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## PUBLIC ADMINISTRATION AND THE PUBLIC CORPORATION

*JOHN K. GALBRAITH*

I am happy this afternoon to salute one of the world's youngest professions. And compassion causes me to offer sympathy to what is probably the world's most criticized calling. For almost no one speaks well of the public administrator. The rare public official may, on occasion, be credited with doing a good job. This he usually concludes is because the speaker will one day want a favour. Criticism he knows to be in the nature of government. In no other field of human achievement, not even in modern painting or drama, is such a premium placed on misanthropy. The man who says of some public office that all is going well is immediately suspected of conspiring to conceal some unrighteousness. The man who avers waste, incompetence, nepotism, corruption or some more imaginative form of public legerdemain is assured of a respectful hearing. It is perhaps better if he produces some evidence but this is by no means necessary.

I speak on these matters, and the unhappy state of your profession, with some feeling for I belong to it myself. This is not only because I am the administrator of a sizeable bureaucracy here on the Gangetic Plain. Along with one in economics, I also have little to a chair in public administration. And we American members of the profession have particular grounds for unease.

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We are regularly called on for advice both at home and abroad. Often, as on occasions like this, we are listened to with outward respect. Yet we are always unhappily aware that we do not come with clean hands. The United States has not worked out its own problems in public management. More than most governments we have a penchant for overstaffing. It is a well-known fact that we proceed enthusiastically with automation and employ all persons so displaced in our Departments of Agriculture and Defence with some considerable outlet also in the State Department. This overstaffing in turn leads to the inflexibility, and on occasion the immobility, that is associated with great numbers. When Charles Kettering, long vice-president for research of General Motors Corporation, itself a sizeable organization, was told that Lindbergh had flown the Atlantic all by himself, he received the news with a singular absence of surprise. "It would have been remarkable", said Kettering, "if he had made it with a committee".

Since he is physician who has not healed himself, it is with diffidence that an American turns to the problems of public administration in other lands. Yet the Indian problem of public management, the one with which you struggle, is difficult to leave alone. In my view it is the most interesting in the world. More turns on its solution than in any other country. That is because, more than in any other country, you have extended the scope of public administration to embrace the production and distribution of economic goods while, at the same time, retaining the full substance of parliamentary democracy. In the United States, as in Western Europe and Japan, we remove most of the administration of productive activity – the making of steel, machinery, automobiles and aluminum – from the immediate orbit of public concern. Performance is left to the test of the market reinforced as necessary by public regulation and popular indignation. In the Soviet type economies public administration does, of course, embrace the production and distribution of goods. But here it does so without the intrusive processes of parliamentary democracy. You alone on a large scale are testing the resources of the public administrator as a producer of goods under parliamentary scrutiny, supervision and guidance.

This, I venture to suggest, is a difficult and taxing experiment.

Every good friend of India must be deeply concerned that it succeeds. On your profession – perhaps you will allow me to say on our profession – rests the considerable responsibility for insuring success.

This success will depend, I venture, on the adaptability and pragmatism of the public administrator. Not much time can usefully be spent in search for the universal principles of administration. These, when they emerge, invariably turn out to be an articulation of the obvious. But we can usefully reflect on the new problems which of public administrator encounters when he enters upon economic activity – when he becomes an entrepreneur, a producer of goods and services. This is a world that is very different from the traditional sphere of government. When government extends its arms to embrace economic activity the problems of public administration take on new form and new dimension. In the remainder of my remarks this evening I would like to dwell on the problems of public administration in the field of economic production.

## II

The world's religions are, on the whole, disappointingly unspecific on the nature of economic system in the hereafter. I have long wondered who some economist hasn't asked the Ford Foundation for a research grant to go into the matter. We know only that Heaven, as it is described to Christians, employs gold as a paving material rather than as a medium of exchange and that the principal consumer's products are string instruments. There is no indication of the nature, of the production mechanism whether for making harps or other goods. But if there is production of goods in the next world on any important scale, we can be certain that it will be carried on by an industrial firm or corporation. In this world, whether in India, the United States, the United Kingdom, or the Soviet Union – where any productive task must be performed – the firm is ubiquitous and inescapable. It has no substitute.

