ELSEVIER International Public Management Journal 4 (2001) 115–118

International Public Management Journal

Book review

## New Public Management

Jan-Erik Lane; London, Routledge, 2000, 256 pages paperback

Jan-Erik Lane, a professor of political science in Switzerland, sets out in this book to articulate New Public Management (NPM) as a single, coherent theory of public sector management, and also to reaffirm the continuing relevance of the public sector.

Lane's discussion of NPM makes specific reference to Australia and New Zealand, two of its most adventurous practitioners. It is perhaps mainly to a Swiss audience that Lane intends to demonstrate that NPM is intellectually respectable, and that adopting it does not mean public sector management is about to be displaced by commercial management. In a distinct discussion meant to contribute to political and policy argument in Switzerland, Lane also seeks to challenge what he sees as a misconception about the extent of the state in that country.

Within academic and professional literature, NPM is varyingly described. Lane conceives of NPM as a model for discussing the public sector which differs from forerunners he dubs "traditional public administration," the "management approach," and the "policy framework." These he describes as "traditional public governance." He posits that there is now a fourth model, NPM, which represents "modern public governance." Lane asserts that, essentially, NPM is about contracting—especially short-term contracting under private law—and on this basis rests the claim that it is a new and coherent "theory" of public sector management.

Lane claims that this theory is proving superior to traditional public governance theories, and, unlike them, it has the added advantage of applying not only to public service provision, but also to redistribution and regulation.

Public expenditure as a percentage of GDP is as high as or higher than it was in OECD countries a decade ago. Lane notes that the share of GDP devoted to direct government expenditure has dropped, while transfer payments and regulation have increased. Within the OECD, however, there is large variation in different governments' shares in their economies. Lane classifies those at 50% or above as welfare states and those with a lower share (Japan is 35%) as welfare societies. He says some countries (citing Canada, Australia and New Zealand) are on their way to becoming welfare societies.

Essentially, this distinction seems to be whether the state directly bears the burden of assuring the welfare of citizens, or whether it confines itself to creating conditions in which other institutions in society play this role. Lane describes the choice between welfare state


PII: S1096-7494(01)00038-1

and welfare society as the most fundamental political issue facing advanced nations. He argues in favor of choosing the welfare society over the welfare state model.

Lane claims that welfare states are increasingly dysfunctional, that there is a necessary relationship between the choice of welfare state or welfare society and the public service delivery mechanisms countries use, and that this association is at the root of the welfare state's problems. He relies on ideas from the New Institutional Economics to demonstrate the relative deficiencies of the public service delivery mechanisms used by welfare states, especially bureaus and public enterprises. He relies on ideas from more traditional economic thinking about equity, efficiency, and social justice to challenge the rationale for government transfer programs. He shows that their actual redistributive effect is slight, favoring the middle class or median voter. He implies that both conclusions derive from the NPM contract theory. How they are so derived is by no means clear to this reader, however.

Lane brings his analysis home with the claim that Switzerland, long seen as a welfare society flourishing in a sea of European welfare states, is, if one uses comparable data on public expenditure, in fact a welfare state. This view derives from Lane's assertion that OECD reclassified Switzerland and predicted that by 2001 it will have a public sector of almost 57% of GDP. According to Lane, this explains Switzerland's relatively low economic growth—thereby reinforcing what he terms Lane's Law: the larger the public sector, the lower the rate of economic growth.

Lane uses other statistics to back up his conclusions. Nevertheless, it must be pointed out that, contrary to Lane's assertions, OECD didn't reclassify Switzerland. Lane's assertion is the result of a mistaken entry on OECD's web page in late 1999. As OECD has explained to the Swiss authorities, the numbers given in the web page were in fact based on miscalculation. To quote from a recent letter from the OECD on this matter:

> Nevertheless the Swiss statistical authorities began a few years ago to provide the OECD's Statistics Directorate with such accounts for past years, and these have been published by the OECD (see OECD National Accounts, Volume II 1999). These accounts show for example that the general government expenditure share in GDP came to 30.6 and 34.7% in 1990 and 1995 respectively—far different from the 41.0 and 47.5 figures for these years that appeared mistakenly in the web-site table.

