofar as it is possible, the public subsidisation of transport" and distribute the resulting savings as cash benefits to the poor. Le Grand subsequently deals in rather cavalier fashion with arguments for transport subsidies on efficiency grounds (1982, pp.118-120).

More than any of the other chapters, this transport section reveals the very limited reach of Le Grand's analysis. Obviously, in writing a book to convey a simple message about the pursuit of equality as an end in itself, he found it necessary to set aside any detailed consideration of social goals other than equality. In order to obtain striking and apparently uniform results supporting his position, however, he then went further than his evidence could justify, first in discounting arguments other than equality for government intervention, and second in sweeping under the mat the specific cases where his own evidence runs counter to his conclusions.

From the point of view of a discussion of "capture", Le Grand's 1982 book is unsatisfactory, although some of the evidence he collects is of obvious relevance. He finds three examples of publicly-provided services where an equality goal, construed in isolation from other social goals, would justify drastic cuts in expenditure: higher education, mortgage-interest tax relief, and subsidies to commuter rail services (Le Grand 1982, p.131). He finds other cases where a stand-alone equality goal would support continuation or expansion of the existing expenditures - council housing, rent rebates, compulsory education, bus services. He suggests, almost in passing, that abolition of the National Health Service would have "little effect" (1982, p.131). Results as diverse as this, based on data which in the final analysis must be recognised as fragmentary or indirect, could strongly buttress an argument for piecemeal reform of the welfare state - provided that we were satisfied (a) that the state truly represented an egalitarian version of the "public interest", (b) that the pursuit of equality is the fundamental justification for government intervention, and (c) that public provision of services represents a feasible means of correcting wider inequalities.

Le Grand gives his book greater public impact and wider sweep by rejecting (c), ducking (a), and adopting a very half-hearted line on (b). There does not seem, he claims (1982, p.137),

> to be much prospect of retrieving the situation through any piecemeal reform. Basically, the forces which created the inequalities in the first place and which perpetuate them seem to be too strong to be resisted through indirect methods such as public expenditure on the social services. Rather, the strategy of equality has to be aimed at tackling those forces directly....

This reading of the situation is certainly not inconsistent with the evidence collected in his book; but neither is it established by that evidence. The "forces which created the

inequalities in the first place" are nowhere identified or explained, and the inability of piecemeal expenditures to counteract those forces is asserted rather than demonstrated - by treating mortgage relief and higher education as the norm, and council housing and compulsory education as exceptions to that norm. The view that a genuinely egalitarian strategy must bite the bullet and undertake direct redistribution of income by taxes and transfers if it is to be effective is not supported by Le Grand's evidence, and begs the important historical question of the actual origins and goals of the welfare state.

There is, for example, a widely-held view that the British welfare state evolved as a political compromise to maintain working-class consent to Westminster democracy and the market economy. (Cf, e.g., Taylor-Gooby 1985 Chapter 3; Ferris 1984, pp.50-53.) The objectives of the system, in this view, were as much to create a subjective sense of participation as to produce any simple objective outcome such as complete equality of money income. Furthermore, insofar as objective goals were pursued, they were always multifaceted, addressing simultaneously issues of efficiency as well as (or even, in some cases, rather than) equity. And since the maintenance of a strong market sector based on private enterprise was an intrinsic part of the package, it followed that the scope of direct income redistribution would be limited.

This view of the nature and origins of the welfare state serves to highlight fundamental problems with Le Grand's analysis. The welfare state was accepted by the political Left and its working-class constituency as a viable alternative to a head-on attack on the British class structure and income distribution; and it was accepted by conservatives as a strategy of limited concessions that left intact large areas of the private market system - including, of course, the underlying class structure and its accompanying distribution of factor incomes. If, as Le Grand appears to argue, there have been no significant (relative) gains for the lower classes, and the benefits have been one-sided rather than general, then we are left with two propositions that require far more support than Le Grand's book offers. First, that a zero-sum redistributive approach is in fact a feasible and superior way to ameliorate inequality in Britain. Second, that the strong and consistent evidence of political support for the welfare state by the lower classes rests upon false consciousness. Both propositions boil down to the claim that the working class, and its political leaders, were mistaken in their original adherence to the welfare state, and are deluded in continuing to support it.

This (rather lengthy) review of Le Grand's 1982 book has taken us some way from the specific question of capture, and it is time to sharpen the focus. As already noted, Le Grand does not develop any explicit theory of "capture" in his book. His view is that the social-services side of the welfare state merely reproduces the wider pattern of British society, and is thereby discredited as a means to the end of greater equality. Apart from the National Health Service case, he barely recognises the possibility that other ends than equality may in fact have been the ones sought.

His lack of a systematic, consistent theory of politics and the state, and his attempt to draw extreme conclusions from inconclusive evidence, did not prevent Le Grand's book from having a considerable impact, especially among economists (for whom some of the findings may have appeared more novel than in fact they were). His position against state provision of basic needs, and in favour of monetary redistribution, coincided neatly

with the views then current among the so-called "New Right", who sought a radical reduction in the role of the state and a uniform once-for-all solution to inequality and poverty by means of a tax-transfer system including a negative income tax. Similar views were strong in the New Zealand Treasury at the time, and in 1984 Le Grand's egalitarian critique was reproduced in *Economic Management* - hereafter referred to as *EM* - harnessed now to an explicit (though poorly-elaborated) story of "middle-class capture". On the face of it, Treasury espoused Le Grand's approach, endorsing the ostensible aims of the welfare state but suggesting that existing policies are inefficient means to those ends, and that there should be more careful "targeting" of specific policies, together with a broader commitment to redistribution of money incomes where greater equality *per se* is really the central aim. (*Economic Management* Part 2 Chapter 12, Section 5(d)). *EM* provides a brief discussion of "Shifting and Middle Class Capture", including the following statements (pp.258-259): [Empasis added]

> Under certain conditions, almost all the benefits of a programme may be 'shifted' to groups other than the intended targets. Important examples are the likely capitalisation into house prices of subsidies both to new home owners and to urban public transport.....
>
> Another failure of many programmes which are targeted at low-income households is that the benefits are largely 'captured' by middle and upper-income households. A variety of studies (in countries with welfare systems broadly similar to New Zealand's) have concluded that most public expenditure on the social services is actually distributed in a manner that favours the middle and higher social (income or occupation) groups, despite its notional targeting at low-income groups.
>
> If services are provided free or at a uniform price to all, then it is probable that the wealthy will benefit most. This is because there will always be some costs associated with using services, even if there is no direct charge. Such costs could include the cost of travel involved in order to use the service, the income lost through the time involved in using the service, or the legal and administrative costs involved in complying with complex requirements. These costs invariably weigh more heavily on, and discourage, the poor rather than the rich.
>
> The only established exceptions to the finding that middle and higher income groups benefit most from social expenditure programmes, are certain programmes which are explicitly confined by policy decision (e.g. income test) to people on low incomes (and even then there is no guarantee of redistribution). Among the most extreme examples of capture is tertiary education, which in Britain has been estimated to represent a transfer of $5 to the rich for every $1 to the poor. Interest groups (e.g. students' associations) of course often seek to maintain or extend programmes which benefit them on the grounds that they improve opportunities for the less well off. Typically, organised groups comprise principally people who are educated, articulate, and have the resources or spare time to pursue the interests of their group.

This passage bears an obvious family resemblance to Le Grand, and the figures for tertiary education (the only empirical evidence actually produced by Treasury in this connection) were taken from Le Grand's Table 4.1 (1982, p.58). Treasury's rendering of the argument, however, goes considerably further even than Le Grand in drawing strong conclusions from evidence which in fact is inconclusive. The claim that "under certain circumstances [not specified] almost all the benefits of a programme may be shifted to groups other than the intended targets" is not supported by any of Le Grand's case studies, besides begging the question of how the "intended targets" have been identified. At worst, Le Grand found that benefits were skewed in favour of particular groups, but none of his examples would warrant use of the term "almost all". The capitalisation of subsidies is certainly a relevant area for analysis, but I have not located any empirical study in New Zealand or elsewhere showing the shifting of "almost all" of the benefits to non-targeted groups. (Subsidies such as SMPs have of course been much criticised on efficiency grounds - but the claim that target groups have been given the wrong incentives needs to be distinguished clearly from the claim that target groups have not derived substantial benefit.)

In similar vein, Treasury go well beyond any finding of Le Grand's in claiming that administrative and access costs "invariably" weigh more heavily on the poor. Le Grand certainly provided some specific examples of such unequal cost burdens, but he nowhere seeks to draw a general conclusion. And Treasury's claim that "the only established exceptions" are provided by targeted public services runs directly contrary to Le Grand's result for, e.g., universal compulsory education.

The appearance of the term "capture" in the 1984 Treasury document serves mainly to add a dramatic touch to what is probably best read as a carelessly-written essay in persuasion. In common with Le Grand (1982), Treasury (1984) offered no systematic political theory of any "capture" process, and the context in which the word is used in the above quotation could equally well be interpreted as involving passive rather than active middle-class beneficiaries. As of 1984, thus, it does not seem that any clearly-articulated model of "consumer capture" was on offer in official New Zealand.

