CHAPTER 1

Policy Making from the Margin

Governments throughout the Western world have long delegated governmental functions to nongovernmental bodies (Asher, 1987; Barker, 1982; Cambell, 1986; Hall & Reed, 1998; Rehfuss, 1989; Savas, 1987). These functions may include such diverse tasks as garbage collection, firefighting, ambulance, transportation, and water and sewage services; maintenance of government buildings; the design and provision of health and other human services, or any other task that is deemed necessary by the state or demanded by its citizens but that the government prefers not to do directly (Powell, 1987; Sharkansky, 1980, 1983). The list may go on ad infinitum.

Almost equally endless are the forms that the nongovernmental bodies may take. They may be private or nonprofit contractors; special or statutory authorities created by national, state, or local governments; semiautonomous agencies established by government departments; state-owned companies or public–private ventures (Aharoni, 1986; Etzioni, 1973; Friedman & Garner, 1970; Smith, 1975). In Great Britain and much of Europe, a large variety of bodies are subsumed under the term *quango,* or quasi-governmental organization (Hood, 1983). Rhodes (1996) speaks of integrated self-organizing "networks" consisting of any permutation of government and private and voluntary organizations, which join to exchange resources and maximize their influence over output. These bodies vary widely in size, structure, financing, and relation to the state—in how much control the government has over their operations and in the mechanisms of that control. There is no saying that organizations called by the same name will share similar characteristics.

In their multiplicity of forms, these bodies constitute what Sharkansky (1979) calls the "margins" of the modern state. They perform government functions, receive state funding, and take actions and make decisions that may impact deeply on the lives of the state's citizens. At the same time, unlike government departments, they are not part of the formal government structure or subject to its

constraints or chain of command. Their budgets are not part of the state budget and do not require legislative authorization. Their workforce is not subject to the regulations generally imposed on civil servants or to rigid civil service pay scales.

Their relative autonomy and freedom of action are a source of their vaunted efficiency, flexibility, and responsiveness to community needs. Bodies on the margin can hire personnel, design procedures, and create regulations without reference to the preferences or inclinations of established departments. Politicians can use them to circumvent government budget and manpower limitations or the restrictions or foot-dragging of government agencies. Such bodies can be used to roll back the welfare state and reduce the direct role of government while ensuring the provision of desired human and other services. In the 1980s and 1990s, they proliferated to an unprecedented degree, becoming an increasingly prominent part of the public scene.

Along with their benefits, they are also a source of a host of concerns. Even where they are required to report to government departments, which is not always the case, bodies on the margin are notoriously difficult to audit and their activities and output difficult to monitor by state agencies strapped for resources and short on institutional capability. Complaints abound about waste, mismanagement and fraud, while government reliance on their services gives them leverage that they can exploit to further their own organizational or financial interests (Sharkansky, 1979; Smith & Lipsky, 1994). Warnings have been raised both about the inevitable confusion and lack of coordination of disparate or competing entities (Rhodes, 1994) and the monopolistic growth of some of the bodies coddled by government protection or privilege (Kettl, 1993). The balance of their benefits and drawbacks has not yet been tallied.

A major concern is the role such bodies play in making public policy in their domains. Not all scholars are worried. Nadel (1975) recognizes that nongovernmental groups that perform government functions may make public policy without accountability to the people affected by that policy, but argues that this is essentially government policy because the government delegated the function. Salamon (1995, p. 41), arguing for closer cooperation between government and the nonprofit sector, conceives of the federal government as "managing" the services and of the nonprofits as operating them with a substantial degree of discretion. Essentially, he welcomes the fact that "third-party government" calls into question the hierarchical conception of the modern state. Smith and Lipsky (1994) see the nonprofit contractors who provide government services in the United States as "delivering" government policy to the citizens. Although they recognize the existence of conflicts over policy, they argue, not very happily, that their control over the government purse strings and their power to regulate ultimately give government officials the last word.

Others are less sanguine. Sharkansky (1979), comparing the margins in Australia, Israel, and the United States, claims that bodies on the margin remove public activities from the rule of elections and government. In the United States, Milward (Milward, 1994; Milward, Provan, & Else, 1993) contends that the privatization of government services has "hollowed" the state and warns that public policy becomes cloudy as authority and who is funding what become mixed in a nonprofit that delivers services for government and for its own purposes. He asks whether individuals who are neither agents of the state nor publicly accountable should be making the vital decisions they do with respect to people's lives.