Erroneous figures from an official source, even if quickly withdrawn, are unfortunate hazards for an author on the brink of publication, especially if those figures bear directly on his main thesis. To Lane, the importance of Switzerland is that if it is really a welfare society then what is the explanation of its slow economic growth, given Lane's Law?

The scholarship problem on this point goes deeper. On page 117 there is a table from an OECD source which Lane says indicates that Switzerland is a welfare state. But the table in question makes no mention of Switzerland at all. Furthermore, his claim that OECD predicts a 57 percent public sector for Switzerland in 2001 has no foundation in anything produced by the OECD.

Following the Switzerland discussion, the book puts aside its critique of the welfare state and proceeds with a discussion of contracting in its different NPM forms and the incentives, beneficial and perverse, that this can set up for CEOs, the government, and the citizen. (Lane considers a managerially powerful CEO as a necessary concomitant to the introduction of

NPM). He concludes there are two major potential weaknesses in contracting regimes in the public sector. The first is that what the government and the CEO agree is optimal may not be so for the public, and the second is that there is no organizational regime that rules out reneging.

Lane devotes the final chapter to compensating for the adverse consequences of contracting. He proposes a new set of designs for programmatic organizations or institutions to support public sector contracting. He cautions against the use of private-law contracting in what he calls the soft sector—education, care-giving, law and order, and health, but insists that some form of contracting and competition is nevertheless useful in these areas. Additionally, he proposes the strengthening of regulation by combining aspects of public and private law, and having tournaments for CEO positions in regulatory agencies.

New Public Management has two serious weaknesses in terms of what it sets out to do. In general, it fails to marshal the evidence in support of his claim that NPM, as applied in OECD countries, has proven superior to other approaches of analyzing public management. Lane's assumption seems to be that proving the internal consistency of the theory is sufficient reason to assume it must work. After two decades of NPM, a priori justification alone is insufficient.

Secondly, some bold assertions are made that are not convincingly justified; i.e., that NPM is a single, coherent theory. A common view, and one that this reader shares, is that NPM is not a single theory but an umbrella covering a range of new ways of thinking about getting public things done, drawing from commerce, management, new institutional economics, accounting, and modern democratic philosophy. Lane's treatment does not in the end support his claim of a single coherent theory based on contracting. He draws on a diverse set of ideas from economics and, indeed, it is far from evident how his discussion of the welfare state connects with his discussion of contracting.

Another questionable assertion is that there is a negative correlation between big government and economic growth. The strongest justification would have been the old Soviet Union but that raises different issues. It is not at all clear that the correlation is valid for the OECD countries (cf. Holland and the Scandinavians vs. Australia and New Zealand). Its obverse is certainly not true at present (cf. Japan and, indeed, Switzerland). And as applied to developing countries, the proposition does not stand up at all.

Finally, it is by no means obvious that there is a clear-cut and useful distinction to be made between welfare states and welfare societies, let alone one based on public sector expenditure as a percentage of GDP. The complexity of the relationship between governments and other institutions in society and the differences between states in this regard are not much illuminated by this distinction. Its deficiencies are amply revealed by the fact that a statistical error caused the author to redefine the nature of Swiss society in respect to what he regards as this most fundamental problem. One assumes, after all, that this is the country the author knows best and that government expenditure is no more than a proxy for the citizenry's sense of dependency on the state. Will reducing public expenditure somehow in and of itself change a country from a welfare state to a welfare society? Surely it might just as easily result in a stressed and underfunded welfare state, in which net welfare is significantly reduced.

New Public Management is interesting because it applies a range of economics-based theories to public management. Jan-Erik Lane's theoretical discussion of problems and remedies in public sector contracting should be of considerable use to those designing public service delivery mechanisms. However, Lane's larger claim of providing an integrated theory for thinking about the public sector is not sustained, and links he tries to make with practice and results in government are weak.

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