

## A CONSERVATIVE'S IDEAS ON ECONOMIC REFORM

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Writing as I do in the middle of the tenth decade of my life, I look back upon three-quarters of a century of observing the economic life of the country and thinking about it. I find that there has been little change in my point of view over the period, which means that I have remained, as I always was, an advocate of economic change. Precisely because I am a conservative, I am in favor of rapid economic progress. I believe that a crucial condition for assuring a high rate of economic development is to maintain a high rate of social flexibility and mobility.

This country has been built by immigrants, but the American experiment has been such a successful one because in addition to migration of folks from abroad, there has been at all times a great deal of folk-migration upward. Without the latter, there is no economic progress, and policies designed to insure economic development must first and foremost be concerned with increasing the degree of social mobility within the body social. Once this is recognized, it should also be clear that the most effective way to promote social mobility is education. With regard to expanding the latter, a conservative, if he is truly one, cannot be too radical.

There are not schools enough wherever older students are forced to leave school to make room for swarms of younger children. There is only one good reason why a student should drop out of school until he has gone as far as a good school system can take him, if he is a boy, or until she gets married, if she is a girl. That reason is his inability to pass the tests that are necessary for his promotion.

Such an educational policy as this would force upon the federal government some degree of participation in the educational policy of the country. Otherwise there would be states and sections of states unable or unwilling to live up to the standard required for the accomplishment of the purpose of this plan.

Such an educational policy would be expensive, but it would be worth it. First, it would enable us to feel proud of our democracy. Without it we could not, with straight faces, claim to have equality of opportunity, which is one of the marks of a true democracy. Some people are willing to pay a price for self-respect, even if the price takes the form of a school tax.

Again, if an educated person can earn more, on the average, than an uneducated person, the chances are that he is worth more to the country. In that case, the cost of his education is an investment that will earn more than its cost.

If the question is asked, as it will be, who will do the rough work of the country if everyone is educated, the answer is that we will have to pay more to get the rough work done. That is the aim and purpose of the whole plan, which is to abolish mass poverty. It will be accomplished if the lowest paid workers will all get higher wages. Thin out the numbers that can do only rough, or cheap work, increase the numbers that are able to fill the positions that are harder to fill and are therefore well paid, and you have started a movement toward equality without a revolution or the use of force. It will accomplish what communism can never do by violence or fraud.

This shift of the working population upward need not decrease the income of the higher or more skilled occupations. It will only give them a smaller fraction of a larger national product. This can well be a larger total income than they have had before. Those in the lower or less skilled occupations will get a larger share of a larger total production. They will gain more than those in the higher callings.

The burden will not be heavy on the rest of the people. As the doers of rough work grow fewer, their marginal productivity will rise so that each worker will be worth more than he was before. Men do not exist to enable us to get rough work done cheaply. However, if wages are put too high while there is still occupational congestion, it will force large numbers into unemployment, such as now exists. When this plan is operating, wages will be high without unemployment.

It is easy to say that a man of talent will educate himself or manage to pay for his schooling, but that is something that no man can possibly know or even find out. There is no way of discovering who might have succeeded but did not. There are plenty of cases of men who are known to have achieved great success against what seemed like great obstacles. Their cases are known and on record. The failures are not recorded, and, without records, there are no statistics. Therefore, no one can truthfully say that there are no cases. The safer conclusion is that more children will reach manhood with poor education where schools are poor than where they are good.

With a larger percentage of our people well trained in mathematics and science there should be a larger percentage of active and successful inventors and researchers with more inventions and dis-

coveries. Of course, not every one will turn out to be a successful inventor or discoverer, but there should be more of them when more of them are started on this way to success by good schools than would start without preliminary training. This should speed the rate of progress and enable us to keep up with our industrial rivals.

There was a time when we were so far ahead of other nations that we felt certain of being able to hold our own in spite of their larger populations and their longer working days and weeks. Recent years have convinced us that we no longer hold the advantage of superior technical and scientific skill. We now face the fact that they can soon produce twice as much in a ten hour day as we can in a five hour day. Unless we can regain our technological advantage we shall soon wake up to the fact that we are no longer a first-class industrial nation, but have dropped back to a second or a third-class power.

