

The Relativity of Efficiency

ONE OF THE RIGHTS of American citizenship most frequently exercised is that of criticizing the inefficiency of government, but it is difficult to find many references to the lack of governmental efficiency that reflect genuine thoughtfulness. Almost no one, however, indulges in similar global generalizations about the efficiency of other institutions or organizations. Few persons attempt to judge, for example, the general efficiency of Bethlehem Steel or of General Motors. Most of us need to develop a corresponding restraint in evaluating the efficiency of government. It is dangerous to be dogmatic about efficiency of administration in any field, public or private, big or little. Who would venture to assert that the printing plant producing the *New York Times* every day is more or less efficient than the plant producing the *Saturday Evening Post* every week? Presumably the *Times* plant is the most efficient plant known for producing the *New York Times*. Presumably the *Post* plant is the most efficient one known for producing the *Saturday Evening Post*. The question is: what objectives is the organization trying to accomplish? What means are available to obtain the desired end? In short, what are the criteria?

Evaluation of Efficiency

Fashion merchandise does not lend itself to assembly-line production. Small shops can spring into action and serve a market for such goods before a big one can even get organized. Clearly an item chiefly dependent on some rare manual craftsmanship can be most efficiently produced in a small shop. Nor are these the only advantages that go with smallness in size. The owner of a printing plant doing a million-dollar business once told me that any printing job amounting to less than a hundred dollars costs him money because it costs that much merely to get a job going in his establishment. Yet certainly

there are hundreds of small plants which can earn a profit even from five-dollar jobs

Some years ago an industrialist described to me the difference in efficiency in two plants he operated, both manufacturing similar products. One had been in production only three years. It employed three hundred persons. The other had been in operation for thirty years and employed thousands. Yet similarity in their functions offered a basis for computing comparative efficiency. What he had found was that the new plant was not nearly so efficient as the old one; it was, as he said, too new to be highly efficient. It is my observation that this factor of age is equally important in government. From the standpoint of operations *per se*, a new governmental agency simply cannot be expected to be as efficient as an old one. New organizations, whether in or out of government, are likely to be more efficient in terms of "drive," imagination, and bold policies, but they are almost necessarily less efficient than older ones in effectuating their purposes. Obviously any big and complex new unit with a big and complex new function will be less efficient in its operations than a new unit with a small and simple function. But it is also a safe assumption that small new agencies will ordinarily be less efficient than big ones that are older.

These considerations illustrate the futility of most references to governmental inefficiency as contrasted with the efficiency of private industry. Patently the government is more efficient as a political agency than is private industry. Even with all its modern interest in public relations and its growing appreciation of personnel administration, industry does not have to be nearly so political as government. And surely government is more efficient at providing minimum educational advantages, organizing road systems, and many other things including coming, issuing, and regulating the value of money. Some of these functions are of the essence of government and are so completely accepted as such that there is today no argument whatsoever as to the propriety of these things being handled by government. Yet it was not always so and the fact that it was not should help us appreciate that the real question with regard to new uses of government is simply this: has the function involved come to have a sufficient public-interest character to be in the field of what must be

handled governmentally? There is no clear limiting principle for governmental action in a democracy. The range of public power and activity will and should differ at different times in history.

Efficiency Is Relative

There is no absolute, universal, and intrinsic difference in efficiency as between public and private management or between big and little business that may serve as a safe guide in determining, on that basis, whether or not any particular function should be entrusted to government. But there are other objectives and considerations according to which governmental management of that particular function will be adjudged by the people to be more or less *desirable* than continued private management. These other objectives and considerations change from time to time and they are certain to change in the future as they have in the past. These things are the vitally important factors, they count for more in the scales of democracy than the relative efficiency of government—though this too is important—in the performance of a function that could conceivably have been left in private hands.

Even if one should believe that government is more efficient than other forms of enterprise, there are other values than the values of efficiency about which one should be concerned. Our descendants may espouse socialism in some form or other, whatever they do, it can be set down with certainty that they will insist that their society shall foster and protect in new and special ways values more important than mere efficiency. Man never will live by bread alone. The argument, however, should be made on the points of our real concern. Are there new and better ways of maintaining old values we know to be good? If so, let them be developed, considered, and adopted. This is the hope of gradualism, as contrasted with revolution.

