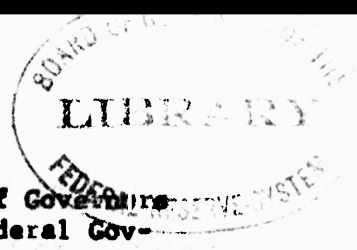


GOVERNMENT, BUSINESS AND SOCIETY

(Remarks of C. Canby Balderston, Vice Chairman, Board of Governors of the Federal Reserve System, at the Conference on Federal Government Operations, at The Brookings Institution, Washington, D.C., on February 15, 1963.)



The questions I shall raise fall into two categories: (1) the most effective balance between the public and private sectors; and (2) the most effective balance between centralisation and decentralisation.

Over a century ago, John Stuart Mill distinguished between two kinds of intervention by government. One is interference that is authoritative. It may deny to individuals their right to do certain things, or prescribe that these things be authorised by government, or it may require individuals to do certain things. The other kind of government intervention described by Mill is not authoritative. It does not issue commands that are enforced by penalties. Rather it leaves individuals free to pursue their purposes by their own means but renders advice and help and may establish public agencies side by side with private ones and for the same purposes. Thus there may be both public and private hospitals and public and private utilities.

My remarks stem from the premise that Society is people, and that it is people who count most. To me the best society is one that produces the greatest good for the greatest number, but with the vital qualification that the system also protect the rights of minorities and the freedom of individuals.

The functions of business are to produce the goods and services that society desires, as expressed in the market place through the exercise of free selection, to provide employment for those who wish to work, and to facilitate the accumulation of capital assets through profit incentives.

Government also has responsibilities to society under the free enterprise system. These are of two sorts. First, it falls upon government

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to protect the rights of minorities and individuals, partly against the stronger elements of society and partly from harmful activities of individuals themselves. It is under this function that government establishes the "rules of the game" through legislation, regulations, and enforcement. This necessarily limits the freedom of action of individuals and organizations, but no one can deny the desirability of such regulation to a point. The question is: what point?

Second, the government has some responsibility to offset or correct deficiencies in the performance of the economy--this is where compensatory fiscal policy and economic planning fit.

Third, it is the government's responsibility to furnish activities that are clearly desirable for the public good but that cannot be organized on a profit-making basis. This is exemplified by the military establishment, and extends into such areas as space exploration and hydroelectric power where the job is too big or the risks too great for private business. I favor help that government can render that is beyond the powers of individual firms, like that needed to facilitate our export trade or the building of dams where the cost and risk dismay private companies. But I do not feel that in a mature economy like ours government should establish facilities to parallel those of private firms. I am not condemning the efforts by countries like Pakistan to get industry going by setting up development authorities to start paper and textile mills, cement plants, etc., in the belief that if the government does not initiate them these industries will not get started at all. In this country, however, economic activity should be left in the hands of private industry where it is feasible to do so. Thus in indicating my distaste for the taking over of trolley systems and electric plants by municipalities, I am exhibiting bias against the kind of thing which is going on not only here but in Canada, Mexico, Brazil, and Italy.

In the operation of both business and of government, an important problem is the determination of the optimum degree of decentralisation to be achieved. In business, this relates to the concentration of activity in very large firms as well as the desired decentralisation within the firm. In government, the question involves the multiplicity of independent governmental units--Federal, State and local--as well as the organisation of any particular activity. On the grounds that competition stimulates initiative and improvement, we tend in general to favor the maximum decentralisation. But this desire must be modified by the needs for efficiency, unity, and timeliness of actions.

With respect to this perennial problem of balancing centralisation and decentralisation, I shall make just two brief observations. The first is that in both government and in business corporations of large size, the pendulum seems to swing from excessive centralisation to excessive decentralisation and back again in cycles. As the late Charles J. Rhoads, the banker who once headed the Bureau of Indian Affairs, told me, at times lack of knowledge at the Washington headquarters caused authority to be delegated to the field only to have the tide turn again when mistakes in the field came to the attention of the Congress. Headquarters would then conclude that such a mistake must not happen again and pull the authority back to Washington. In the Federal Reserve System we face the problem continuously of harmonising decentralisation with sufficient coordination. Obviously a philosophy of meaningful decentralisation of responsibility and authority involves confidence in those to whom it is delegated and willingness by the head to accept the ultimate responsibility and blame for mistakes. The problem is no different from that of training the young and inexperienced; willingness to delegate to those who ~~are~~ as yet untried involves considerable faith and courage.

My second and closing observation has to do with what I believe is one of the most fundamental benefits to be derived from free enterprise, with its large private sector and free markets. I refer to what Dr. George W. Taylor calls the fragmentation of decision-making. The responsibility for millions upon millions of decisions, large and small, is allocated among millions of individuals. Their choices extend to both goals and the means. Within limits they may do what they wish and in their own way. Their decisions will be both correct and incorrect, prudent and imprudent. But they will reflect more intimate acquaintance with their immediate problems than likely would be given to any one in the national Capital. Moreover, the mistakes of judgment, numerous though they be, will be counterbalanced by successes that will be hopefully even more numerous. The danger of excessive centralisation of decision making was seen clearly by Lord Keynes who observed that Hitler had so centralised the decision making of Germany that the only mistakes he could make were major ones.

Here I shall quote the late Sir Henry Clay, Adviser to the Bank of England, who was reacting to those young men who at the end of the war would have had Britain engage in planning with a capital P. I must interject here that 18b was the regulation under which Oswald Mosley and others were incarcerated for the duration on the Isle of Mann. Sir Henry's ditty ran as follows:

"Take me away from the planners  
away to the Isle of Mann;  
I would rather be free under 18b  
than under a post-war plan."