Limited Power of the "Egalitarian Critique".

Treasury's 1984 adoption and adaptation of Le Grand's analysis looks, in retrospect, more a marriage of convenience than a genuine conversion. Le Grand's claim, that the welfare state had become discredited by its failure to achieve redistributive goals via public provision of basic needs, provided welcome ammunition for those who wished to argue for a sharp reduction in the size of the public sector; but the redistributive issue was never fundamental to the New Right attack on the public sector, and there was (and is) a substantial overlap between overseas New Right and NZ Treasury positions. While apparent evidence of the ineffectiveness of the public sector in achieving any goals was grist to the mill, the New Right were more interested in asserting the impossibility of improving resource allocation by government intervention. Le Grand's line of attack, resting as it did upon the initial assumption that state provision of

services had arisen from an attempt to redistribute income rather than from an attempt to correct market failure, cut across the New Right agenda.

The "egalitarian critique" suffered from a further serious problem which rendered it unsatisfactory as a basis for major policy changes. The sort of data analysis undertaken by Le Grand was in fact not new, especially among social-democratic observers, but the empirical evidence on the distributional impact of the welfare state in Britain, New Zealand, and elsewhere remains controversial, as does its interpretation.

Le Grand in 1982 was replicating results already familiar from a long series of exercises over the years in the UK, and for that matter in other welfare states (see, e.g., Fry 1979 on Sweden). In particular, a sharp debate over who benefited from the welfare state had taken place in Britain in the late 1950s and early 1960s (Abel-Smith 1958, Titmuss 1960, HM Treasury 1962, Marsh 1964) and had led to the conclusion not that the welfare state per se was discredited, but that it was susceptible of improvement. At that time the inadequacy of egalitarianism as a criterion for evaluating governmental provision of services had been clearly identified by Marsh (1964, p.120):

> To suggest that all things could ever be equal for all men at all times, or that all men would take equal advantage of equal opportunities and conditions at all times, is utopian. There are few protagonists of the welfare state who would make such claims, yet many critics of what they assume to be the welfare state as it exists in this country imply that the sole aim of the protagonists is to ensure absolute equality".

Le Grand recognised the existence of some of this earlier work (1982, pp.132-133) but downplayed it as the product of "lone voices". However, given that his policy conclusions were rather different from those of, e.g., Titmuss or Piachaud, it is appropriate to ask whether the change between the 1960s and the 1980s had been in the data or the climate of opinion. A casual glance at the literature rather strongly suggests the latter explanation. Anti-public-sector feeling was a great deal stronger and more articulate in the late 1970s and early 1980s than had been the case a decade or two earlier. Whereas the defenders of the welfare state had previously been able successfully to confront critics who "implied that the sole aim [of the welfare state] was to ensure absolute equality", in the 1980s this line of attack proved more demoralising to social democrats, and struck a responsive chord among the theorists of "government failure".

The egalitarian critique was no less vulnerable on its merits in the 1980s than in the 1960s, however. It rested heavily upon the key, and unwarranted, assertion that, in the words of *EM* , all public provision of services was "notionally targeted at low-income groups". It will be noted in the passage quoted above from *EM* that, within two paragraphs of introducing this assertion, the Treasury authors were already explicitly admitting as exceptions to their general rule those services which were in fact so targeted. Le Grand (1982 Chapter 2) in his survey of Tawney, Crosland, Marshall and Beveridge recognises that the pursuit of equality was only one amongst several goals set out for the welfare state to perform, but then asserts (without producing any

evidence from legislation or official government pronouncements on the matter) that "it seems clear that there is a widespread belief that public expenditure on the social services can promote equality and that this belief has played a major role in guiding public policy in those areas." (1982, p.12). On this basis he proceeds to analyse his series of public-expenditure case studies as if each and every one of them is best evaluated on the assumption that equality was its sole or dominant goal, and having done so he offers the judgement that (1982, p.132) : "the strategy of promoting equality through public expenditure on the social services has failed. It has failed to achieve full equality of whatever kind for most of the services reviewed.In those areas where data is available it has failed to achieve greater equality over time; and, in some cases, it is likely that there would be greater equality if there was no public expenditure on the service concerned."

The problems arising from this unidimensional approach are manifest in the dramatic example of alleged "capture" singled out by Treasury (1984) as their clinching example: tertiary education. Of all the areas of publicly-funded provision, tertiary education must surely be the one whose notional goals lie furthest from the promotion of social equality *per se* . Tertiary education has not obviously had "targeting to low-income groups" as a primary aim in either the UK or New Zealand. Politicians may have seen fit to make speeches about some supposed equalising function of higher education, but the designers and managers of the university system in both Britain and New Zealand have had other notional priorities - the pursuit of knowledge, the cultivation of excellence, the production of a skilled white-collar labour force, and the maintenance of a "high culture" which has always been (and still remains) largely the preserve of the middle and upper classes. The discovery that in the UK rich consumers outweigh poor ones by five to one, cited by Treasury as evidence of "capture", is better interpreted as evidence that higher education has been a service designed not so much to redistribute income as to meet other, quite distinct, goals. As O'Higgins remarks (1985a p.16) "the structure of tertiary education is not defensible on egalitarian grounds". One might be forgiven for suspecting that Treasury selected this example primarily because of its striking magnitude rather than its actual relevance.

The real function of the egalitarian critique turns out, on reflection, to be not the discrediting of the welfare state itself, so much as the discrediting of a particular line of argument in defence of the welfare state. Le Grand's work may thus have performed an important function in clearing the ground for a subsequent debate on the real fundamentals, but with that task accomplished, it had little more to offer. (Cf the criticism of Le Grand's work offered in Heald 1983, pp.143-146.) O'Higgins (1985a pp.13-14) has neatly identified one school of pro-welfare-state thought that has always been vulnerable to the Le Grand type of attack: those who defend universal social provision as "progressive" on the grounds that it promotes "global equality" (that is, equality of ex post incomes). Even a fully-successful attack on that position leaves unscathed, however, the other mainstream defences of universal provision - that it improves resource allocation, minimises qualitative differentiation of service, is politically sustainable because of the wide spread of beneficiaries, and performs an important socially-integrative function by underpinning rights of citizenship.

Moving on to the actual reading of the evidence on redistributive impact, it is important to note that Le Grand's 1982 methodology has come under telling attack. His counterfactuals turn out on inspection to be poorly-specified and not necessarily the relevant benchmarks for the arguments he wishes to make, and his use of data on distribution of expenditure rather than incidence has been strongly questioned, since incidence measures tend to show a substantially greater equalising impact from social services than do distribution measures. (Cf Harding 1984; NZ Planning Council Income Distribution Group 1987). His exclusion of social-welfare benefits also means that his analysis lacks consideration of the most explicitly redistributive part of the welfare-state system - and the only part where equality is actually the sole or dominant objective.

A direct attack on Le Grand's results on several of these grounds is O'Higgins (1985b) which assembles tables showing the distribution of taxes, benefits, health, education and housing expenditures by income quintiles, relative to the distribution of market incomes. (This particular standard of comparison had been rejected by Le Grand 1982, pp.165-166, on grounds which were relevant but not conclusive.) The results (O'Higgins 1985b, Tables 4, 6 and 8) showed that the overall impact of taxes, cash benefits and "in-kind benefits" (i.e. social services) was substantially equalising relative to the distribution of market incomes, and that even those social services which went disproportionately to the well-off were less unequally-distributed than market incomes.

In reply, Le Grand (1985 pp.311-312) retreated to the position that the egalitarian critique "has been more concerned with the [social services'] effectiveness in achieving other kinds of equality than greater equality in final income. Thus the health service has been criticized for not achieving equal treatment for equal need; the education system for not providing equal education for equal ability, and so on. O'Higgins' figures do not address this issue." Nor, one may note, did Le Grand's own figures address it in the cases of education, housing or transport - all cases where he settled for simple measures of expenditure distribution, albeit buttressed by anecdotal qualitative material. The defensive tone of Le Grand's response, and his shift to complaints about qualitative as much as quantitative issues, suggest that O'Higgins' 1985 attack was well-directed.

There has been a certain amount of empirical work carried out in New Zealand over the past decade aiming to replicate Le Grand's British work. Fougere (1987) summarises work by Snively and McGuire Cleave as showing public expenditure on health services to be evenly spread across the income deciles - a result matching Le Grand's for raw expenditure, without an attempt to adjust the results for differential morbidity rates - while expenditure on education as a whole (i.e. including tertiary education) was skewed in favour of upper-income groups. However (Fougere 1987 p.7)

> Tracing out the pattern of vertical distribution makes apparent the extent of horizontal distribution involved: education means redistribution from families without children to those with; health involves redistribution towards the old. Thus the distributions involved are as much between risk or dependency groups as they are between income groups - middle class capture catches only a part of the picture.

This clearly echoes Culyer's remark that (Culyer 1985, p.137) "an exclusive emphasis on [the welfare state's] vertical redistribution characteristics may miss a large part of its purpose".