And the reason is simple: Modern productive activity – the making of steel, aluminium, fertilizer, lorries or machine tools – requires a complex blending of skills and talents in a complex mosaic of tasks and functions. These skills and talents are not themselves

rare, esoteric or exceptional. If genius were required for economic activity, our situation would be serious for genius is always scarce and the supply highly unpredictable. The peculiar achievement of the industrial firm is that it combines the commonly available talent to do what the isolated individual could not possibly accomplish. It is a synthetic personality, in which many real personalities are combined, and its accomplishment is more than the sum of isolated individual contributions could ever be.

The corporate personality is not required for simple small scale production such as most agriculture. It is not needed for most government functions – for the administration of justice, the collection of revenue or the conduct of public education. These lend themselves to accomplishment within broad and stable rules. There are some forms of large scale economic activity – the generation of electricity for example – which are rather easily reduced to a routine and where a similar organization will suffice. But the most characteristic feature of modern industry is the large scale of its units, the complexity of its technology and the complex claims which the modern market makes upon it. Here there cannot be predetermined rules for every contingency. There must, instead, be adaptation to ever-changing circumstances and the success of the adaptation will depend on the blending of a variety of technical knowledge and experience possessed by numerous individuals. This blending is accomplished by the corporation. For the conduct of complex tasks it is a competent and versatile if synthetic or artificial personality.

To see the corporation as a personality provides the prime clue to its administration. The individual or natural personality realizes itself only under conditions of liberty. To subject the behaviour of one individual to the detailed surveillance of another is to insure debasement and inferior performance. Individual achievement is at its best when the individual has a clear set of goals and the means, including of course the knowledge, with which to pursue these goals under the stimulus of his own will. As with the individual personality so with the corporate personality. Autonomy, the independence to pursue specified goals is equally important for the producing corporation. So are clearly specified goals. Indeed these are more than important; they are the only administrative arrangement that are consistent with the effective corporate being.

## III

More specifically, the synthetic personality which we call the firm or corporation involves an intricate problem of co-operation and co-ordination between its parts. Much of this co-operation and coordination is accomplished automatically – it is the fruit of familiarity and confidence as between the participants. One technician supplements his knowledge by resort to another – he knows to whom to turn and just how much confidence he can repose in the knowledge and judgement of the man whom he asks. The skilled worker similarly seeks help when his task takes him beyond the range of his own proficiency. This also he does on his volition. The manager must know when and how to help; but no single manager ever manages in the sense that he makes all of the decisions. In the successful corporation, decision-making is deeply inherent in the corporate being.

There are equally numerous and intricate problems of coordination along the time dimension in the industrial firm. Modern industrial processes are closely interdependent; delay in one place will ordinarily cause delay with cumulative effect elsewhere. There is, accordingly, a high premium on timely decision. Perhaps the most distinctive requirement of the industrial establishment, as compared with the traditional government agency, as its dependence on timely decision. In the industrial firm a bad decision made on time will not usually be as costly as a good decision made too late. The bad decision can often be reversed at low cost. The time lost waiting for the good decision can never be retrieved.

The need for autonomy and the peculiar vulnerability of the corporation to outside influence are directly related to these characteristics. If external intervention affects people it will impair or upset the complex and subtle set of relationships on which effective co-ordination depends. For example, the arbitrary withdrawal of a known and proven man and the substitution of another of unknown talent or reliability leads to immediate uncertainty as to how responsibility for decisions is to be shared, or the reliability of the decision in which the newcomer participates. Uncertainty and indecision result. A common form of external intervention is review of certain types of decisions – on

procurement, product design, production techniques, prices or the like. Inevitably this review takes time. Co-ordination on the time dimension suffers. In the process of preventing poor decisions, delayed and hence more costly decisions are insured.

I must emphasize that the corporate personality is damaged by both well-intentioned and ill-intentioned intervention. There is little to choose between the two.