In Great Britain, Rhodes (1994, 1996) argues that the integrated self-organizing networks that deliver the bulk of public services in that country are a form of private government, much of whose work is invisible to the parliamentary and public eye. Warning that they resist government steering and regulation, develop their own policies, and mold their environments, he calls them a danger to democratic accountability and sees them as "set fair to become the prime example of governing without Government" (1996, p. 666).

The question of whether the shifting of policy making to the margins is desirable is befuddled by the question of whether it actually occurs. To this question, we currently find no clear answers. Although there seems to be a growing consensus that the proliferation of the margin is shrinking the state and changing our definitions of it, as Milward (1994, p. 76) points out, the evidence that bodies on the margin operate in the policy-making realm is largely anecdotal. Milward (1994, p. 73) offers evidence that coalitions of providers have become reasonably powerful political actors influencing the level and nature of government funding of nonprofits. We also find evidence that contractors may exercise control over who gets which government-funded services and under what conditions (Milward, Provan, & Else, 1993). But, for the most part, theory and speculation dominate scholarly discussion of the policy-making powers of bodies on the margins. Little if any hard data exists either confirming or refuting their policy-making powers. Nor, assuming that at least some of them do exercise a policy-making role, is there much knowledge of how they have come to do so.

This book examines policy making from the margin in Israel, a country whose margin, until the 1990s, was particularly large and sturdy (Aharoni, 1991; Sharkansky, 1979). It uses as its prism Israel's quasi-public, nonprofit health system, in which both health care and health insurance were provided by four autonomous sick funds, legally defined as nonprofit voluntary organizations and financed jointly by the subscribers, employers, and government.

Other prisms may have been used: A wide array of goods are (or have been) provided by bodies on the margins in Israel, including power generation,

transportation, water provision, and the exploitation of minerals; manufacturing; construction; banking; wholesaling and retailing; agricultural production, distribution, and export (Sharkansky, 1979, p. 70); certain educational programs and facilities, and other social services. Any of these may have provided ample material for study.

But health care is of particular interest. It touches on virtually all our lives, and its production, provision, and financing are major conundrums throughout the Western world. Questions of access and equity, costs, and priorities plague modern welfare states as their aging citizens demand ever more and increasingly expensive medical care. Closer to our concern, for many decades the roles and responsibilities of government versus other sectors in health care have been a problematic and contentious issue both in Israel and elsewhere. In many communities in the United States, even though health and human services are funded by public agencies, the distribution of these funds is controlled and monitored by nongovernmental third parties (Milward, Else, & Raskob, 1991; Milward, Provan, & Else, 1993). The questions of who should finance health care, who should provide it, and how it should be provided are at the heart not only of health care debate but of the core–margin dilemma.

Within Israel the prism of health care is of interest because for the better part of the country's history this service was clearly dominated by a single sick fund: Kupat Holim. For decades, the relationship between the Sick Fund and the government of Israel was a contentious public issue, with repeated, unsuccessful—though possibly not genuine—attempts at reforming it to bring it under government control. At the time the study was launched, this Sick Fund was engaged in a tooth-and-nail struggle with the government to retain not only its ascendancy in the provision of health care, but also its autonomy and its self-declared role as a health policy maker.

Kupat Holim

The Hebrew term *kupat holim* is properly translated *sick fund*. But when Israelis say "I belong to Kupat Holim," they do not mean just any sick fund, they mean the Sick Fund that, for the better part of Israel's history, belonged to the General Federation of Labor, or Histadrut, as it is called in Hebrew. The three other sick funds operating in Israel today must be identified by name: Maccabi, Leumit (National), and Me'uhedet (United). "I belong to Maccabi," "I'm in Leumit," "I'm a member of Me'uhedet," people say, leaving out the *kupat holim*. Only the Sick Fund previously of the General Federation of Labor is called Kupat Holim without further qualification. Which sick fund is perfectly understood. The ready abbreviation and absence of any need for an identifying tag are

testimony to Kupat Holim's almost total identification in the public mind with the very concept of a sick fund. Occasionally, Israelis refer to it as *Clalit,* an appellation added in the mid-1960s. *Clalit* is Hebrew for *general.* The word links Kupat Holim with its former parent organization, the General Federation of Labor, but more than that, it is yet another affirmation of the wide sweep and inclusive embrace of Israel's oldest and still by far largest supplier of health services.