The NZ Planning Council Income Distribution Group (1987) used 1985 data from the Household Expenditure and Income Survey to demonstrate the clearly redistributive effect, relative to the market income distribution, of social welfare benefit payments across household income deciles (1987, pp.5, 16-18). The methodology is directly comparable to that of O'Higgins (1985b), and the results seem robust, even given the problems of using household income deciles rather than more systematic and direct measures of socioeconomic status. (The lowest income deciles contain a disproportionate number of elderly people, for example).

Work in progress by the Group extends the analysis to cover the full territory of the 1985 O'Higgins-Le Grand debate, and obtains results which sem to indicate that the New Zealand system is less vulnerable to the egalitarian critique than the British one. Compulsory-education expenditure appears to be distributed fairly equally per child across the household income distribution, while an incidence measure (showing the percentage addition to household incomes) shows progressivity. In contrast to the British picture for tertiary education, cited by Treasury (1984), the New Zealand data seem to show that tertiary-education expenditures are also evenly distributed across young adults in the various income deciles, and an incidence measure also shows relative neutrality. Thus primary and secondary education expenditures appear to have an equalising impact in New Zealand, and tertiary education is not disequalising. Six previous New Zealand studies of tertiary (mainly university) students between 1980 and 1984, however, found evidence that socioeconomic status was strongly related to attendance at educational institutions; the explanation for the apparent contradiction seems to be that socioeconomic status does not correlate well with household income - a key issue for the egalitarian position - and that non-university tertiary education appears to be distributionally neutral. Overall, even the claim that tertiary education in New Zealand has been subject to "middle class capture" is not clearly substantiated by the available data at this stage (though no-one involved in university teaching is likely to claim with much conviction that New Zealand universities are overcrowded with children of the poor).

Similarly, on a preliminary analysis health expenditure appears to be concentrated on those in greatest need, and in general seems to be redistributive in its impact. Data on housing expenditure distribution are fragmentary for New Zealand to date (though it is worth noting that the tax breaks on mortgage interest which Le Grand attacked in Britain are not found in the New Zealand tax system).

It appears, thus, that work now in progress and well advanced will shortly become publicly available to permit comparisons with the Le Grand (1982) and O'Higgins (1985b) results in Britain, and will probably suggest agnostic or mildly favourable judgements on the New Zealand welfare state from an egalitarian standpoint. Certainly it does not seem likely that local empirical work in the Le Grand tradition will substantiate the very negative tone of Treasury's (1984) comments. In the meantime,

however, the focus of debate has rather shifted away from "consumer capture" for theoretical rather than empirical reasons.

We conclude our rather sketchy discussion of consumer capture, thus, with the feeling that the attempt to use aggregative data to establish general propositions about the "failure" of the welfare state has not been productive. Social democrats have obtained good mileage from expenditure-distribution data when they have used it to identify specific problem areas, or as one of several indicators in discussions of possible reforms of the welfare state. But the best such work has been at the micro-level, identifying specific cases and probing back into the political processes at work to determine the distribution of benefits among classes. The proposition that "the welfare state has failed" on egalitarian grounds is not substantiated by evidence to date; nor is the proposition that "capture" is the best general explanation for the observed patterns of expenditure distribution. If the "capture" theme is to be operationally significant it must either narrow its focus to particular plausible cases (such as Le Grand's mortgage-interest tax relief, or New Zealand's National Superannuation) and eschew unwarranted generalisations about government failure; or it must switch to a more sophisticated account of political and administrative decision-making.

Le Grand himself appears to have reached this view after his 1982 book. His subsequent research programme (Le Grand 1984, Le Grand and Winter 1987) has focussed on the identification of those parts of the British welfare state that are especially difficult to dismantle due to the strength of middle-class political support for them, and he has produced an impressionistic but useful matrix classifying elements of the social services according to the extent of middle-class dominance in supply as well as consumption. His data confirm that it is politically difficult to attack institutions which are supported by the middle classes as well as the lower classes (that is, by a coalition rather than a single class), and that Mrs Thatcher's attempted retrenchment of the public sector has made headway mainly in areas which lack such support and benefit mainly lower class groups: NHS ancillary services, council housing, means-tested benefits and so on.The lesson to be drawn from this line of research is not necessarily best expressed in terms of "middle-class capture", however, and Le Grand again does not use the term "capture". Working-class support for the extension of universal health and education services to the middle classes was, after all, originally motivated to a large extent by the hope of rendering these services politically sustainable, and Le Grand's new data seems to validate that strategy, which may be better described as recruitment of (or alliance with) the middle classes rather than capture by them.

Essentially the same point, but formulated in terms which come closer to the spirit of the "capture" idea, is made in *The Economist* review of Goodin, Le Grand et al (1987) as follows: (*Economist,* 17 October 1987, p.104):

> ....[M]iddle class involvement in the welfare state is more than just a regrettable flaw in the delivery of social services. It is systematic...[T]hey constructed the welfare state in the first place and still run it. Their political influence has helped preserve those areas from which they gain most from the sharpest spending cuts of recent years.

> Britain's middle classes, after all, did not set up their welfare state just because they felt sorry for the poor. They did so to provide social insurance for themselves in a world traumatised by depression and war. If the welfare state's aim is to promote equality, it is failing; if it is to ensure minimum standards of health, housing and other needs, it is a blunt instrument.

A blunt instrument perhaps, but not necessarily ineffective in terms of meeting actual political objectives. Whether we explain the British welfare state as constructed by the working class in alliance with the middle classes, or (as in the above passage) by the middle classes in alliance with the workers, makes little difference. Enduring alliances need to be based upon perceived mutual advantages; any accusation that one partner has "captured" the joint project would need to be sustained by evidence that the original social contract had been betrayed - but it is precisely here that the egalitarian critique fails to make its case, by failing to provide an historically-informed account of the actual terms of that contract.

The Castles Study

Castles (1985), in his recent book placing the Australian and New Zealand welfare systems in an international comparative context, has echoed this point in his discussion of the "universal versus selective" debate. Criticising the 1972 New Zealand Royal Commission's case in favour of selective benefits as the most equitable way to allocate a fixed welfare budget, he suggests (1985 p.102) that the size of that budget is "a function of the political willingness of the community to devote expenditure to public purposes" and that by recruiting wide political support for welfare spending, "universal provision may well lead to greater and more generous expenditure on the poor, and may, in consequence, have a greater egalitarian impact than the more meagre provision typical of systems characterised by a selectivist social policy structure". He cites international comparative data on benefit rates to buttress this view.

Castles offers also an analysis of the origins and class basis of the welfare state in Australia and New Zealand, thereby filling the political void in the Le Grandian approach. Of especial interest for the present paper is his conclusion that the Australian and New Zealand welfare states differ fundamentally from their European counterparts, so that arguments based on, say, British or Swedish experience, may not apply here. Whereas critics of the British welfare state worry about the favourable treatment accorded to the middle class relative to the working class, Castles argues that in the Australasian context the welfare state has been systematically oriented to the interests of workers and biassed against those outside the labour force. The Australian and New Zealand

> strategy of social amelioration has traditionally paid little attention to causes of poverty other than low wage levels for male heads of households and has been systematically ungenerous to those whose poverty derives from other causes. (Castles 1985 p.106).

[For a directly contrary view of the New Zealand case, incidentally, see Easton 1986, p.26.]

The central plank of these welfare states since the radical reforms of 1890-1910, Castles argues, has been "wage security for the worker rather than social security for the citizen" (1985, p.87), with the key institution being statutory minimum award wage rates based on the criterion of supporting the worker and his family at a standard of living appropriate to life in "a civilised community". Early extensions of state welfare provison in that period were either measures to provide security of workers' incomes over their life-cycle (compensation, pensions, invalidity benefit) or safety-net "residual" provision for the destitute. Subsequent developments such as child benefit were aimed to deal with the anomalies resulting from setting a uniform minimum wage to cover workers whose numbers of dependents differed. (For similar comments on the Australian child benefit of 1941 see Watts 1987.) Minimum wages plus full employment performed in Australasia the function of Beveridge's "social wage" in the UK, namely the underpinning of "basic needs" provision, but with the vital difference that "the criterion of inclusion was status as a wage-earner, rather than status as a citizen" (Castles 1985, p.103). In matters such as housing and transport, workers in Australasia aimed for self-sufficiency on the basis of adequate private wage income, where British and European workers looked more to public provison.

Alongside this primary reliance on the minimum wage, Castles argues,

> the single most significant distinguishing feature of the Australian and New Zealand welfare states for much of this century has been the persistence of a selectivist ethos in welfare provision. (1985 p.97).

Only in the 1970s, he suggests, did universal benefits make substantial headway, examples being New Zealand's Accident Compensation and National Superannuation, and Australia's Medibank; and none of these departures from historical precedent is yet politically secure [Medibank fell to the Fraser government's axe; ACC and National Superannuation are both under threat as universal schemes].

The obvious implication of Castles' description of the Australasian welfare state is that relative to European countries, the opportunities for "consumer capture" by the middle classes have been limited. Selective benefits and minimum award wages offer meagre pickings for the middle classes, and the real beneficiaries were the members of the primary labour force. The class conflict (or "structural cleavage" - Castles 1985 p.106) which now looms for these welfare states is between waged and unwaged [or in Bedggood's catchier phrase, between the idle and the overworked - Bedgood (1980) p.126], not middle class and workers, and if this conflict is to be resolved in favour of the poor the solution is likely to lie in an increased degree of universalism, not a retreat to greater selectivity. If, on the other hand, employment status rather than citizenship remains the criterion for entitlement to a civilised living standard, then the conflict is apt to be resolved in ways which leave the waged in a privileged position and condemn the unwaged to marginal status.

