

# How Solve Poverty 'Midst Plenty?

Asks A. P. Sloan, Jr., Suggesting Answer

The following paragraphs from a letter written by Alfred P. Sloan, Jr., Chairman of the Board of General Motors Corporation, to the Director of the Henry George School of Social Science, are reproduced by permission. In requesting this permission the Director expressed his purpose of commenting editorially on these paragraphs, and Mr. Sloan's reply indicated that he would welcome a solution of "this problem of increasing the purchasing power of those who have the least, so that they can have more—and always more."

My dear Mr. Chodorov—No one is more concerned than I am, and no group should be more concerned than those interested in the country's industrial development, in improving the ability of the so-called 'submerged third' to purchase goods and services. Economically and socially, that is the real objective. My quarrel in many of the things that are being done, is not in any sense with the objectives, but rather, according to my beliefs, with the unsound approach to those objectives.

I do not believe that the interests of the so-called "submerged third" can be promoted by requiring their employers to pay them higher wages. It may help a few, but as a group they are bound to lose unless, in some way or other, they are able to produce the equivalent of the increased wages together with the shortened hours.

Too many think that wealth can be created by legislation—of course, it can't. Too many think that if industry and business would only loosen up and pay higher wages, the purchasing power would increase. Of course, purchasing power is not increased that way. The average wages in the automotive industry today are around one dollar an hour. The minimum wage is at least three times the minimum provided in the Wage-Hour Bill. It does not come about because the automotive management is liberal—it comes about through the highly advanced technology of the automotive industry, as the result of which the wage earners can earn that much and therefore the industry can afford to pay that much.

You compliment me when you say that I obviously know the cause for declining wages and the solution of the question of poverty in the midst of plenty. I certainly do not know the complete answer, nor do I believe that any one else knows it, but I do believe that there are certain fundamentals that contribute to the difficulty and that the problem can never be solved, nor can progress be promoted, by waving a magic wand, by legislation or by fireside talks. It can only be done by greater productivity because, after all, the things that everybody wants are physical things and they are only made available by capitalizing the natural resources of the country through the instrumentality of business and industry.—Alfred P. Sloan, Jr.

An analysis of this letter reveals that Mr. Sloan has stumbled over the answer to the question that vexes him. The fact that he solves the problem and yet is not conscious of having done so indicates how a logical mind can be blocked by preconceptions arising from erroneous education.

Before we analyze this letter for

Mr. Sloan (whose name we shall use here as a symbol for those engaged in production), let us consider the basis of his economic education. He has been taught, in college and in his intellectual contacts, that economics is the science of possession. His textbooks and his teachers explained and emphasized the methods used by men to obtain and exchange

things. He learned the art of barter, the rules of buying and selling. He was told that wealth is anything that is exchangeable, and that economics concerned itself with studying charts and curves that recorded the fluctuations and indicated the probable tendencies of these exchanges.

But his experience runs counter to his education. For here he finds

that wealth consists of things that satisfy desires—things that are produced. He learns from life that production, not possession, is the essential of economic processes. He sees that wealth is not born of barter but is merely services congealed in matter. His contact with reality reveals to him that somewhere in the laws governing the production, not possession, of wealth will be found the solution to economic problems. But since these laws were never explained in his study of economics, his apprehension and his perception come into conflict, and he is intellectually blocked. That is why he cannot see the answer which he has actually embodied in his letter of inquiry.

The chemist is concerned with the elements that enter into the composition of things. He tells us that hydrogen and oxygen, combined in certain proportions, produce water. Whether the water is to be used for drinking purposes or to wash red flannel underwear is no concern of his. But our professors of economics do not deal with the nature of wealth nor with the laws governing its production and distribution—indeed, they deny the existence of such laws—but with what happens to that wealth after it is owned. The prevailing custom or legal method of securing possession is the starting point of their investigation. If privateering were today, as it was in the time of Queen Elizabeth, sanctioned by law, our colleges would give courses on the economics of privateering.