We have not yet "sinned away our day of grace," however. We still have the advantage of free and voluntary invention. By holding on to this advantage we can still have millions of potential inventors, each one stirred by the prospect of fame and riches and by the possibility of becoming a great benefactor of the human race. Our chief danger is that even our schools may be captured by the specious arguments of half-trained economists who have learned enough economics to have lost their common sense but not enough to have gained it back again.

We still hear it said, but not so frequently as we once did, that the way to employ more workers is to pay them higher wages. They would then be able, it is argued, to buy more of their own products and thus make it necessary to hire more men. The argument is defective in two ways. First, if wages are advanced faster than the product per worker, the cost per unit of product will go up. An increase in cost is normally followed by a rise in the price of the product. If the price rises as fast as wages are increased, the workers cannot buy any more than formerly. Second, the rest of the consumers, whose incomes have not been increased, cannot buy as much as before. Therefore fewer goods will be bought, fewer workers employed and unemployment will increase instead of decreasing. This is a sufficient explanation of the fact that unemployment increases as wages are forced upward faster than production per worker increases.

Socialists, however, always have an answer to such reasoning. Since, as they claim, labor produces all wealth, workers alone are entitled to receive incomes. If they are the only ones to receive incomes, there will be no other consumers to buy products. If all

workers have their wages increased all consumers will be able to buy more, more workers will therefore be hired, which will cure unemployment.

The whole problem turns on the question: does labor produce all value or wealth? The statement flatters workers and pleases all enemies of our economic system: neither of these groups is unbiased.

If anyone really believes that labor produces all value and all wealth, he can put it to a laboratory test which will convince any unbiased mind. He can try being a self-employed farmer or machinist in order to see if he can produce anything of value without doing some waiting or running some risk.

If he does not want to do any waiting, he can, of course, borrow enough money to pay his expenses while waiting for his crops to mature, be harvested and sold. In that case he is shifting the burden of waiting on to the lender. But *the waiting has to be done by somebody*.

Or he can insure his crops against loss by fire, flood, hurricanes, hail or grasshoppers, thus shifting the burden of risk onto the insurance company. But *the risk has to be borne by somebody*. Shifting it does not eliminate the burden. Besides, the money-lender and the insurance company would expect to be paid and it would then be a question whether our man was really a self-employed farmer.

An easier way to avoid having to wait or to run risks would be to work for an employer. The employer would do the waiting by paying our man's wages every week and thus would carry the burden. The burden would have to be borne by somebody; shifting it onto the employer would not eliminate it.

The employer would also carry the burden of risk by paying the man's wages in full even though he incurred losses short of bankruptcy. Those losses have to be borne by somebody. Shifting them on to the employer would not eliminate them.

The formula: "without labor nothing of value is produced" can be repeated as truly with respect to waiting and risking. Without waiting, nothing of value is produced or without running of risk, nothing of value is produced. The only question is, who does the waiting and risking? If you want to be critical, you can prolong the argument by contending that waiting and risking are not true costs and should not be paid for. That depends on what you mean by cost.

In the last analysis, cost is disinclination — disinclination to do something that has to be done or that somebody wants to have done. Money cost is the amount that has to be paid to overcome someone's disinclination.

Up to a certain point, even labor may be and frequently is per-

formed for the pleasure of the doer. Beyond that point it ceases to be pleasure and, in a free economy, has to be paid for because of disinclination. In a slave economy it is different. The same may be said of waiting and risking. Men are generally not disinclined to wait for their wages until the end of the day, usually not disinclined to wait until the end of the week. They may be slightly disinclined to wait until the end of the month, but to wait until the end of the year, or longer, would be too much to endure.

The same rule applies to the running of risk. Boys like to skate over thin ice, but not too thin; or to climb tall trees, but not too tall. Gamblers seem to get a thrill out of gambling. A small loss may be regarded as money well spent for the price of a good time, but there is a limit to the loss that can be accepted without regret.

