

REGULATORY REFORM

Remarks by
Darryl R. Francis, President
Federal Reserve Bank of St. Louis
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I welcome the opportunity to address this luncheon gathering and wish to thank the sponsors of today's hearings for granting me the opportunity to do so. While my comments today will focus upon the impact of government regulations on our economy, the ideas that I will express have a bearing on all government actions, be they classified as economic, social, or political in design. In my view the effects of government actions in any one of these spheres are interdependent and virtually inseparable.

Let me begin by saying that I subscribe to the widely held doctrine that minimal government regulation is consistent with the attainment of the maximum possible standard of living for society. According to this view, government regulation should be viewed with skepticism as a potential enemy of society's material well-being. On the other hand, freedom from regulation is viewed as a source of the variety and diversification of ideas, experiments, and innovations which lead to the discovery of new products, more efficient means of

production, and offers the most promising means by which the standards of living of all members of society can be raised.

However, I do recognize that there is a constructive role for government in the economy; I am not an advocate of anarchy. I recognize that a system which promotes maximum material well-being may not be a godsend and that its existence depends, in part, upon affirmative government action. However, I also recognize that each new government regulation involves a loss of some of the variety and diversification of ideas, experiments, and innovations which contribute to the realization of this maximum material well-being.

In my view, one of the most useful roles that government can play in the economy, aside from its role as a protector of property rights, is to aid in the collection and dissemination of information. The more information there is available regarding new technological developments, the more quickly will these new techniques be tried and tested, and the more quickly will society as a whole be able to benefit from them. I think a good example of this type of function is the agricultural extension services provided by many state universities. Likewise, the more information consumers have at their disposal when they are making decisions regarding what products to choose, the better off will society be.

Let me stress, however, that I advocate only the dissemination of information, and I reject the notion that individual entrepreneurs and consumers should be told what they may or may

not do on the basis of this information. It is one thing to give an individual some information which helps him make a decision; it is quite another matter to decide for him what the correct decision is. The Surgeon General's report on the dangers associated with smoking could be cited as an example of the dissemination of information. It would be quite another matter if we attempted to pass a law which forbids the use of tobacco products. It was this latter approach which was tried, and predictably failed, with the prohibition of alcoholic beverages and with seat belt interlock mechanisms.

I believe that the main reason why there are so many government regulations is that the public is seldom made aware of the total cost of most government undertakings. The benefits are flaunted, but the costs are seldom computed, much less given equal billing. If the public were given accurate and complete information on both the costs and the benefits of government programs, I submit that there would be many fewer of them. Our society currently requires an environmental impact statement for all private projects; why not require something like an economic impact statement for government programs.

It is a common phenomenon today that when a group of members of our society perceives something as a threat to their security or to their environment, their immediate reaction is to turn to the government for protection. I submit that many such calls for

the government to do something are indeed effective in getting the government to do something, but in most instances that something has so many costly side effects that it constrains the ability of our economic system to achieve an efficient solution to the problem at hand.

This kind of approach to our problems would be defensible only if we could assume that the concentration of power in the hands of the state is economically more efficient than is the dilution of power which is inherent in private competition. I submit that just the opposite is true. Power concentrated in the state is less consistent with the maximization of economic efficiency than is its dispersion among competing private individuals. The primary reason is because those who make decisions within the government are often insulated from the wishes of all segments of society. On the other hand, inherent in the private rivalry of competition is the power for every segment of society to let its wishes be known. Government is an apparatus of compulsion which has the power to obtain obedience by force. Oftentimes decisions within government are made by a naturally myopic minority group who focus pressure against a lethargic, dispersed and indifferent majority.

Implicit in the creation of every new government agency is the bestowing upon its managers the power to force or coerce others to adopt their values. As a result, these new government agencies oftentimes merely feed the appetite for power on the part of

those who wish to impose their values on the rest of society. These people seek through government to force some individuals to act against their own immediate interests in order to promote a supposedly general interest. They substitute the values of outsiders (themselves) for the values of those who participate in the day-to-day operation of an enterprise.

Past experience has taught us that bureaucratic institutions are prone to become myopic in the performance of their functions. For example, bureaucrats are typically given one particular function to perform. However, just as any other institution or individual, they are just one small part of an overall system that has become too large for any one individual to understand, much less control. They are rewarded for carrying out their own particular function, irrespective of the effects of their actions on other perhaps equally laudable goals.

One need not look far to find some examples of the kind of problems that the situation I just described can lead to. Consider, for example, the case of the catalytic converter. How many billions of dollars have been spent on their design and installation, not to mention the billions spent on the construction of a distribution system for the lead-free gas they require? However, now we find that we may have acted too hastily and the converters may cause worse pollution than they eliminate. Consider also the case of cyclamates,

in which those who argued in favor of their continued use were overwhelmed by a more powerful government agency. Now we find that, here too, a decision was made too hastily and on the basis of incorrect information. Facts did not prevail in either of these cases; wishes did. This same phenomenon is, I think, well illustrated by the recent remarks by the Commissioner of the FDA regarding Red Dye number two. The Commissioner said that he was halting its use because, and I quote, "there is no study in sight that is likely to give unequivocal assurance of the safety of Red Dye number two." In other words, guilt is presumed until innocence is proven; and, since the criteria for proof is at the whim of the regulator, proof is frequently impossible.

It is ironic that groups which constantly look for problems in our country insist on inhibiting the ability of the economy to respond to these problems. For example, present technology does not permit us to have surgically clean air and plentiful electricity at less cost at the same time. However, there is no reason to believe that future technology could not provide those benefits. The essential ingredient is freedom to react to incentives and an understanding that regulation destroys creativity and creates an environment of mediocrity. Just as thought control is the great enemy of the freedom of inquiry, economic controls are the great enemy of the entrepreneurial spirit which is needed to solve our problems.

Rediscovering the indivisibility and efficiency of political and economic freedom will take time in a society which has become so accustomed to overreliance on government intervention. The political and intellectual bias against the free market is strongly entrenched, and there are some who will always find a platform to continue to feed this bias out of a complete misunderstanding of both the political and the market functions.

I would like to conclude my remarks with an appeal for a new approach to government regulation. Let us recognize that there exists some optimum level of regulation. That is, we should recognize that while there may be benefits derived from a particular form of regulation, so also are there costs. Professor Murray Weidenbaum of Washington University has estimated that the cost of operating our regulatory agencies is \$4 billion a year. However, this figure only represents the tip of the iceberg. It is the inefficiency that government shackles our economy with that represents the true cost of these programs. Let us look at both sides of the coin. In any particular case of proposed government intervention, we should make up a balance sheet, listing separately the costs and the benefits of the proposed regulation. In other words, let us analyze each and every regulation within a cost-benefit framework. If we could limit new regulations only to those whose benefit to society exceeds the cost, there would be a lot fewer regulations. Then we must see that the same yardstick is applied to existing regulations and regulatory agencies.

I sincerely hope that each of you will give the above recommendation serious consideration. We have neglected the costs associated with government regulations for too long. However, I think we have finally reached the point where we can no longer afford to be so myopic. I hope that these hearings and my remarks will help move our nation to a more realistic appraisal of the unnecessary burden placed upon our society by our current maize of regulations.