Even today, when Kupat Holim is on the wane, its scope is truly wide and encompassing. It owns and operates eight general hospitals, three geriatric hospitals, and three psychiatric hospitals, with a total of nearly 6,000 hospital beds; 11 convalescent homes with another 3,000 beds; and a countrywide network of some 1,300 outpatient clinics of various kinds. These are large numbers in a country of Israel's size. The beds in its general hospitals constitute 30.6% of the total number of general hospital beds in Israel. The beds in its general, geriatric, and psychiatric hospitals constitute 20% of all the country's hospital beds of all kinds. The rest of the beds are owned by the government or by Jewish, Moslem, or Christian religious and charitable organizations. It has seven nursing schools and several hundred well-baby clinics, and it supports and runs a school of medicine at the University of the Negev in Beer Sheva and a school of dentistry affiliated with the University of Tel Aviv. It has its own x-ray and imaging facilities, medical and research laboratories, and pharmacies, as well as a network of convalescent homes and recreational hotels. It employs a veritable army of doctors, nurses, clerks, administrators, technicians, teachers, researchers, social workers, and engineers, and the list can go on (Arian, 1981, pp. 43–56; Arian, 1985, pp. 209–10; Chinitz, 1994; Medding, 1990; Ministry of Health, Budget Proposal for 1990, p. 50; Report of the Histadrut 16th National Convention, 1990, p. 195; Steinberg & Bick, 1992; Vilan, 1980; Zalmanovitch, 1981, 1991).

None of the other sick funds comes near it in the facilities they own and run, the services they provide, or the ambitions they harbor. None of the others has built or owns its own hospitals or supports the academic institutions and research that Kupat Holim does. Kupat Holim's outpatient clinics liberally dot not only Israel's major cities and larger towns but also its less populated, more remote, and sometimes poorer Arab villages and Jewish settlements, moshavim, kibbutzim, and development towns where until the 1990s the other sick funds were reluctant to go. Moreover, it has taken under its wide wing a widely disproportionate number of poor, elderly, sick, and new immigrant members, most of whom the other sick funds, more intent on solvency, had pointedly excluded or avoided before the 1995 National Health Insurance Law required them to accept all applicants.

For almost four decades, up until the late 1980s, Kupat Holim insured approximately 80% of all those with health insurance in Israel. It employed some 40% of Israel's health services work force. Its budget constituted some 40% of

the total national expenditure on health (Histadrut, Executive Committee, 1987; Report of the Histadrut 16th National Convention, 1990, p. 195).

What makes Kupat Holim a body on the margin rather than simply an independent provider of health services is that in Israel the providing of health care has always been considered the responsibility of the government. Kupat Holim was perceived, by admirers and detractors alike, as performing a function that the government owed its citizens and was obliged to help fund and otherwise ensure they received. To a large extent, Israel's governments relied on Kupat Holim to deliver health care and provided a considerable portion of its budget.

Yet Kupat Holim has never been part of Israel's core government and has always had its own separate legal identity. Like the other sick funds, it is a voluntary, nonprofit organization, a designation that gives it the right to provide medical services and gives it various tax deductions. Unlike them, however, it is also a limited liability company, which gives it the right to hold and manage its extensive assets and shields its executives from the personal consequences in the event of the sick fund's bankruptcy.

Up until 1995, when the country's health system was reformed, Kupat Holim had its own electorate, made up mainly of representatives of the various political parties that formed the Histadrut; a legislature, or National Council; an Executive Committee, which ran its day-to-day affairs; and its own judiciary and comptroller. It operated with much autonomy within the Histadrut and with complete autonomy with regard to the Israeli government. Its legal status and independent structure of authority placed it beyond direct government control.

Founded before the state of Israel, Kupat Holim regarded the Ministry of Health, the core body created after the state, as an intruder on its domain. As a core body, the ministry was the country's official health policy maker responsible for the health of the entire population and accorded the legal authority to allocate the health budget and regulate the health system. But for most of Israel's history as a state, Kupat Holim and the Ministry of Health struggled with one another for control of health policy.

This book follows that struggle to answer two questions: The first, aimed at examining the empirical evidence of the policy-making power of a body on the margin, is: Who controlled health policy in Israel: Kupat Holim or the Ministry of Health? The second, derived from the expectation that the evidence would point to the sick fund, is: How did Kupat Holim acquire, maintain, and exercise its control? This question probes both the actions that a body on the margin may take to secure a veto and the conditions and circumstances under which it may be able to exercise control over policy in its domain and those under which it cannot.

Veto Power: Control of the Tools of Policy Making

The first step in the study was to determine empirically whether Kupat Holim in fact had the power to control health policy in Israel.

The answer to this question was sought in the government's use and implementation of the instruments of policy making. The literature identifies a wide range of policy-making tools. The study focuses on the three key families: allocation, regulation, and restructuring. Generally, these are the instruments that governments have at their disposal to effect their aims and policies.