It has been said of Mr. Edison that, on one occasion, his treasurer told him that his money was all gone and he was broke. All he said was "Well, we had a helluva good time spending it, didn't we?" and went on with his research. But we are not all Edisons, nor are we able to take losses, beyond a certain point, "in a frolic welcome."

Losing a whole year's crop is too much of a calamity for a self-employed farmer to stand. Hence his desire for crop insurance against losses by fire, flood, hail, tornadoes or grasshoppers.

Why should men expect to be paid for doing things to which they are disinclined? That is not a reasonable question. The real question is, can you get enough things produced to satisfy your needs and desires without paying? In a free economy you cannot and you might as well accept that fact and stop the argument, unless you are willing to change to a slave economy.

While it is true that men will do a little work for the pleasure of doing it, also a little waiting and risking, you cannot get enough of those things done by free men for that reason. In this respect, all three things rest on the same economic foundation — that of necessity. All are equally entitled to the rewards that a free market normally allows them. The reward of working is wages, of waiting is interest, of risking is profit.

Besides occupational congestion, which can be relieved by education, there is another cause of poverty, geographical congestion. This may be temporarily relieved by loans of capital with which to equip farms and factories with better tools and machines, but unless people are trained to save and invest their own capital, loans will do them no permanent good.

Our own country, in its younger days, profited greatly from

money loaned to us by older and richer countries. Out of those profits our people saved and invested their own capital until they became independent of foreign lenders.

The phenomenal increase, in recent years, in the number and size of savings and loan associations, indicates that millions of savers from all walks of life are now adding to our supplies of capital and becoming capitalists. The average individual saving may be small or moderate in size but sheer numbers make the total volume of savings enormous.

Of course, there is no use trying to persuade the victims of mass poverty in backward countries to save or to provide themselves with savings and loan institutions. They do not have incomes that will permit savings. But in most of those old and backward countries there are some very rich men who spend money somewhat lavishly for consumers' and luxury goods. If they can be persuaded to spend part of their money for producers' goods, they can supply their country with some capital. Before we can persuade them to spend a part of their incomes for producers' goods instead of consumers' goods, it may be necessary to disabuse their minds of the ancient fallacy that it is necessary to spend money for the latter in order to give employment to workers. If we can get their attention and persuade them to listen, we can easily convince them that they give employment to workers as truly when they spend money for plows, reapers, engines, looms and blast furnaces as when they spend it for luxuries, fine raiment, palaces and castles. Then we will have started them on the road to prosperity — meaning an abundance of desirable things called goods, widely distributed and wisely used.

Saving and investing alone, however, will not be enough to lift those backward countries out of their poverty. There must be scientists and inventors to show them what to do with their savings. Without inventors to use capital, no one would know what to do with the stuff and capital would be a drug on the market.

Neither is there a market for inventions unless there are savers and investors with money to spend for producers' goods, which are capital. The inventor and the investor must work together like two blades of a pair of scissors or the right and left hands.

It was the working together of these two factors that enabled first New England and, later, the rest of our country to forge ahead. The Puritans' disapproval of waste, idleness and high living made it easy for them to save and accumulate capital. The Yankee spirit of learning, adventure and enterprise enabled them to invent new

ways of putting capital to work. These factors in combination could insure progress in a free country. Only governmental tyranny could keep such people poor, then or now.

While the workers in those old but backward countries could not save much capital they could, under training and example, supply the other factors in national prosperity — scientists and inventors.

Education is the key to that problem. The development of a sound system of education, together with a gradual development and spread of savings institutions, will turn the trick in other countries as they did in this country.

*When inventors make a market for the capital of savers, and savers provide a market for the inventions of inventors, the outcome is a combination that nothing but tyranny can keep from progressing economically. With a sound educational system that promotes folk-migration upward, thinning out the numbers in the crowded occupations and increasing the numbers in the higher occupations, a system results that will surpass any socialist organization in the elimination of poverty.*

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