Against this background, however, there are many things that could be said about specific aspects of the relative efficiency of government and business. Is there, for instance, more or less nepotism in business than in government? Are appointments in the one field more a reflection of pull and privilege than in the other? No one knows. My *guess* is that in these respects government is superior. Yet it may be otherwise; the subject is certainly debatable. Is purchasing as done

by government more or less a matter of favoring friends as compared with purchasing as done by corporations? No one knows. Again my guess is that government has the better record. Do the personal, irrelevant interests of executives determine their decisions more often in business or in government? No one knows. But here too my guess is that because of the public-interest atmosphere surrounding it government normally gets a more completely disinterested judgment from its executives than does a commercial corporation.

Countless similar questions could be posed. The answers to them would doubtless underscore anew the fact that people are capable of reacting to different stimuli in many different ways. The profit motive is not the beginning and end even of self-interest. Enlightened self-interest often becomes astonishingly altruistic. It is by no means uncommon for businessmen to work every bit as hard at things involving no material self-interest as at their businesses. The selfish desire to be well regarded often flows in truly social attitudes. Persons in government are characteristically among those who seek other than monetary returns and rewards. Perhaps scientists carrying on research in government laboratories furnish the clearest examples; they carry on significant and zealous work without being moved by anything like the profit motive.

The Dynamic of Competition

But the principal advantage commonly attributed to private enterprise is that of dynamics. "Individual initiative" and "free competition" are popular slogans because we have believed that they have been the principal secret of our rapid progress. Even with respect to these factors, however, we have more sentiment than cold analysis and measurement. Take, for example, the rather common charge that we have an "economy of waste", that waste has been blandly defended, or discounted, as good economics, as being on the whole profitable. But no one seems to have attempted to compute a balance sheet, a careful, factual estimate of the total cost of our wastes and total dynamic return from them.

Probably we shall never make a determination on any such basis, but it is worth while to ponder the question a bit. Before the war a friend who is in the oil business told me that if a motorist started from

Richmond to drive to Los Angeles and bought a pint of gasoline at each filling station he passed, he would, on arriving at Los Angeles, have not only a full tank of gas but enough in addition to fill two tank trailers. This is just one aspect of a situation treated popularly some years ago in a series of articles in *Collier's Weekly*, "Too Many Retailers." It is a familiar story to anyone who visits his old home town and observes the effects of mortality among business houses. The once familiar Main Street has become a strange place—and this despite the fact that he cannot know of other changes between his visits which have left no trace at all.

Notwithstanding all we hear about "duplication" in government, it is my observation that this is no more a major problem in public administration than it is in any other field. Bureaucracy is its own check against duplication—and for much the same reason that businessmen would, if they could, end competition. Duplication exists in almost all non-governmental fields, and though it is generally believed to be a blessing, it is not so regarded by businessmen as they come directly up against it. On the contrary they do their best to get away from the "free competition" they loudly espouse during political campaigns.

One of our national business journals called two or three years ago for suspension by the Department of Justice of its enforcement of the anti-trust laws. The writer did not attack Congress and demand repeal of the laws. Instead he attacked Thurman Arnold for trying to enforce them! He did it by questioning the national belief in free competition and by insisting on the inevitability of bigger and bigger business. Here are three of his paragraphs:

"The old theory of competition was that it lowered prices down to a point just far enough above the cost of production to assure a small margin of net profit and continuance of the business. Actually, as we have learned over and over again from experience, unrestricted competition forces prices down to a level which is less than the actual cost of production.

"In any competitive price war, which so many politicians seem to think should be encouraged, the lowest price level is from 10% to 20% under the real cost of production. This means that a corporation with the greatest resources is bound to win at the end of any competitive struggle. It also means that in a price war, competitors would fight on, gradually exhausting their strength until, like roosters in a cock fight, one or both dies. Unlike

roosters, however, industrialists have intelligence and judgment. So they do their best to bow to the law, at the same time they get together somehow to prevent suicides. . . .

"With every good intention, they attempted by legal enactment to resurrect and revitalize it. They sought to upset an economic trend and to break up combinations by law. Of course, they did not succeed. Natural law made cynical jokes of our man-made anti-trust laws. Within the past 50 years, and since the passage of the Sherman law, there has been a veritable slaughter of small units. Corporations and combinations of them have grown by leaps and bounds, until the so-called independent is today the exception. Officially we have not yet recognized the immutability of the natural law. The fight against it is kept up at great and wasteful legal expense."

After this defense of big and bigger business, the writer opposed big government. Consider his argument:

"Ideas and progress come from individual minds, not from the mass. The crowd can feel, hate, consume and destroy, but it cannot build."

Here he seems to be on Thurman Arnold's side. He applies this latter thought to government. It could as well be applied to business.