For the New Zealand reader, the main problem with Castles' account is that it was written in Australia and its analysis focusses primarily on Australia, where the selectivist ethos and the strength of labour mobilisation around the minimum wage are easy enough to discern. Although Castles recognises the very important differences between Australia and New Zealand, these tend to be downplayed in the interests of his central theme. For purposes of policy analysis in New Zealand, however, the differences are crucial and need to be emphasized. The New Zealand Labour Party enjoyed a long period of political hegemony from 1935 to 1949 and used that time to implement measures which, Castles recognises (1985, p.70), were based upon an "early principled attachment to universal rights of citizenship" - notably the 1938 Social Security Act. As a result, New Zealand by the 1940s had established a true welfare state with a family resemblance to the later Beveridge vision - which indeed was partly modelled on New Zealand's 1938 legislation. The Australian Labor Party, in its briefer period of power in the 1940s, achieved no comparable breakthrough. The importance of universal benefits - superannuation, free medical and hospital care, family benefit - was therefore greater in New Zealand than in Australia from the 1930s on, and this relative lead widened in the 1970s with New Zealand's introduction of ACC and National Superannuation while the Whitlam government struggled (ultimately unsuccessfully) to establish universal free medical care.

Since middle-class "consumer capture" is feasible only in a context of universal (or at least, not-too-selective) provision of benefits, it thus follows that New Zealand has had more opportunities for such capture to occur than has Australia, because of the wider scope of its welfare state. Castles' point remains, that compared to the UK, the New Zealand welfare state has been relatively limited both in scope and in the scale of post-1945 expansion, and has been less committed to universalist systems of delivery. Nevertheless it is important not to overstate his critique of the New Zealand welfare state, and to recognise the fundamental ambivalence between citizenship and employment as competing criteria for the design of welfare provision in New Zealand. It is noticeable that media/politician campaigns against "dole bludgers" (a major theme of "capture"-type debates in Australia) have made less headway with the New Zealand than with the Australian public; and that the New Zealand Government has to date been unable to find a politically-saleable line of argument in defence of its clear intention to prune the National Superannuation scheme. Indeed, the National Superannuation issue appears to be the clearest example in New Zealand of the "median voter" model in action - the scheme is difficult to destroy precisely because it offers benefits to <u>all</u> voters in old age.

The Shift from Empiricism to A Priorism

A reoriented version of the "consumer capture" idea is found in Treasury (1987), in the form of an *a priori* argument based directly upon the work of Buchanan and Tullock (Treasury 1987 Vol.1 p.52):

> While the Government's powers can enable it to achieve or promote collective goals, individuals can be expected continually to interact with the state in attempts to persuade it to alter any given definition or

> distribution of rights in their favour.... Individuals form themselves into groups to lobby the Government on particular issues.
>
> However the expression of preferences by interest groups cannot be regarded as a sufficient revelation of the wishes of the electorate at large. In any policy issue it is likely that information concerning the costs and benefits of a proposed change will be asymmetric. The costs are often dispersed across many people and therefore less evident, while the benefits may be concentrated on a small group. This creates different incentives for various groups of voters to lobby government and express preferences.
>
> ...a key characteristic facing government is the tendency for groups in society to lobby the Government to secure policies to their benefit, frequently at the expense of other groups in society. This could lead to the adoption of policies which are not in the collective interests of society.....[T]he need is to have institutional arrangements which allow conflicts of interest to be settled in line with legitimate collective goals rather than in ways which favour legislators or public servants or some sub-group of voters.

As is normal in Buchanan and Tullock's "public-choice" writings, the above chain of reasoning manages to create the strong impression of pervasive "government failure" without summoning any systematic argument or evidence to establish the actual extent of such failure. The words "may" and "could" recur throughout that literature at the crucial point in the argument where we move from the plausible conjecture that governments are subjected to pressures from self-interested groups, to the proposed further conjecture that governmental allocative decisions are normally, or even frequently, best explained as examples of surrender to such pressures. This step is a logical non-sequitur - the fact of being subject to pressure does not in itself render government the prisoner of those pressures. To establish the argument on even a half-firm footing, the government-failure conjecture has to be rooted in an appropriate theory of the state, and buttressed in each particular case by sufficient empirical evidence to render it plausible for that case.Treasury (1987 Vol.1 p.52) are content merely to assert that three-yearly elections are an insufficient safeguard in New Zealand. They provide no explicit assessment of the actual performance of New Zealand politicians and bureaucrats in resisting unjustified pressures from vested interests.

The origins of Treasury's 1987 approach can be clarified by a summary and critique of the closely-related concept of "rent-seeking" as it is developed in Buchanan et al (1980). The following two quotations, from papers by different authors in the 1980 collection, show that the term "rent-seeking" can be, and is, used in two quite distinct senses. Consider first Orr's introduction to the concept (Orr 1980, pp.222-224):

> Rent seeking ... is the active pursuit, involving resource expenditure, of transfer payments or monopoly franchises from government.... Rent seeking is rivalrous redistributive activity that seldom conveys any gain

> in aggregate wealth; indeed, usually it can be expected to diminish aggregate wealth, first, because of the resources consumed directly in both pressing and resisting the activity, and second, because of the altered incentives that some programs impose on those from whom tribute is transferred. The 'services' provided by government in response to the activity of rent seekers can take two forms: appropriation and transfer of wealth or creation and allocation of monopoly power.
>
> [Emphasis added]

Second, take the more tightly-defined image provided by Buchanan himself (Buchanan et al 1980, Chapters 1 and 22):

> ... the behaviour of persons in trying to maximize returns on their own capacities or opportunities can be socially beneficial in an ordered market structure, behaviour that we may here describe to be 'profit seeking'. The self-same behaviour under a different set of institutions, however, may not produce socially beneficial consequences. The unintended results of individual efforts at maximising returns on opportunities may be 'bad' rather than 'good'. The term *rent seeking* is designed to describe behaviour in institutional settings where individual efforts to maximize value generate social waste rather than social surplus... (1980 p.4)
>
> The entrepreneurial activity of *rent creation* is functionally quite different from that of *rent seeking* . (1980 p.7)
>
> *Rent seeking* ... refers ... to activity motivated by rent but leading to socially undesirable consequences. (1980 p.8)
>
> Rent seeking involves social waste. Resources that would otherwise be devoted to value-producing activity are engaged in competitive effort that determines nothing other than *distributive* results. Rent seeking, as such, is totally without allocative value.... (1980 p.359).

The essential difference between these two conceptions of rent-seeking lies in the question of whether the behaviour in question may be accompanied by a net payoff to society. In Orr's usage (which corresponds to a good deal of contemporary discussion) the question of whether or not there is a net payoff is to be determined empirically, case by case. The underlined words "seldom" and "can be expected to" leave open the possibility of socially-productive rent-seeking, albeit Orr clearly does not believe there is much of it about.

Buchanan, in stark contrast, declares rent-seeking to be socially-unproductive by definition, and explicitly gives two other names - "profit-seeking" and "rent creation" - to activities which are identical with respect to the behaviour of the individual agent, but productive from society's point of view. Any "package" of institutional/individual

interaction which yields a social surplus, even if it generates rents in the process, is excluded from the "rent-seeking" category by definition.

For Buchanan, Tullock and similar writers in the 1980 collection, the distinction matters relatively little, because of their prior belief that government intervention is inherently unproductive. The case-studies they use are, for the most part, carefully selected to buttress this image: bribe-taking by the officials in charge of import licensing in India and Turkey; royal grants of lucrative monopolies to political favourites in the high age of monarchy in post-Renaissance Europe; imposition of tariffs in cases where there is no justification for doing so (on this last case cf also Bhagwati and Srinivasan 1983). By starting from cases where no social value is created by the protection of the activity, it is easy then to portray rent-seeking as undesirable and to convey the impression that any governmental activity which generates rewards for particular individuals is *ipso facto* rent-seeking and wasteful.

What, though, are we to say about the public health system or the national education system? Rewards to providers which constitute the incentives to deliver superior service and the appropriation of rents created in the activity, will be excluded from Buchanan's definition, but included in Orr's. The risk is that commentators, using Orr's looser approach, may describe some socially-productive provider group as "rent-seekers" rather than "rent creators", and thereby convey the unwarranted impression that the activity being rewarded is unproductive.

For the purposes of the present paper, it seems clear that the "rent-seeking" concept has substantial overlap with the current usage of the term "capture". In the interests of clarity, Buchanan's crisp and transparent presentation of the rent-seeking concept seems more informative and operationally-useful than the commonly-encountered labelling of any and all rent-yielding activity. (Nobel Prizes for Economics, one hopes, reflect precision and transparency of thought and argument.) A strict rendering of "capture", I have argued above, carries the same normative message as Buchanan's "rent-seeking", namely the presumption of a zero- or negative-sum game. (Cf Tullock 1980).