In both modern American and modern Soviet organization there has been a large measure of accommodation to the requirements of the corporate personality for autonomy. The modern large American corporation enjoys almost complete independence from its stockholders, the principal source of external interference. While lip service is always paid to democratic control by the owners, it is recognized in fact that any extensive and effective interference by stockholders in management would be exceedingly damaging. Suit is now pending against the principal owner of one of our large airlines to keep him from interfering with the management of the company he owns. Thus, all effective authority as regards production decision resides within the corporation. This authority is also jealously defended against the state.

I do not speak with equal confidence of the Soviet-type economies. But certainly no theme has received more emphasis in recent times than the need for according to managers the independence and autonomy that enables them to do their job. Soviet factory managers, an impressively capable group of men the visitor discovers, consistently stress the importance of such autonomy for the effective discharge of their responsibilities.

It is in the case of the public firm in the parliamentary democracy that the accommodation is most difficult. For there the firm must contend with forces that make for the kind of intervention that is most destructive of the corporate personality. At the same time the goals that are essential for the full achievement of the firm are not always clearly defined.

#### IV

The public enterprise in the parliamentary democracy is publicly owned for a purpose. The obvious purpose is the exercise of a

measure of democratic control over the enterprise. This control insures that the firm's procedures and decisions will be in the public interest. It insures that its decisions are sound and sensible and serve the general good. If there is no effort to exercise this control, there is no purpose in public ownership.

So it will be said and so it is said. But plausible and innocent though this sounds, especially when we interject the magic word democratic into the discussion, we have here a serious and often unsuspected contradiction.

If individuals within the corporate organization are servants of a force outside the organization they will no longer think automatically of the goals of the organization. They have, at best, a dual obligation: one part runs to the firm and the other to the external authority. One eye is on the organization; the other is on the parliament. The multitude of decisions will not automatically be attuned to the needs of the corporation. In short, the dual obligation is inconsistent with the requirements of the corporate personality which calls for the implicit commitment of many people to the common goal.

The external authority has an even more damaging effect on the time-dimension of decision-making. I have stressed the importance of timeliness as compared with precision in industrial decisions. But the man who must answer to a parliamentary committee or brief a minister will always reserve to himself the right to review the decisions that he must later defend. Moreover, parliaments are ordinarily concerned not with late decision but with wrong decision. It is on these that a man can score his points. The result is centralized and hence delayed decision. And they mean the waste that goes with delay. These are damaging to the corporate personality which should distribute decision-making authority to the level where it can be exercised with the optimal combination of accuracy and expedition. Though slow decisions may be criticized they will not be easily corrected. The need to protect against the wrong as compared with the untimely decision, even though the latter may be intrinsically the more damaging, will remain.

The problem, I repeat, is not of wisely-motivated or of ill-motivated intervention. Rather it is of anything that interferes

with or distorts and destroys the firm or corporate personality. This is a matter of the utmost importance for external influence and impairment of autonomy will always defend itself on the grounds of the wisdom or sincerity of its motivation. This is not a defence.

## V

I have noted that the corporate body, like the individual, is effective only if it has liberty to pursue specified goals. This allows the full development of its personality. The second great problem of the public corporation in the parliamentary democracy concerns the goals. Paradoxically, while there is grave danger that parliamentary authority will circumscribe the decision-making process and hence impair the personality of the firm, there is also danger that it will not be sufficiently aggressive and firm in specifying goals. Hence the standards of achievement of the publicly-owned firm will be insufficiently clear.

The goals of the modern industrial corporation in the United States or Western Europe are reasonably specific: Broadly speaking, the most successful corporation is the one that makes a good profit and achieves a rate of growth greater than its rivals. (To be head of a profitable organization is an undoubted source of esteem in the United States, but the highest honours are invariably accorded to the sizeable firm which can claim the greatest rate of expansion). The setting of targets for production and profit, and the drive to meet and exceed these goals, is a classic feature of Soviet planning.

The goals of the public corporation under democratic socialism have rarely been so clear. To maximize profits seems suspiciously like a return to capitalism. The obligation to grow and expand has rarely been definite and firm. Subjective goals, such as the rendering of good service to the community or concern for workers have been common. They have the handicap of their subjectivity – it is open to anyone to contend whether they are or are not being met. Those responsible often find it personally advantageous to spend more time asserting their good performance than in insuring it.