Allocation involves the channeling of tax money and benefits. *Regulation* refers to the use of rules, ordinances, standards, criteria, fees, permits, licenses, and other means to impose limitations on or to grant authority. *Restructuring* means changing the lines of authority, balance of power, and division of responsibility in a system. Each of these tools can be utilized in myriad ways. Allocation can be contingent on performance or automatic, evenhanded or preferential, tight or generous. Regulation can be formal or informal, detailed or vague, abundant or sparse, and enforced or not. Restructuring, the most fundamental and potentially the most conflictual of the tools, can compel radical changes in deep-rooted patterns of behavior or anchor those patterns in the law of the land. Other permutations can be enumerated.

As Peters and van Nispen (1998, p. 2) point out, examining policy instruments may reveal a great deal about the choices that governments make when they set policy. Policy instruments are not always employed to optimize the association between goals and means or because their characteristics best satisfy the requirements of a particular job. They can be designed to reward or penalize, promote or block a target group's aims, or to improve the position of some actors and weaken that of others (Bressers, 1998, p. 96; Linder & Peters, 1998; van Nispen & Ringeling, 1998, p. 209). Conversely, examining the implementation of the instruments may reveal a good deal about the ability of the government to carry out its policies with respect to the target body.

The investigation of the utilization and implementation of these policy instrument families was conducted along several lines. It looked at what was done with each instrument: How much money and other benefits were allocated and to whom: Kupat Holim or the Ministry of Health? How many and what ordinances were passed to regulate the health system? What restructuring efforts were made? It looked at means: Was allocation contingent or noncontingent on performance? Were the regulations formal or informal? How and by whom were the restructuring efforts orchestrated? Were the various tools employed unilaterally by the core or bilaterally in conjunction with Kupat Holim? And it looked at outcomes: Who most benefited from the molding of these policy tools: Kupat Holim or the Ministry of Health? Whom did they empower and whom

did they restrict? Whose interests did they further? To what extent were the policies the tools were aimed to promote implemented? The assumption was that the body that benefits from the tools of policy is the body that controls them and that makes policy (Krasner, 1978; Nordlinger, 1981; Peters & van Nispen, 1998).

The investigation was carried out over the course of Israel's history. A historical perspective was adopted because power relations evolve and change in time. As Skocpol (1994, p. 10) and others point out, historical analysis is highly relevant to understanding the limits and possibilities of social policy making. A historical study was required to reveal not only whether Kupat Holim exercised policy-making power, but also how much, what kind, when, and under what circumstances and conditions.

Two assumptions underlie the empirical investigation. The first was that a powerful body on the margin can appropriate the tools of policy and thereby exercise a decisive role in the policy-making process in the area of its domain. The second was that this ability would vary with the body's relationship with the party in government. The expectation was that Kupat Holim would be able to exercise policy-making power under Israel's socialist leaning Labor governments, to which it was linked politically and with which it shared interests and ideological affinities, and would not be able to do so under the capitalist-leaning Likud, which was hostile to it on both ideological and political grounds.

The findings of the initial analysis confirm that Kupat Holim exercised policy-making power in its domain. But they also show a more complex pattern of control than predicted. They reveal a progression over four periods in which Kupat Holim exercised different kinds of veto power under Labor and the Likud, and then ironically lost its veto when Labor, its traditional patron, was in office.

The first period covers the prestate and early statehood years, in the course of which the core government gave Kupat Holim informal, de facto control of health policy. The second period covers 1970–1977, when the Ministry of Health formally took Kupat Holim into the policy-formation process, for the purpose, paradoxically, of wresting for itself a role in making health policy. In both these periods, Labor was at the helm of government and Kupat Holim was able to protect its interests from within government circles by exercising policy-making power in the formation stage of the policy-making process.

The third period spans 1977–1984, when the Likud was in government and unilaterally set out to take the tools of policy back from Kupat Holim in order to establish core control over the health system. Banished from the policy-making table and unable to make health policy in the formation stage, Kupat Holim fought successfully to protect its interests by obstructing the implementation of the Likud's policies after they were formulated. It exercised policy-making power from outside government circles in the policy-implementation stage.

The fourth period was 1984–1995, during which Kupat Holim's policy-making power was gradually eroded and finally revoked with the passage in 1994 of the National Health Insurance Law, which restructured the health system.

