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Book reviews

Defending Government: Why Big Government Works
Max Neiman, Prentice-Hall, 2000, 260 pages. Reviewed by Sandford Borins.

Recently, at the cinema in Toronto, I was watching advertisements flashing on the screen before a movie began. One ad, just as jazzy and upbeat as those for Coke or Nike, told us about the Government of Canada's initiatives to connect various groups of Canadians—students and schools, libraries, voluntary organizations, distant communities, and small business—to the Internet. When the ad finished with the Government of Canada wordmark ("Canada" with the maple leaf flag over the final "a") a member of the audience shouted, "Lies!" The rest of the audience sat in embarrassed silence, resenting this breach of Canadian decorum.

I imagined how this scene would have played out in the United States. The US Government, in deference to a more skeptical public, does not advertise in the way that the Government of Canada does. Even if the US Government were to advertise, one could imagine more than a few movie-goers shouting "Lies" or worse.

This anecdote speaks to the heart of Max Nieman's recent book. Nieman has written what he feels is a much-needed defense of governmental activism in the US against "the conservative spirit, with its celebration of the private market and its fear, if not loathing, of government, politics and public officials [that] dominates the prevailing political mood" (p. viii). Part of the argument is statistical, as Nieman reviews American fiscal history to show that there were a number of periods when the US Government ran greater deficits (relative to expenditures) than in the Eighties and Nineties. He also demonstrates that the US has a relatively smaller public sector than most other OECD members, and argues that there is no evidence that, in the last half-century, countries with a large public sector have experienced less rapid economic growth than those with a small one. Nieman examines a number of theories attempting to explain government growth (for example, Marxian and public choice) but concludes that the key factor is preparing for or waging war.

Neiman deconstructs conservative rhetoric claiming that governmental regulation abuses freedom or portends a totalitarian regime. He reminds us of private sector abuses—exploitation of workers, dishonesty to consumers, invasion of privacy, environmental pollution—that have led the public to demand regulation. He argues that governmental activism has fostered important values, such as equitable treatment for the disadvantaged and protection for broad, rather than narrow, interests. Neiman analyzes school vouchers to show that policies attempting to create quasi-markets themselves require substantial regulation.

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Neiman concludes by calling for "an expansion of political involvement in as wide a sphere of political life as possible" (p. 220) and by affirming that this expanded involvement would lead to richer public discourse and better public policies.

Neiman's argument is wide-ranging, and a complete assessment is beyond the scope of this review. Writing from the perspective of Canada, a country that has always had more activist government than the US, the question that interests me most is whether, as Neiman claims, "when comparing OECD nations in terms of their correlation between public sector size and various indicators of economic performance, it has been shown that there seems to be no consistent pattern at all" (p. 162). On page 120, Neiman presented a table of average annual GDP growth between 1960 and 1995 and public sector size as a percentage of GDP in 1995 for 19 western countries. I decided to venture beyond Neiman's verbal analysis and took out my $30 pocket calculator to perform a simple regression of growth upon public sector size. It turned out that the correlation coefficient was $-.48$, with a t-statistic of 2.2, significant at 5 per cent in a two-tail test. While this is hardly a sophisticated statistical test, it does indicate that Neiman's data show a mild negative relationship between growth and public sector size. A more sophisticated statistical approach would involve econometric modeling to determine if high rates of taxation have disincentive effects that reduce economic growth.

In a global economy in which both capital and labor are mobile, casual empiricism suggests that high taxes do hurt economic growth. An issue of great concern in Canada today is what is called the "brain drain," the emigration of well-educated individuals and high-technology firms to the US, with its substantially lower individual and corporate income tax rates, much higher level of personal income at which the maximum marginal rate takes effect, and better tax treatment of the income resulting from the exercising of stock options. It is even easier to register a web site in the US with a "com" or "org" domain than in Canada's "ca" domain.

The fact of the matter is that the US is leading the IT revolution and the Internet gold rush, and the rest of the world is scrambling to keep up. The US is a magnet for the world's most talented and highly-skilled people. Neiman's observation that there is less redistribution in the United States than in Europe (or Canada) because "the United States has always operated in a climate that emphasizes individualism, personal responsibility, and the right of those blessed with advantages to savor and use them" (p. 108) is part of the explanation for American hegemony in the new economy. To Neiman's observation that "at some point, public sector burdens will detract from economic performance, although this point is likely to vary from one nation to another, and is certainly higher than where it currently is in the United States" (p. 213), I would add—but not higher than where it currently is in many other western countries. Unfortunately, Neiman is too concerned about attacking straw persons such as the libertarian argument that governmental activism leads to totalitarianism (for example, in his chapter entitled "Hitler didn't come to power via the health department") that he ignores the far more relevant economic argument against big government in a global economy. Indeed, Neiman seems almost embarrassed by the recent performance of the US economy because it confounds his designation of the US as an economy with slow long-run economic growth and a small public sector. He concludes his book with a discussion of industrial policy, which he admits is most unlikely "in the heady days of go-go growth in the late 1990s," but which "will resurface again if there is a sustained downturn again, as surely there must be" (p. 215).

I spent a semester last year in Berkeley, and the incredible accumulation of wealth in the Bay area was obvious. The interesting question to me is how to develop political strategies that would make it possible to use some of this wealth to improve health, housing, or schooling for the least advantaged, and I wish that Nieman would have confronted it directly. As his title claims, Neiman has defended government. He has not shown us why—or even that—big government works.

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Decentralising Public Sector Management
Pollitt, Christopher, Johnston Birchall, and Keith Putman; London, MacMillan 1998, 211 pages.

The New Public Management (NPM) is not only academic papers and debates, but also a set of influential policies being implemented around the world. Diverse recipes—privatizing, devolving, decentralizing, and managing by performance—are nowadays clearly identified with so-called "managerial reform".

In developing countries, quite a few people in public offices and even in academia defend these ideas as though their effectiveness and appropriateness were beyond doubt. Governing elites, supported by influential international organizations including the World Bank and OECD, frequently insist on moving ahead on these reforms with all deliberate speed. Those who dare to urge caution are often dismissed as unprogressive—or worse. Nevertheless, developing countries should know about the dangers of premature adoption of NPM strategies (i.e. prescribing more autonomy for bureaucracies in countries where accountability systems are weak or absent).

Fortunately, we don't have to accept or reject the NPM on faith. We can look at the facts. In the United Kingdom, NPM style reforms began as early as 1979. It is now possible to evaluate the results achieved as a result of its implementation and to assess its outcomes.

In their book, Pollitt, Birchall and Putman embrace the challenge of systematically reviewing the consequences of managerial reform in the UK, with enthusiasm and an appropriate degree of skepticism. Focussing on the various decentralization efforts made since 1979, they provide the evidence needed to evaluate not only the administrative consequences of decentralization but also to assess their political effects. It should be understood that decentralization in the UK has encompassed various instruments associated with NPM (a concept the authors prefer not to use, but one that I find useful). It is not a single process, but a set of processes. According to Pollitt, Birchall and Putman, decentralization is