## VI

You will not be in any doubt as to how I see the solution. The industrial firm, by one designation or another, is inevitable for any large and complex industrial task. It has a demanding personality; the major demand is an autonomy in everyday decision-making that is nearly absolute. That autonomy extends to the right to make mistakes for error will often be the price, and a small one, for expedition. The need for autonomy in the conduct of military operations is equally great. It is accorded as a matter of course. Nor can it be denied that generals have exercised to the full their privilege of making mistakes. The delay that excludes error is the one unforgivable mistake. In the United States a few years ago one of our large automobile companies produced an automobile which was a sensational mistake. Great costs were incurred on the theory that the public wanted a mammoth vehicle with something of the physiognomy of a seasick frog. Had this been a publicly-owned corporation the criticism would have been acute. Doubtless it would have led to the requirement that all changes in car design should henceforth be submitted to a panel of public reviewers. The result might have been the avoidance of similar mistakes; one imagines that the result would have been recurrent and in the end much more costly delays while the panel resolved the problems of automobile aesthetics. The need for this autonomy is not peculiar to our system or any system. It is required by the nature of the corporation in all systems.

Autonomy must include, subject only to standards designed to prevent abuse, hiring and firing of personnel. It is flexibility here that makes possible the complementing of one skill by another, one man's knowledge with that of another and which enables the synthetic personality which we call the firm to do what no individual can do. The intrusion of politics and patronage into the public corporation is deeply subversive of the subtle relationships on which an effective development of this synthetic personality depends. But so also can be the intrusion of civil service procedures and routines. The latter may be admirably designed to insure equality of treatment for all employees. But the effect can be to destroy the easy interpersonal adjustments and the automatic co-ordination on

which effective operation depends. The world is full of unhappy choices and in modern industrialism one of them is between perfectly just rules and satisfactory performance.

## VII

But if the corporation must be protected in its personality from intrusion by outside authority upon its decisions, outside authority must be unremittingly firm in what it asks of the corporation. The goals it sets must be clear and utterly explicit. Success in all societies is in large measure its own reward, but there must never be any doubt as to what success consists of. If I had to lay down a measure for performance for the publicly-owned corporation in the developing country it would be the earnings that it is able to put into its own expansion. Such expansion, in the given or related field and within the framework of plan, would be considered the prime goal of the public sector firm. The most successful firm would be the one which by its efficiency and drive finds the earnings that allow it the greatest growth. But I do not wish to press the point unduly. The important thing is that the goals be specific, clear and comprehensible to all.

And though the society should be wholly tolerant of errors that are within the framework of success it should be wholly intolerant of failure to achieve the specified goals. Indeed the non-achievement of goals, not the individual mistake is the meaning of failure. Autonomy does not mean less public accountability. If anything it means more – but it is accountability not for method, procedure or individual action but for result.

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## PLANNING BY STAGES

J. TINBERGEN

I am really very pleased to have a chance to be in your midst, since, as has been already observed by two speakers before me, I gradually begin to feel at home in this country. I had the privilege of visiting it a few times so far. I have had the great pleasure of having several students of your country staying with us, taking their degrees with us, and in fact forming a sort of link of friendship between your country and mine. I am also fully aware of the large number of excellent scholars that this country knows, and of the immense struggle in which it is involved, the struggle against poverty, a struggle of a very deeply human character, which I think is not only your affair, but is actually the world's affair. This is the way we, my circle of friends, feel it.

The subject I am going to discuss with you is, and I have to apologise to those who are not familiar with the subject, somewhat of a technical nature. Yet, I think that the aspects I would like to discuss today certainly are much broader than only an element of econometrics. In fact, the method of planning that I am going to defend today before you is a method not only based on certain considerations of economic research, but also on other considerations that I think must rank highly wherever an attempt is made to do planning, let me say, as a democratic process. Because it is not only the technicians who make the plan, that have to understand it. I think it is the nation as a whole. But it is, anyhow,

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