The findings show that up until the fourth period, under two radically different governments, Kupat Holim was consistently able to impose its preferences and to exercise control over the tools of policy. The literature does not have any term for this long-term, unbroken imposition of policy in a broad area by a body on the margin. The literature on bodies on the margin speaks of their impact on various aspects of policy that affect their clients and the government. The literature on lobbies and other parapolitical groups speaks of *involvement, pressure,* and *influence* (Baumgartner & Jones, 1991; Baumgartner, 1993; Kingdon, 1984; Schlozman & Tierney, 1986; Wootton, 1985; Yishai, 1991).

To articulate the kind of policy-making power that Kupat Holim exercised in Israel's health system, I chose the concept of *veto.* As used in this study, *veto power* is the power to prevent or obstruct policy that threatens the vital interests of the margin organization (Kornhauser, 1962). It refers to an organization's ability to stall, block, check, prevent, or stop an intended course of action or to reverse an action in process, not occasionally, but consistently over a long period of time. It is a strong term whose connotations—if we can judge them by the thesaurus—include potency, authority, command, and prerogative. I have chosen it intentionally for these connotations, which imply greater force, consistency, and legitimacy than the terms *involvement, pressure,* and *influence.*

It is meant to conceptualize the consistent, long-term power to mold government policy and to say no to policies that threatened it that Kupat Holim exercised under both Labor and the Likud. It is meant to distinguish Kupat Holim's imposition of policy from the influence exerted by lobbies, interest groups, and other traditional nongovernmental organizations in a relatively narrow area of life on behalf of a particular segment of the population. In contrast to such groups, Kupat Holim was not only involved in the policy-making process, as the corporatistic and pluralistic models suggest, and did not merely influence and pressure governments, as lobbies and interest groups do, but actually imposed public policy. It regarded itself as a legitimate actor in the making of public policy and went so far as to contend with Israel's governments both for the resources and the right to do so.

Although the concept of veto is familiar enough, little in the literature sheds light on the type of veto power that Kupat Holim exercised. Most of the literature refers to formal, constitutional or parliamentary vetoes built into the structure of a government (Sartori, 1997, p. 161–63; Spitzer, 1988). The veto at issue here is political rather than structural or formal. It is fluid, dynamic, and changeable. It is acquired—and potentially, although with difficulty, lost—in the give-and-take of the political game.

In the first two periods, Kupat Holim was given a *preventive veto* by the ruling Labor Party, first informally, then formally, much in the way that certain countries have granted vetoes over policy to potentially troublesome segments of their populations in exchange for the latter's help or cooperation (Lijphart, 1977). In the third period, it wrenched from the Likud an *obstructive veto,* similar to the veto obtained by Riesman's (1968) "veto groups"—rival interest groups that use their power to stall, obstruct, block, or otherwise prevent the passage and implementation of laws and policies that they perceive as counter to their interests (Galbraith, 1956, 1985). The two types of veto were not entirely exclusive. Under Labor, Kupat Holim occasionally obstructed policies it could not prevent. Under the Likud, it prevented the passage of restructuring legislation. Nonetheless, under each government, one type of veto was dominant.

Process Tracing Through Four Cases

The four periods identified in the exploration of the tools of policy serve as the basis for four case studies tracing the acquisition, formalization, transformation, and loss of Kupat Holim's policy-making power. Each case provides evidence of the veto (or lack thereof) in the period under discussion while trying to account for the veto's development and variations at each point of time. To this end I asked the following questions:

- How did Kupat Holim acquire its policy-making powers in the early years of the state?
- What led to the formalization of those powers in the early 1970s?
- Why did Kupat Holim adopt an obstructive veto when the Likud came to power?
- What enabled Kupat Holim to exercise such a veto?
- What led to the erosion and abolition of its veto power in the mid-1990s?

In key ways the approach is consistent with Alexander George's (1979) structured, focused comparison method and Guy Peters's (1998) case process method, both of which suggest how a single historical case may be analyzed to enable the formation or examination of a midrange theory. George maintains that a "controlled comparison" in which data collection and analysis are focused selectively on certain aspects of the historical case and structured, or guided, by general questions that can contribute to the identification of causal patterns. Building on George, Peters similarly points out that a single case can be examined over time as a means of observing the play of variables under different conditions to gain a better understanding of cause and effect. According to Peters, a historical

case can be divided into time periods demarcated by changes in dependent and independent variables. The observation of their changes, he argues, enables one to understand better the conditions and circumstances under which certain relations hold true. In the cases here, the variations in Kupat Holim's veto power serve as the dependent variable, whereas factors related to the veto in each period are analogous to independent variables.