The problem of dynamics in big business is not inherently different from the problem of dynamics in government. Socially we have relied less on progress brought about by a single big company than on progress made by a variety of companies, both big and little. Yet big business is capable of making many important contributions to society. So, too, is government, which is one entity and yet many. But both of them can perfect their organization to ensure greater dynamism—and both need to do so. Increasing gigantism in our major corporations will simply mean that this will become more and more of a common problem for business and for government.

It has been said that Congress causes government to be inefficient by ordering the doing of things that are not required. According to whose judgment? By what criteria? Who is to say that Congress is "wrong" in interpreting popular sentiment as indicating a need for a certain action? Wherein does such a Congressional determination differ essentially from that of the board of directors of a commercial corporation? The board has the criterion of corporate profit, Con-

gress, the criterion of national need and sentiment. Is the criterion of corporate profit a superior and more efficient criterion? Are all executive and board decisions in business good decisions?

Anatomy of Efficiency

The most persistent and most thoughtful argument respecting the relative efficiency of government and business is that competition, presumably present in business and lacking in government, guarantees efficiency in business and that therefore private enterprise is naturally more efficient than public enterprise. But it may be questioned whether competition is absent from governmental administration. Each of thousands of budget estimates competes strenuously with all others for appropriations. Each bureau, each program, each project, has to fight for life and funds. A section head is under tremendous pressure in preparing estimates to justify his askings, he has to play down, skimp, or reduce estimates for projects that he cannot hope to justify effectively in contrast with other items from other sections. Throughout the year that follows he must continuously watch and review so that he can adjust any part of his work that would make his section competitively vulnerable. The division chief goes through the same process, coming up at the end of the year with a budget request he knows he can fight for against askings of other divisions in the bureau. The bureau chief functions similarly in handling requests from all his divisions, accepting those he feels able to justify in the departmental competition with other bureaus. So with the department. It presents to the Bureau of the Budget only what it feels able to justify in competition with other departments. The Budget Bureau goes through the same process in preparing submissions to the President and to the Congress. Finally Congress itself holds lengthy hearings, criticizing and scrutinizing the budget in detail in terms of the probable reactions of constituents back home. Invariably these hearings result in definite cuts; yet these reductions may not represent the end of the gantlet. Even when the chambers are unable to decide on specific ways to make reductions, they may order horizontal cuts, leaving it to agencies to find ways of making particular reductions.

This process resembles very much what happens in business. There

the drive behind the process may come from competition in the sense of the urge for profit, whereas in government the drive behind the process comes from desire for public acceptance and approval. But the process is essentially the same. Can anyone be sure that these different urges working through similar administrative processes will produce essentially different results?

It is to be questioned, too, whether competition is by any means so constant a force in private business, or so clearly a force in the direction of efficiency, as many assume.

A perfect monopoly would obviously be free from the immediate and most drastic pressures of competition. But there are many degrees and kinds of monopoly, so that competition is minimized in countless ways and in varying degrees. It is in the nature of business to want to eliminate competition. It is in the nature of business also to try to set its own competitive stage by focusing attention on points other than those calculated to encourage objective comparison between its products and those of its competitors. What is to be said of the intrinsic efficiency of investing huge capital and a great volume of manpower in the manufacture and sale of such products as chewing gum, nail polish, lipstick, Dr. Kwack's Gout Router, and other similar trivia? Even with government restraining the inefficiency of free enterprise through a Food and Drug Administration empowered to exclude many deleterious goods from the channels of trade, there is in the market a terrific amount of what-of-it merchandise. Wasteful and unimportant features become the basis of competition in many instances. Department-store overhead has tended to go up steadily for years because of a competitive race to provide costly services and features. Two nationally known inventor-industrialists asserted in my hearing several years ago that the way to make money is to invent a doodad rather than to expend effort on more fundamental research. These are some of the aspects of competition that disqualify it as a force making for efficiency.

What is an "economic good" after all? Is it not anything that satisfies a human desire or a desire people can be made to have? Wherein actually does it differ from a "political good" which is the basis for Congressional action and governmental administration? What is more efficient than what? Who says so? What is efficiency anyway? These

questions, it seems to me, all fall before another, greater question: What do the people want to do? That is a political question. Politics determines the basis on which economics lives and moves. There is therefore no easy way to compare efficiency in government with efficiency in business. The president of the New Jersey Bell Telephone Company, Mr. Chester Barnard, in *The Functions of the Executive* declares that there is no objective test for broad efficiency except survival. There is no real point to glib assertions concerning relative efficiency of government and business. There is much point to efforts directed toward making both government and business better able to survive, more adjustable, more satisfactory in their functioning.