From this follow two propositions concerning the interpretation of evidence relating to professional capture (the subject of the next section of this paper). First, it is important to distinguish explicitly between arrangements and activities which generate a social surplus ("rent creation") and those that do not. Rents so created may legitimately be appropriated ("captured" is really the wrong word to use for this process) by their creators, provided that such appropriation does not violate the society's prevailing standards of equity. Arrangements which yield no social surplus yet provide rents to some group are the pure "rent-seeking" case and are candidates for elimination unless the redistribution thus brought about is socially-approved on equity grounds. (Targeted benefits, for example, come into this category so far as their allocative impact goes.)

Second, evidence of a privileged position occupied by some professional group, or of professional control over syllabus, standards, technology of delivery, and so on, cannot suffice as evidence of "capture" in the narrow sense; to establish capture as a plausible description of this situation it is necessary to seek out and analyse evidence that the

situation is not one of partnership (or at least common interest) between the professional group concerned and the public interest widely defined.

VIII. SUPPLY-SIDE ("PROVIDER") CAPTURE?

A robust critique of bureaucrats and professional bodies for their alleged exercise of monopoly power at the expense of the social good has come from a wide range of writers adhering to very different conceptions of the social good. Given that any government intervention which alters market outcomes must involve, by definition, the exercise of market power, the existence of a degree of monopoly on the supply side of the welfare state is not in doubt. The issues raised by discussions of provider and administrative capture are first, the identity of the groups which actually wield the government's market power, and second the objectives pursued by those groups.

The ideal-type on which social democratic strategies have been based is one which sees state power delegated to groups of vocationally-motivated professionals, working in partnership to serve a "public interest" defined through the processes of political democracy. While human error and the complexities of the real world mean that from time to time particular policies or practices may fail the test of public benevolence, the overall likelihood (and record) of success are held to validate the model. Faced with the problem of subversion of the system by self-interested groups, social democrats tend to put their faith in "professional sense of vocation" and countervailing power as forces supportive of the welfare-state ideal - while at the same time seeking to build-in appropriate checks and balances to protect the public good from depredation by self-interested provider or administrator groups, and to ensure that the incentive structure is supportive of the welfare state rather than contradictory.

The opposing ideal-type presented by opponents of the interventionist state sees government's market power, like private monopoly power, as basically an ability to secure rents by exploiting the general public. The availability of those rents provides the incentive for self-seeking individuals and groups to establish control over the relevant state agencies and to impose their own objectives in place of the "public interest". Disinterested and altruistic officials and professionals, if indeed they exist, will lack the motivation and ability to withstand the rent-seekers so long as prevailing constitutional arrangements give any discretion to administrative or professional decision-makers. Consequently a political version of Gresham's Law dictates the inevitable degradation of any political system not tightly constrained by an appropriate framework of rules. (Brennan and Buchanan 1985, Chapter 4). Anything worth "capturing", in this view, will tend eventually to be captured. Any group of ordinary people placed in a position of monopoly power will use that power to their own advantage, and presumptively at the expense of others. The view is summed up in Buchanan's mocking question (Buchanan 1986, p.25) "Where are the economic eunuchs to be found to operate the system?", and is embedded in a series of offhand remarks in Treasury (1987) - for example "Those who provide the inputs to formal education naturally seek to defend and develop their own interests."(1987 Vol.1 p.133)[my emphasis]. Immunity from capture can be secured only by designing

government in such a way that no spoils are attainable - by a combined strategy of minimising the extent of government action, and imprisoning politicians, officials and professionals in a tightly-defined set of constitutional constraints to cut down their area of discretion in decision-making.

Because these opposing views are ideal-types, each of them embodying some insights on the real world, it should not surprise us to find that many observers combine elements of both views, albeit the marriage is often an uneasy one. Few social-democratic writers today overlook the possibility of "government failure" or deny that incentive structures should be aligned as closely as possible with the explicit objectives being sought. Social democrats have frequently been outraged at the intransigence of professional suppliers and the secretive empire-building of bureaucrats, just as New Right writers have waged a more generalised campaign against what they perceive as state "coercion". Marsh (1964) observed that (1964, pp.18, 80, 85-86)

> One of the outstanding features of the development of modern statutory social services has been the creation of vast administrative empires, well staffed and well paid, which constitute a powerful force in the pressure-group system of a democratic state.
> ...
> Declared aims can, in a complex society, be achieved only by designed means, and both are the result of the thought processes of human beings. Who makes, controls and directs policies in the welfare state is a question rarely asked, and even more rarely examined. If it were then one fact at least would be revealed, and that is that the haphazard, ill-defined, and uncoordinated policies and practices, seen by many people as constituting an essential feature of the welfare state, have been made by men, and have given rise to enormous administrative units controlled by politicians and administrators, whose powers over the lives and destinies of the rest of us are far greater than is commonly assumed. They have become a powerful force whose vested interests may conflict with the real needs of society, and it is this 'administrative juggernaut' which has contributed most to the past design of our welfare state...
> ...
> The administrative machine in the public services seems on occasion to be an end in itself rather than the means to an end. It exists and continues to exist not merely to provide a service but also to promote the well-being of those to whom it gives employment, and the longer it remains in being the stronger the vested interests in its continuance become.There is obvious evidence in recent years of the power of administrative departments... to resist changes likely to lower their status, and conversely of their delighted acceptance of additional functions likely to strengthen their status and add to their assumed value....

In similar vein, Wootton (1984, p.37) has recently characterised the British welfare state as "an enormously expensive bureaucratic monster", and Johnson (1986, p.450) has suggested (on the basis of a historical survey of US and UK social welfare intitutions) that "fundamental welfare reforms which aim to establish coherent and

simple welfare systems will inevitably be rendered complex and inconsistent by subsequent incremental amendments advocated by vested interests and implemented for reasons of political expediency." (Johnson goes on to suggest that Friedman's negative income tax is no less vulnerable to this process than was Beveridge's social wage - Johnson 1986, p.458).

The 1986 Health Benefits Review in New Zealand, in discussing pharmaceutical benefits, contrasted the above two ideal-type models in relation to the desirability or otherwise of de-regulating the market, looked at some comparative international evidence on the effects of state intervention in pharmaceuticals markets, and concluded (Health Benefits Review 1986 p.64):

> that quick ideological answers are unlikely to be helpful - that deregulation or increased state intervention do not in themselves guarantee favourable results. ... What matters is the structure of the market and the forms of intervention - particulars rather than generalities.

Treasury (1987) also takes a line which includes elements of both positions, although leaning rather clearly towards the Buchanan position. They accept (pp.53-54) that democratic procedures have given support to a wide range of government programmes to deliver merit goods, but argue elsewhere (1987 Chapter 1) the public-choice case for minimal government confined mainly to the determination of individual rights, and for maximum exposure of all providers to competition or contestability as a means of minimising monopoly power and maximising consumer influence on the quality and type of services provided.

Illich's Critique of Professionals and Institutions.

At the beginning of the 1970s Ivan Illich published *Deschooling Society* , the first of a very influential series of books attacking the professional providers of services such as education, health, and social work, together with the institutions in which they worked. *Deschooling Society* foreshadowed clearly Illich's central line of attack on professional/institutional provision: that "process" and "substance" had become confused with each other in the modern welfare state. Schooling [the institutional process], he claimed, is quite distinct from (and inimical to) education [the substance]; indeed, "the right to learn is curtailed by the obligation to attend school" (1971, Introduction). The same applied to other professions: "Medical treatment is mistaken for health care, social work for the improvement of community life, police protecton for safety, military poise for national security, the rat race for productive work. Health, learning, dignity, independence and creative endeavour are defined as little more than the performance of the institutions which claim to secure those ends, and their improvement is made to depend on allocating more resources to the management of hospitals, schools, and other agencies..." (1971 p.1).

Schools, in a system of compulsory education, pre-empt the resources available for education and discourage other institutions and individuals from performing an educative role. Costs escalate without any corresponding improvement in educational outcomes (1971, p.8). The solution, Illich suggested, was to take educational funding

away from schools and devote it instead to life-long genuine education - a process of self-motivated discovery tailored to individual needs. Not surprisingly, Illich offered early support (1971, p.6) to Milton Friedman's idea of tuition grants or education vouchers distributed to individuals, as a means of achieving the "return of initiative and accountability for learning to the learner or his most immediate tutor" (1971 p.16, emphasis added.) (As the reference to the "tutor" indicates, Illich was not dismissing the relationship between "master" and "disciple" - his words - as a valid educational experience; merely asserting that such a relationship could not be institutionalised via "school".)

Illich's next target (Illich 1975) was the medical profession. The first chapter of *Medical Nemesis* was entitled "The Epidemic of Modern Medicine", and the Introduction opened with the words "The medical profession has become a major threat to health" (1975 p.11). The profession, in Illich's words, was accused of having "expropriated", and converted into "a technical problem", the issues of health, pain, and death which individuals had previously faced as "personal challenges" (1975, p.12). In the process, he claimed, modern medicine had achieved no significant improvement in health status (which is determined by environmental factors rather than by medical care) while creating whole new classes of ill people by defining new needs for treatment. (1975, pp.15-17). (These arguments were cited and reproduced extensively and approvingly by Le Grand 1982).