I use the term *analogous to* judiciously because the factors that were examined cannot properly be termed *variables*. These cases diverge from the George and Peters models in an important way. George and Peters stress the importance of beginning the inquiry with a theory and a predefined set of variables derived from it. When I began my study, however, the workings of both Kupat Holim and the Ministry of Health were unknown territory, and too little was known about the capacity of bodies on the margin to impose policy to formulate any convincing hypothesis or to chose among the existent approaches to political science inquiry. To do so would have been to put on blinders to factors that were not predicted in advance and would have prematurely constricted the investigation.

This problem is familiar to historical institutionalists, who point out that in most historical analyses, conclusions are derived from the historical data that are gathered and come more naturally at the end than the beginning of the analysis (Immergut, 1998; Peters, 1999; Rothstein, 1996, 1998; Steinmo, Thelen, & Longstreth, 1992). In fact, George (1979) himself had hinted at this order in his somewhat self-contradictory assertion that his structured, focused comparison offered "an inductive approach to theory development" (p. 48). In the present study, too, theory is the product rather than the precursor of the analysis, as are the "variables" that stem from theory.

In the way of historical institutionalism, the analysis proceeded rather loosely by looking at the various players in the struggle, their assets and liabilities, interests and ideologies; their complicated and shifting actions and interactions; and the changing historical, cultural, institutional, and political contexts in which their actions and interactions took place.

The chief players were Kupat Holim and the Ministry of Health, along with the people who ran them under Israel's two main governments. But they also included others. Until the 1990s, Kupat Holim was connected with the Histadrut and the Labor Party (in its various forms) in a closely knit subsystem: Kupat Holim was part of the Histadrut, the Histadrut was governed by the Labor Party, and Histadrut functionaries held many key positions in the Labor Party machine. Getting to the bottom of Kupat Holim's veto thus also meant understanding relevant aspects of the Histadrut and the Labor Party, Kupat Holim's relations with them, and their relations with the core. In particular, it meant exploring the intricate workings and development of Mapai, the largest, best-organized, and most influential of the prestate Labor parties and the party that

controlled the governing coalition in the first three or so decades of statehood. As for the core, the relevant actors also included the Ministry of Finance and Ministry of Labor and Welfare, through which the core government also made health policy; as well as Israel's prime ministers, its Knesset, and key coalition partners in its various governments.

At the end of each case, interim conclusions could be drawn regarding the features and bases of the particular type of veto power that was revealed; and, after the first case, comparisons could be made to the preceding ones. But it was only with the completion of the research for the last case, tracing the demise of the veto, that the process as a whole could be understood and that the roles, interplay, and relative importance of the many factors involved in the veto could be fully appreciated and highlighted retrospectively at the end of each case study. Only then did it become clear that Kupat Holim's veto was dependent on the Sick Fund's utility to the Labor–Histadrut subsystem and on the subsystem's readiness and ability to support the veto.

Data Collection and Presentation

The vast bulk of the data gathered for this book come from archival sources and personal interviews. I scoured the archives of Kupat Holim, the Histadrut, the Labor and Likud parties, the Knesset, the Ministry of Health and the Ministry of Finance, as well as several newspaper archives, private archives, and Israel's national archive. These contained both published and unpublished documents whose contents were barely known at the time. In addition, I conducted 30 unstructured personal interviews with key figures and bureaucrats in the Ministry of Health, Ministry of Finance, Histadrut, and Kupat Holim, and with politicians involved with the health system. These interviews were essential to fill the enormous gaps in public information on the making and implementation of health policy in Israel because the inner workings of both Kupat Holim and of the various government ministries involved in health policy were virtual blanks, as were the relations among them.

The data were both difficult to obtain and difficult to analyze. At the time of this study, Israel had neither a freedom of information act nor a culture of information provision. Both Kupat Holim and the relevant government ministries consistently avoided publishing information that might have bearing on their power struggle. Key people on both sides of the struggle were reluctant to reveal facts and figures, claiming confidentiality. Basic information became "intelligence" which neither Kupat Holim nor government sources were ready to reveal to one another, let alone to a researcher. Interviews were scheduled reluctantly and far in advance, and then repeatedly canceled and rescheduled.

When information finally was extracted, each side had its own set of data, consistent with its own interests and perspective. To take only one of many examples, when I tried to find out how many members Kupat Holim had, I received different figures from Kupat Holim, the Ministry of Health, the Ministry of Finance, and the Central Bureau of Statistics. No one in any of the agencies involved would provide computer printouts of their raw data. The very idea of providing such data was unthinkable to all concerned. In the end, I was fortunately able to obtain primary data on some matters. On matters where these were discrepant, the data from each of the various sources are given and the reasons for the inconsistencies analyzed. Where this was impossible, the data were discarded.