When our accredited professors of economics tell us there is no science of economics, and proceed to teach in its name the art of banking, the rules governing real estate deals, the technique of swapping turnips for parsnips, what chance have their graduates who enter into the field of production to solve the fundamental economic problems with which they are confronted? Is it any wonder that Mr. Sloan who was never taught the law of wages and yet is confronted with the operation of that law is in a quandary?

Which brings us to an analysis of his letter.

He speaks of a 'submerged third'—a mouthy phrase invented for political purposes—as being that class of the people who suffer most from our economic maladjustment. This is kindness, not economics. The "sound approach" to the problem of this group is to ascertain why any producer—whether he runs the cor-

poration or merely pulls a necessary switch—receives less than he produces. For, if any worker gets less than he produces he is to that extent deprived of the result of his effort. He is both maker and user of services; there is no difference between production and consumption.

We shall point out later the leakage in our economic process which deprives the worker of the full produce of his efforts, resulting in less wages to all three thirds of our producing citizenry. For, the social effects of a wrong economy are visited not only upon one group of people. We all suffer. Who can feel happy in a social order where prisons are as numerous as colleges, where bigotry, hatred, persecution, war and destitution have become our ordinary manner of living? We are all submerged.

In the next paragraph Mr. Sloan reveals the conflict between his education and his experience. He speaks of "requiring employers to pay higher wages." Employers do not pay wages. While Mr. Sloan has probably not been taught that wages are paid from capital, he most likely was taught that capitalists pay wages. If this were true capitalists would have to be born before workers could go to work. Wages are part of production—the other two parts being interest and rent—and it is only through the increase of production that the general level of wages might be raised. The workers who buy automobiles provide through exchange the wages of automobile workers, not the General Motors Corporation. Wages are merely the exchange of labor values for labor values. Any interference with production causes an interference in this exchange and results in a reduction of wages.

Of course, as Mr. Sloan points out in the next paragraph, freedom to produce does not in itself determine the amount of production, or, therefore, the amount of wages. A worker without tools is a poor producer. The "highly advanced technology" of the automotive industry is, Mr. Sloan will recognize, another term for capital. But capital itself is merely a product of labor, and any interference with production must result in a diminution of capital. Interest—the wages of capital—is as sensitive to stoppage of production as are the wages of labor. When interest is reduced to that point where the storing up of labor in capital is discouraged, capital tends to disappear; la-

bor is deprived of that "highly advanced technology" which it needs for efficient production, and therefore its wages tend to fall. The problem of labor and the problem of capital are identical.

But, it should be pointed out that the "highly advanced technology" of the automotive industry is no assurance of a continuing high rate of wages—or high rate of interest to stockholders—in that industry. A continuing and increasing army of unemployed will be attracted by these wages, will attack the scale like locusts in a wheat field. The result will inevitably be a reduction in the return to labor and to capital. No one industry can maintain for a long time a level of wages that is unwarranted by the economy of the social order. In due time the automobile industry will suffer the fate of the textile industry. The army of unemployed is the most destructive army in the world.

Of course legislative action cannot create wealth. Neither can the executive board of a corporation nor the officers of a labor union. The only way to create wealth is to produce the things we want. "It can only be done by greater productivity." Well, what's stopping us from going to work? And here, in the last sentence of his letter, Mr. Sloan unwittingly gives the answer.

"By capitalizing the natural resources." Here, Mr. Sloan, is your answer. Labor and capital cannot go to work unless they have access to these natural resources. All the things that go to make for human happiness—all the wages of labor—are derived from the earth. There is only one earth at our disposal. Our economic and social problems arise from the fact that we have arranged to give some of the people the privilege of demanding of the workers a part of their produce for the privilege of working on that earth. But this tribute in itself, though unjust in principle and unsocial in effect, is not our main trouble. The main trouble arises from the fact that these owners of the earth anticipate the desire of enterprising capital and energetic labor to produce more, and demand an ever increasing part of production for the privilege of using "their earth." It is this holding of the natural resources—i.e. land—out of use that curtails production, causes unemployment and reduces wages and interest.

You have the answer, Mr. Sloan, in your own letter.