The tone of Illich's frontal assault on what he called the "disabling professions (Illich 1977) is well captured in the following extracts from his 1978 book *The Right to Useful Unemployment* (1978, pp.48-51):

> Let us first face the fact that the bodies of specialists that now dominate the creation, adjudication, and satisfaction of needs are a new kind of cartel.... The new specialists, who are usually servicers of human needs that their specialty has defined, tend to wear the mask of and to provide some form of care. They are more deeply entrenched than a Byzantine bureaucracy, more international than a world church, more stable than any labour union, endowed with wider competencies than any shaman, and equipped with a tighter hold over those they claim than any mafia.
>
> ... Educators ... now tell society what must be learned and can write off as useless what has been learned outside of school. By this kind of monopoly, which enables tyrannical professions to prevent you from shopping elsewhere and from making your own booze, they at first seem to fit the dictionary description of gangsters. But gangsters, for their own profit, corner a basic necessity by controlling supplies. Educators and doctors and social workers today - as priests and lawyers formerly - gain legal power to create the need that, by law, they alone will be allowed to serve. They turn the modern state into a holding corporation of enterprises that facilitate the operation of their self-certified competencies.
>
> .... Today's domineering professionals, of whom physicians provide the most striking and painful example, ... decide what shall be made, for

> whom, and how it shall be administered. They claim special, incommunicable knowledge, not just about the way things are and are to be made, but also about the reasons why their services ought to be needed....
>
> ...[W]hat counts is the professional's authority to define a person as a client, to determine that person's need, and to hand to that person a prescription which defines this new social role....
>
> ... [A] profession, like a priesthood, holds power by concession from an elite whose interests it props up. As a priesthood offers the way to salvation in the train of an anointed king, so a profession interprets, protects and supplies a special this-worldly interest to the constituency of modern rulers. Professional power is a specialised form of the privilege to prescribe what is right for others and what they therefore need. It is the source of prestige and control within the industrial state.... Professional autonomy and licence, in defining the needs of society are the logical forms that oligarchy takes in a political culture that has replaced the means-test by knowledge-stock certificates issued by schools...

The references to churches and priesthoods reflect the origins of Illich's thinking as a priest involved in the early development of "liberation theology" in Latin America in the 1960s. His passionate concern with individual self-reliance and self-realisation, and his hatred of institutions which take away from people the power to control their own lives and natures, and to "fend for themselves", arise from these roots. His critique of educational and medical institutions is constructed by simply transferring to them the liberation theologian's appraisal of the Roman Catholic church hierarchy, and his belief in the ability of individuals to discern their own real needs without professional intervention has obvious theological overtones (albeit Luther and Calvin can claim priority for these ideas).

A difficulty which immediately arises is that whereas religious experience is ultimately and unavoidably an individual matter (and non-material and unmeasurable to boot), health and education needs are social needs as much as they are individual ones, and require the commitment of actual physical resources rather than merely moral ones. Some system for coordinating resource allocation - for identifying "appropriate" claims on resources, and directing the resources towards those uses - is inescapable. Only a full-blooded commitment to an anarchist social order could clear the way for the extreme changes advocated by Illich. His ideals of individuals "liberated" from the oppression of the professionals, of "the emergence of values which cannot be substantially controlled by technocrats" (1971, p.2), and of a future lifestyle based on "modern subsistence" with people doing things for themselves outside the market system (1978, pp.93-94) are difficult to translate into practical programmes of action, as even many of his supporters have complained. The anarchist vision fits most satisfactorily a world in which each individual or self-defined group is already endowed with all the resources they require for "modern subsistence". Where initial endowments are unequal or insufficient, there is a problem in determining how endowments are to be modified without resort to central decision-making.

Illich skips this issue by proposing alternatives which in principle could be implemented within the actually existing system but which would point towards a future alternative; for example, abolishing schools and redistributing the resources as tuition grants to individuals, or redirecting funding from institutional medical care to lifestyle-enhancing alternatives. If these arguments are taken seriously as practical propositions to be evaluated by the rules of the existing system, they turn out to be merely the familiar issue of whether, at the margin, overall efficiency could be increased by changing the existing allocation. Illich's evidence, even if accepted, points to diversification of education and health options rather than total abolition of schools and hospitals. His case against entrepreneurial medicine reduces to an argument for more contestability and possibly more effective regulation of doctors. But rewriting Illich in terms of marginal evaluation and adjustment, which is the operational means of turning his case into practical measures in the present, inevitably subverts the sweep and moral thrust of his vision - abandoning his "utopian counterfactual" world for a more modest social-democratic counterfactual, in terms of the classification introduced in Section II above.

That Illich is profoundly vulnerable to such rewriting is the real flaw in his case against professionals as such and as a whole. His evidence, case studies, horror stories of professionals doing harm rather than good, provide adequate ammunition for skirmishes around the vulnerable margin of the welfare state, where inevitably many opportunities for reallocation and reform are to be found, along with scandals and profesional misconduct. The ammunition is not sufficiently far-reaching, however, to establish the case he wishes to make against the core of the system; this case he is able only to assert, not prove. [Cf my identical earlier criticism of Le Grand's 1982 book above.] For those willing to make a "leap of faith" to a belief in pervasive government and professional failure, Illich presents Truth. For the non-convert, he has seriously overplayed his (admittedly quite strong) hand.

Economists trained in the technique of marginal as distinct from global analysis are already partly-immunised against arguments of the Illich type. Neoclassical economics has always managed to deflect attacks on capitalism as a system precisely by focussing on reallocation and redistribution at the margin, and this has proved a successful intellectual and political strategy because it diverts critics of the system away from formulating fundamental but abstract critical theory, and towards the reformist but more concrete research programme of identifying marginal opportunities for change. Specific case studies which demonstrate rottenness at the core rather than the margin of a social system are rare indeed. At the end of the day the real basis of Illich's attack is moral rather than economic; like Marx in his critique of capitalism, so Illich in his attack on institutionalised provision is concerned fundamentally with its effect on people's capacity to be themselves. Like Marx, he faces the difficult problem of specifying the counterfactual against which the status quo shows up poorly, and resolves it partly by appealing to a future state of society towards which mankind should aim, and partly by appealing to a supposed past state of society in which (actually or hypothetically) the alienation of individuals from the social product was less or non-existent - Marx's petty commodity production, Illich's "self-reliance". Even his key terms - notably "expropriation" - are copied from Marx.

A second difficulty with Illich is his tendency to rely on the visionary sweep of his ideas to convince his readers, and to undertake only limited actual "research" in the academic sense of the term. His books are all short, punchy, and based on a direct appeal to personal experience rather than on any careful weighing of pros and cons. The result again is an absolute indictment of professionals and institutions, where a less sweeping verdict might have been more judicious. The assertions are forceful and the exposition eloquent, but there is little else in these books to sway the sceptic.

Just as theological debates tend to be followed with closest attention by priests rather than laity, so Illich's attacks on teachers and doctors tended to be taken to heart most readily by the very professionals he was attacking; but their reaction was to seek to implement changes in their own practices and organisation, rather than to commit mass professional suicide. The utopian sweep of Illich's critique left no comfortable niches for even converted professionals to occupy. Seeing no better hole to go to, most sympathetic professionals settled in practice for limited attempts to demystify and de-institutionalise their own professional work, within an institutional context which remained relatively unscathed by the "New Left" and "Green" attacks of the 1970s and early 1980s.

In New Zealand, many of Illich's ideas were taken up by the Values Party, especially in its 1978 manifesto, and from there found their way into the thinking of a generation of young educated professionals, many of whom were pursuing careers in the public service. While the Values Party failed to secure parliamentary seats, it had an important impact on policy thinking among professional bureaucrats, and the no-holds-barred Illich approach to professional providers may well have contributed to the present official willingness to subject professional providers and their institutions to a rather indiscrimminate shakeup.

Illich-type criticisms of the medical profession, in particular, have taken root in New Zealand, as is evident from the recent Health Benefits Review recognition of a so-called "third perspective on the state's role in health care" (Health Benefits Review 1986, p.2):

> The arguments here include a growing criticism of the medicalisation of society - that too much individual power and responsibility has been given up to the medical profession with the result that some people have become overly dependent on the opinions of health care "experts". There is also dissatisfaction with large bueaucracies which seem distant and unresponsive, and a demand for systems that take account of and react to the needs of local communities with their rich diversity of people.... There is a desire to demystify health care: the revolution that is making information so widely available makes people hungry for more and means they are no longer prepared to acquiesce passively to the professional expert, no matter how benevolent. There is a slowly growing dissatisfaction with the idea that more drugs, more technology and more hospitals will solve the problems of the country's health.

> These ideas ... are powerful because they emphasize themes which lead to a search for experiment and innovation and because they encourage diversity. Moreover, attention given to local community involvement, decentralisation of power and more consumer influence may mean that solutions more closely match problems...