The problem of obtaining reliable and meaningful data has plagued not only me, but also others who tried to study public health in Israel. The authors of a 1983 study comparing various proposals for national health insurance stress that "the lack of information poses a grave problem when dealing with the organization and economy of the health service" (Ellenzwieg, De-Fries, Halevi, & Chernichovsky, 1983, p. 4). The writers of a 1988 report on health funding complain about the difficulty of obtaining a clear numerical picture and note that "the sick funds, which are all government funded, refuse to detail their expenditure—against every rule of public fairness" (Arieli, 1988, p. 54). Even the state comptroller met with difficulties of information gathering. The 1986 annual report observes that "from the documentation made available to the state comptroller's office, it is impossible to ascertain the way in which cash flow charts are prepared in Kupat Holim" (*State Comptroller Report,* 1987, p. 362).

The lack of relevant data, the disinclination to publish up-to-date information, the atmosphere of secrecy and distrust, and the presentation of skewed contradictory data by both Kupat Holim and the relevant government agencies made the research a Sisyphian enterprise.

The Case of Israel

Israel's margin is distinctive in that it has its roots in the country's prestate era. Under the British Mandate, a large range of quasi- governmental functions were performed for the Jewish population by indigenous Jewish political movements, parties, and institutions that worked separately and together to meld a new Jewish society and to pave the way for the Jewish state to which they and the people they represented aspired. These functions included defense, agricultural and industrial development, and the provision of social services, such as education and culture, employment and welfare, and health care. Among the dominant institutions in these respects were the Histadrut and the Jewish

Agency, both of which were active in various sectors of the economy and provided a range of social services. With the formal establishment of the state in 1948, the Jewish Agency and the Histadrut, along with the many bodies they had created, adopted, or associated themselves with to perform their quasi-governmental functions, continued to operate on the margins.

Israel's margin is thus the product not only of government delegation, but also of the activities of the Histadrut and the Jewish Agency. It consists of a bewildering array of collectivist enterprises, social services, and companies and their subsidiaries. For the sake of simplicity, it can be divided into three main sectors: (1) public companies owed by the government, alone or in conjunction with the Histadrut, Jewish Agency, or private entrepreneurs from Israel or the Diaspora; (2) bodies owned or associated with the Histadrut; and (3) bodies owned or associated with the Jewish Agency (Aharoni, 1991; Elazar & Dortort, 1985; Friedberg, 1985; Rosenthal, 1988; Sharkansky, 1979). The fact that Kupat Holim was part of and owed its primary allegiance to a nongovernmental body constituted yet another barrier to core government control.

Like many Histadrut enterprises, Kupat Holim was an ideologically based organization which passed into the state with its prestate resources and roles intact, and formed part of the Mapai-led subsystem that dominated both the prestate Jewish community and the first three decades of statehood. It had become accustomed to making health policy in the prestate era and, like its parent organization, demanded and for a time received from Israel's core governments the right and resources to continue to act in that capacity.

In these respects, Kupat Holim is very different from the bodies on the margin in Western Europe and North America. There the margin was formed through the voluntary devolution of the core, driven in part by economics and in part by the desire to retreat from the large, cumbersome administrative state of the welfare era. Kupat Holim preceded the core and acquired much of its power in the early years of the state when the core was undeveloped and weak.

The development and demise of Kupat Holim's veto power occurred in tandem with Israel's state formation and institutionalization. In his analysis of the formation of Western European states, Tilly (1975) points out that the concentration of power in the core is accompanied by concerted, determined, and sometimes violent resistance by other semiautonomous authorities and requires, among other things, that the government bring them under control, whether by accommodating, subordinating, or eliminating them.

Kupat Holim can be seen as a force of resistance, which was empowered by Israel's first governments, but which subsequent governments tried to bring under control: Labor in the 1970s by accommodating it, the Likud through subordinating it, and, finally, both by so clipping its wings as to eliminate it as a political force. The struggle over the instruments of policy making documented in

the cases can be seen as a struggle over stateness—that is, over the degree to which these instruments are wielded in conjunction with a body on the margin or autonomously by well-coordinated agencies of the core government without significant participation by nongovernmental organizations (Tilly, 1975, p. 32). The government's eventual restructuring of the health system, and of Kupat Holim with it, can be seen the achievement of stateness in the area of health.

The process was the opposite of that currently occurring in the West, where the deliberate downsizing of government by transferring activities to the margins is shrinking the core and raising concern about the "hollowing" of the state, to use Milward's (1994) term. This study traces the efforts of successive Israeli governments to strengthen the core by shrinking the body on the margin.