Problems with "Provider Capture" Models

There are crucial analytical difficulties with the usual case against welfare providers. Anecdotal/empirical case studies are, as a rule, most coherent when deployed in the service of piecemeal reform, and least satisfactory when used to advance general arguments about or against the welfare state on the basis of particular evidence (the standard "problem of induction"). Nevertheless much of the influential recent work, including that of Illich just considered, falls into the latter category.

A priori arguments are more logically satisfactory, but their conclusions rest critically on the assumptions made about human motivation. It is all very well to run with the slogan "Adam Smith was right - pass it on" (Buchanan 1986, p.17); but it needs to be recalled that Adam Smith believed in "sympathy" as well as "self-interest" as a fundamental motivation of individuals in society, and that he believed in the concept of the "statesman" (the selfless administrator pursuing the public good). Modern public-choice theories which reduce professional behaviour to unidimensional maximisation,with the consequent prediction that self-aggrandisement is the norm, are open to charges both of cynicism and of implausibility when advanced as general theories. An approach which holds that providers of government services are guilty unless proved innocent has the tactical advantage of shifting the burden of proof off the critics of the welfare state and onto the defenders, but in doing so risks falling into precisely the trap which led to the "discrediting" of the previous consensus.

The old pro-state-intervention consensus, as public-choice theorists correctly point out, was built upon the combination of two strands of argument: first an inductive claim that market failure was all-pervading, based on an enormous accumulation of anecdotal evidence; and second a general assertion that the state could and should provide a neutral, socially-responsible guarantor of the public interest against the depredations of the market. The intrinsic weakness of this intellectual construction is in no way reduced by converting it to a mirror-image, in which anecdotal evidence leads to an inductive claim that government failure is pervasive, while the market is asserted to provide a neutral embodiment of the public good.

On an overall assessment of the record, one would be forced to conclude that both market failure and government failure are encountered in the real world. Which seems the more important problem will tend to vary across countries and across historical conjunctures. Correspondingly, theories of the state as representative of "the public interest" will be more or less plausible in different real-world settings. One could certainly draw an historical lesson that periods of high public credibility for the state will tend to increase the opportunities for unscrupulous self-advancement; but by the same token, these are also likely to be the periods in which high rewards are most

willingly paid to professionals working in the public service. It is unwise to begin either from the presumption that all rewards are merited, or from the presumption that none are.

The medical profession constitutes one of the most debated examples of the provider problem. Its supporters view the high level of training required, the barriers to entry against unlicensed practitioners, the code of adherence to ethical standards set out in the Hippocratic Oath and so on as institutional arrangements which advance the interests of the consumers of medical services, and regard this as their primary function. It is admitted that restrictions imposed to maintain professional standards of service will generate rents, and that successful entrants into the medical profession will be able to appropriate some of these rents for their personal benefit - but it is not admitted that this constitutes "rent-seeking behaviour" in the strict sense specified by Buchanan (1980 Chapter 1). Insofar as medical professionals do allow their own priorities to override the priorities of patient welfare they will obviously be open to the charge of abusing their privileged position, and it is always appropriate to maintain a regime of incentives and sanctions designed to prevent such abuse. But as a general rule, their defenders claim that medical providers as a group are guided primarily by the needs and interests of their clients, not merely because of formal incentive structures, but also because a large part of the true payoff to being a doctor is the satisfaction derived from pursuing an altruistic sense of vocation.

The view of the medical profession implied by the "provider capture" concept is a great deal less flattering. These critics are inclined to deny that doctors are better equipped than are their patients to judge what is in the patient's best interests, and to suggest that behind a smokescreen of "vocation", medical professionals are really interested in pursuing their own interests. Doctors are drawn towards high-cost technologies which maximise their claim on society's resources; and they are drawn towards concentrating their attention on clients of compatible culture and behaviour - that is, they give preferential service to middle-class clients for whom they feel affinity. Such proclivities are at the expense of, respectively, the rest of society, and lower-class patients.

In contemporary New Zealand debate, the critical view of the medical profession has been powerfully strengthened by the recent enquiry into the management of cervical cancer cases at National Women's Hospital. Whether that case study is typical of New Zealand hospital practices, or exceptional, remains unknown. In either case, calls for reform rather than revolution seem an appropriate response - the evidence does not establish any need to, e.g., abolish free hospital care for women patients. It certainly suggests the need for more public accountability by the medical profession.

Insofar as the interests of doctors and patients are identical or substantially-overlapping, the expansion of medical services will be a positive-sum game from society's point of view, and accountability poses no threat to doctors. Insofar as doctors gain from a system which yields no net benefits to patients as a group, the game will be zero or negative-sum. The difficulty is to define and draw some line to define the phenomenon of "provider capture", if in fact it exists.

This draws attention to a general problem with "merit goods" such as health care and compulsory education. Government intervention was originally based on the view that these are areas of market failure arising from imperfect information, so that one cannot accept any *a priori* claim that clients or consumers are the best judges of their own needs or welfare. Where then can we turn for some generally-accepted criterion to determine whether the professional providers are or are not acting in the interests of their clients? It is not a satisfactory answer to this question to claim that a competitive market process is the correct arbiter, because such a claim will not be acceptable to those who perceive a market failure to exist. Neither is it a satisfactory answer to assert that the professional "experts" have all the answers and should therefore be given unconstrained power to design and run the health system. There is no conclusive way to prove the existence or non-existence of this type of market failure by appeal to empirical evidence or "expert" advice. (Estimating the extent of market failure once it is believed to exist is a different matter.) Hence the search for pragmatic, politically-sustainable policy positions buttressed by a variety of professional and political checks and balances.

In this context, one central message of the "public choice" literature remains compelling as a guide for institutional design. However productive the activity, however clear the public interest in provision of some service by government, it will always be useful to keep track of the opportunities and incentives created by the structure of provision, and to seek organisational forms which reinforce, rather than erode, the incentives for professional providers to deliver the right goods, in the right quality, at the right price.

This said, the rest depends upon the qualities of analysis and judgement brought to the task of evaluation, and upon the criteria to which the managers and evaluators work - that is, specifics rather than generalities. There can be real possibilities of a failure of analysis if a provider group pursuing one objective or set of objectives is evaluated and/or restructured by members of a competing bureau who presume different objective(s). The possibility of "administrative capture" then arises.

IX ADMINISTRATIVE CAPTURE?

The idea of administrative capture arises from the literature on bureaucratic competition (cf Faith 1980), and consists simply of a reproduction of the "provider capture" model removed one stage from the provider-consumer interface. (A similar hierarchical model of successive displacement of "rent-seeking" is to be found in Buchanan et al (1980) Chapter 1.) If the state administrative apparatus is conceived of, not as a monolithic whole, but as a collection of warring bureaux, each seeking to aggrandise its own interests relative to the rest, then not only the direct "providers" of government services will face opportunities to highjack the welfare state for their own ends. Predatory bureaux within the state machine may equally seek to hijack the providers and/or their sponsors, serving those bureaux' own interests by an assault on the existing order.

Jones (1983, pp.86 and 282) points out that far from being a united front, the "professional middle classes" are in fact divided and competing among themselves, which limits the extent to which the "welfare industry" is able to consolidate a durable monopoly position. There is, he claims, a natural tension between "professionals" (providers of services) and "bureaucrats". The former benefit from, and seek to promote, in-kind delivery of basic needs. The latter prefer cash benefits with minimal contact between providers and consumers.

In the Australian context, Jones (1983 p.90) remarks on the prevalence of cash benefits and the consequent relative weakness of the "welfare industry". Cash benefits, of course, may be paid out through a variety of departmental channels with a variety of attitudes, and Jones (p.282) uses the term "administrator capture" for the situation where young, low-paid, unskilled staff are hired on cost-cutting grounds to administer a range of contacts with beneficiaries which might be felt to require professionalism and maturity. The implication is that the effectiveness of government provision may be damaged, rather than enhanced, by the intervention of control departments which do not share the providing department's perception of consumers' needs. As Jones puts it (1983 p.282):

> ... the administrators have long captured the Australian welfare system. Many are economists or have some economics training, and they resent professionalising the social welfare system with high-priced manpower when the task can be done by young people at far lower pay ...
>
> The administrative philosophy has triumphed in Australian social welfare: there is no professionalised and monopolistic 'middle man' to compete with the doctors in health care, and the academics and school teachers in education.

The underlying problem, in terms of constitutional design, is that the complexities of modern government impose some need for a division of labour among specialised departments of state, but the process of establishing such separate organised entities, each with its own agenda to pursue, runs always the risk that departments' priorities may conflict, and that it may not be easy or even possible to resolve such conflicts in ways which clearly serve the public interest. An example of such conflicting priorities is provided by the case of price-setting for government-subsidised pharmaceuticals in New Zealand (Health Benefits Review 1986, p.65):

> The goal should be straightforward: minimising pharmaceutical costs while maximising benefits. In fact the situation has been more complex. In pricing a large number of drugs on the tariff, the Department of Health has been heavily dependent on advice from the Department of Trade and Industry. But the Department of Trade and Industry's operating philosophy was not designed to ensure the least-cost purchase of drugs: it was, to ensure that adequate levels of return were given to manufacturers located in New Zealand. Consequently, prices negotiated have often reflected criteria other than least-cost acquisition.