The question thus arises of what the case of Kupat Holim can teach about the relationship between margin and core in the making of public policy. The answer lies in the fact, shown in this study, that Kupat Holim did shift policy making in its domain from the state to itself. The study reveals an inverse relation between Kupat Holim's veto power and the level of institutionalization and stateness of Israel's core government. It thus validates the apprehension that a powerful margin is a threat to the core.

Discussion of the question of whether and under what circumstances and conditions bodies on the margin can make public policy must thus begin with in-depth investigation of specific bodies. In the 1980s and 1990s a fair number of books and papers were published on nonprofit contracting in the United States and Europe, but these focused on general issues rather than on a single organization. Much the same can be said for the books and papers published on government-subsidized privatized industries, quangos, regulated utilities, and so forth. The need for specific study emerges from the fact that bodies on the margin vary greatly, both in themselves and in the ability of the government to control them. They vary with the history, institutions, and political culture of the country they are in (Greve, Flinders, & van Thiel, 1999; Sharkansky, 1979), as well as with differences in their own leadership and organizational cultures.

This study is a detailed investigation of the development of such a body from its birth through its transformation nearly a century later. On the microlevel, it opens the black box of health policy making in Israel, looking in depth at Israel's health care system and tracing the twists and turns of its development, institutionalization, and reform. On the macrolevel, it offers an indepth analysis of how a body on the margin may attain, anchor, fight for, and lose control of the tools of policy. It provides hitherto unavailable empirical evidence of the policy-making power of a body on the margin and tackles the question of how and under what conditions and circumstances it can exercise such power. Moreover, by shedding light on the impact Kupat Holim had on the design and implementation of health policy in Israel, it contributes to the debate on government by

proxy. Even though Israel may well be a special case, the findings of the study can serve as a hitherto unavailable point of departure for comparison to other countries where large, nongovernmental organizations provide essential services to large sectors of the population.

The Shape of the Book

The four cases trace the struggle between Kupat Holim and the Ministry of Health for control of health policy. They follow two interrelated trajectories: that of the acquisition and loss of Kupat Holim's veto and that of Israel's development as a nation and a state.

The cases combine political science analysis with large doses of historical narrative and description. The latter is needed to convey the flavor of the battles that were fought, the times they were fought in, and the people who fought them so as to provide what Ashford (1992) calls the social and historical context. It is needed to enable the broad readership unfamiliar with Israel's development and the workings of its political system to understand the motives driving the struggle and how its government institutions and health care system became enmeshed and unmeshed. And it is needed because almost nothing has been written about Israel's health system, so it was impossible to rely on previous work and necessary to provide detailed evidence for even the most basic claims. The analytical work, stressing the changing nature of Kupat Holim's veto in each period and the changing conditions and circumstances under which Kupat Holim was and was not able to exercise it, is reserved for the end of each case.

The first case traces the roots of Kupat Holim's informal preventive veto in the legacy of the prestate period, the needs of the new state to build an infrastructure and absorb immigrants, and the Sick Fund's utility to Mapai, the party in power. It suggests that the underdeveloped nature of the core, with a weak administrative structure and a nearly total absence of an effective opposition, permitted Mapai, a dominant party, to transfer resources of the state to the Sick Fund to consolidate its own power.

The second case shows the core's unsuccessful efforts some two decades into statehood, when most of the infrastructure had been laid and the immigrants absorbed and Mapai's hold on the polity was weakening, to play a greater role in health policy making by increasing the level of institutionalization of the Ministry of Health while accommodating Kupat Holim through the formal delineation—and hence circumscription—of its policy-making role.

The third case begins with the end of the long Labor dominance, which had supported Kupat Holim's preventive veto. It shows the efforts of the new Likud government to centralize control of health policy in the core by reappropriating

the tools of policy making from Kupat Holim and subordinating it to the Ministry of Health—and Kupat Holim thwarting those efforts by obstructing the implementation of the policies designed to promote them.

The fourth case deals with the restructuring of the Israeli health care system. It shows the revocation of Kupat Holim's veto in a period when Israel was ruled by a succession of national unity governments though the serendipitous cooperation of the two major parties. It shows how the Kupat Holim lost its veto when it became a burden to its partners in the subsystem and when they, in turn, became unable and unwilling to continue to support it.

Following the four cases, the book ends with a chapter discussing the development of stateness in health in Israel and considering the relative merits of health care controlled by a powerful body on the margin, which resists the state, and a government-controlled health care system. It looks at the quality of health care achieved by these two models: the first politicized, the second depoliticized, with an eye to contributing to the current debate on how to best handle the increasing demands for health care and its burgeoning costs.