Recent criticisms of the role of Treasury in relation to public-sector reorganisation in New Zealand seem to point towards the emergence of a claim that "administrative capture" of the welfare state apparatus by Treasury has taken place. (See, e.g., Gregory 1987; McLaughlin 1987 p.22). The essence of the implicit model is that redesigning the welfare state - e.g. by shifting from specific cash benefits administered by the Department of Social Welfare, to a negative income tax administered by Inland Revenue - involves the dispossession of one group of providers for the benefit of an alternative group. At the same time, one set of provider-clients (social workers) lose out and another group (tax consultants) gain.

Similar comments have been made about the payment of higher salaries to financial analysts in the setting of a realignment of policy-advisory functions which has left Treasury as the dominant voice in an area formerly characterised by vigorous inter-departmental competition.

The points made about "capture" in the consumer and provider cases above, apply with equal force to this case. If "capture" is interpreted strictly and given negative normative connotations, the issue is not whether one department gains and another loses, but whether the process is socially-productive, and whether any unwarranted rents are being generated. Mere observation of dramatic changes in the internal balance of power in the state apparatus does not suffice to establish "capture" in this sense. If, on the other hand, "capture" is used loosely to describe the process of departmental aggrandisement regardless of its desirability or otherwise, then Treasury risks falling victim to its own useage of the concept. That thought, more than any line of purely intellectual argument, may lead to its gradual disappearance from the New Zealand debate.

Elites and Society

As was briefly noted in an earlier section, there has been a long debate among sociologists and political scientists over the past century regarding the nature and consequences of rule by elites. A very accessible review of this literature is Bottomore (1966), who sees a transition from the early twentieth-century preoccupation with elite domination of society (Pareto, Michels, Mosca) to an acceptance by mid-century of the proposition that elite formation is inescapable and that elites have a positive role to play. The issue is not whether elites exist and wield major influence over policy - this is an inevitable concomitant of modern government *per se* . Rather, the issue is the openness of elites and the degre to which they circulate their membership and remain open to the popular will. Bottomore observes (1966 p.113)

> The reconciliation between the idea of elites and the idea of democratic government has proceeded apace during the twentieth century, and it has been assisted by a number of favourable circumstances. One of these is the general enhancement of the importance of leadership which has resulted from large-scale warfare and from the rise and development of new nations; all of which has turned men's thoughts away from the dangers of elite rule towards the need for efficient and enterprising elites.

He quotes Mannheim's view that (Bottomore 1966 pp.112-113)

> the actual shaping of policy is in the hands of elites; but this does not mean that the society is not democratic. For it is sufficient for democracy that individual citizens, though prevented from taking a direct part in government all the time, have at least the *possibility* of making their aspirations felt at certain intervals... Pareto is right in stressing that political power is always exercised by minorities (elites) and we may also accept Robert Michels' law of the trend towards oligarchic rule in party organizations. Nevertheless, it would be wrong to overestimate the stability of such elites in democratic societies, or their ability to wield power in arbitrary ways. In a democracy, the governed can always act to remove their leaders or to force them to take decisions in the interests of the many...
>
> We assume that democracy is characterized, not by the absence of all elite strata, but rather by a new mode of elite selection and a new self-interpretation of the elite ... What changes most of all in the course of democratization is the distance between the elite and the rank-and-file. The democratic elite has a mass background; this is why it can mean something for the mass.

While written primarily in respect of political parties as elites, these comments extend more widely to bureaucratic and professional elites as well. The message is that we should ask not whether elites exist and wield power, but rather what they do with that power, and what ultimate checks and balances limit their freedom of action.

X. SO WHAT IS THE PROBLEM?

The real problem is that there are a number of separate problems - not just one. Each deserves to be specified clearly and analysed in its own right. Not all point to the same policy conclusions. The "capture" label fails to distinguish among the different particular problems, while conveying the unsubstantiated impression that there is some overarching meta-problem with the welfare state. It is therefore ultimately not very helpful.

In the course of this paper we have traversed many specific issues, all of which have at some time turned up in the "capture" ragbag. A far-from-exhaustive list includes the following:

1) Distribution or "targeting" of some benefit(s) in cash and/or kind:

(a) By some criterion (which needs to be specified, explicit, and justified by reference to the actual aims of state provision), the global distribution may be judged "inequitable" in terms of the share of resources reaching different groups. This distribution should not be evaluated in isolation from the size of

the total budget being allocated because of the likelihood that the two are mutually dependent, given the need to secure political (electoral) support. (The obvious example in New Zealand is National Superannuation, where the issue is the size of the budget, and so-called "targeting" arguments are used as transparent camouflage for a drive to reduce the budget itself.)

A pure egalitarian criterion is easy to apply for analytical purposes but is unlikely to match actual social contracts emerging historically from the political process. A maximin criterion makes more sense politically but is difficult to apply analytically, since it forces us into "general" rather than "partial" analysis of the state sector in the economy.

O'Higgins' (1987) discussion of criteria for judging equity is helpful.

(b) Regardless of the global distribution, some group may exercise unwarranted influence on the distribution at the margin - e.g. by deploying lobbying power to gain concessions which are unwarranted in terms of the actual goals of state provision. In the short run, activity of this kind probably does not affect the global picture, but over time successive rounds of distortion at the margin can be expected to shift the global allocation. In the short run, resistance to this process depends upon the efficiency and commitment of the government executive and its officials. In the long run, it depends upon whether, beyond some threshold, political resistance is mobilised by or for those groups which lose from the process. (A New Zealand example may be the switch from workers' compensation to Accident Compensation in the 1970s.)

Problems at the margin are generally best addressed by marginal adjustments or reforms, rather than by wholesale radicalism. Obviously it always helps to have incentive structures and rules which prevent marginal "distortions" from emerging, provided that those structures or rules are not themselves subversive of the entire enterprise.

(c) Regardless of the distribution of resources *per se* , certain groups of consumers may have disproportionate influence in determining the form of provision - e.g. professional parents influencing the educational curriculum, or trucking operators influencing the type of roads constructed. This is most likely to arise when there is a community of interest between the pressuring group and the providers of the service or benefit (cf 2(b) below). Whether the exercise of such influence is subversive or supportive of the actual aims of the system cannot be known without a clear account of those aims. In the absence of such an account, the existence of qualitative influence carries no clear implications.

(d) Conflicts over, or dissatisfaction with, the distribution of benefits may lead some groups to attack the "social contract" itself. Over a wide range of activities - electoral activism, demonstrations, strikes, research and publication, conferences, letters to newspapers - this poses no problem. There will nevertheless be some range of actions which are constitutionally out of

bounds, armed revolt being the obvious case. This does not currently seem a pressing issue in relation to middle-class appropriation of benefits in New Zealand.

2) Exercise of monopoly power by suppliers of services.

(a) Suppliers (including government departments directly involved in the provision of benefits or services) may act as vested interests seeking to expand their claim on resources beyond the scale justified by actual need for the service. It needs to be recognised, however, that appraisals of what constitutes "need" and "justification" can vary greatly, and quite legitimately so. Claims by professional suppliers that their service deserves more resources should not be dismissed out of hand simply because the claims are advanced by the suppliers. In many cases the suppliers of services perform a genuine "middleman" function between consumers and government, and they may well be the people best placed to assess the scale of need, even if that assessment is sometimes coloured by vested interest.

(b) Professional suppliers may "tailor" the style and quality of their provision to the needs of some group of consumers for whom they feel some affinity, in the process creating a product poorly matched to the needs of other groups of consumers. This complaint is most commonly encountered in the areas of medical care and compulsory education, and leads to an argument for greater diversity and increased range of choice for consumers, together with greater public accountability of suppliers. All of these changes can well be accommodated within the existing order, if in practice the charge of inappropriate provision can be sustained.

(c) Suppliers may subvert the distributional aims of the state by redirecting the resources over which they have control to serve ends other than those intended by the legislators. Again accountability, reinforced by checks and balances in the system, are relevant preventive measures; but prevention is no substitute for willing vocational service by suppliers who are motivated by personal commitment to the state's own aims.

3) Administrative distortions.

(a) Different departments of government may pursue conflicting objectives or agendas, resulting in bureaucratic confusion at the expense of the effectiveness of state provision.

(b) Individual departments which are not direct suppliers of benefits or services may secure disproportionate power within the state apparatus. If that power is then used to further aggrandise the department's own claim on resources, or to secure the preponderance of its own objectives, a problem arises unless those objectives are in line with the actual objectives of state provision. The question of who controls the control departments is a very live issue in New Zealand, but more fundamental is the question of whether Treasury has

correctly grasped the objectives of the New Zealand "social contract". If so, then a government department which acts as a "philosopher king" [or in Buchanan and Tullock's less flattering version, a "benevolent despot"] can advance the public interest by bringing providers and consumers into line. If not, a powerful control department may subvert the public interest, by diverting resources away from the appropriate allocation and/or by restraining providers from supplying the appropriate product. It is obviously important for outside observers to know what the aims of the New Zealand welfare state actually are. Probably the key task faced by the Royal Commission, therefore, is to decide whether Treasury have got it right.

28 January 1988

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