(c) Comment on "Full Employment"—The Economist, May 6, 1939

(Submitted by Mr. Towers in reply to Mr. Deachman)

(Volume 24, page 835)

Yesterday Mr. Deachman asked me to comment upon the following paragraph which appeared in *The Economist* of May 6 under the title of "Full Employment":—

> In the most widely accepted economic doctrines of the moment, the concept of "full employment" is one of peculiar importance. Until "full employment" is reached, any increase in the monetary demand for goods has the effect, not of putting prices up so much as of attracting into employment resources of labour and capital that were previously standing idle. Until "full employment" is reached, so runs the theory, the creation of new demand by expansion of credit cannot result in what is commonly called inflation; on the contrary, it diminishes unemployment and, by increasing the national income, gives rise to savings that offset the original creation of credit. But after "full employment" is reached, any further expenditure out of credit expansion or money creation will not increase production or diminish unemployment: it will merely enhance prices and start the revolving spiral of inflation. In the layman's language, "full employment" is the point at which the financing of government deficits by credit expansion ceases to be "sound finance" and becomes "unsound finance."

No one will disagree with the statement contained in the second last sentence, "But after 'full employment' is reached, any further expenditure out of credit expansion or money creation will not increase production or diminish unemployment: it will merely enhance prices and start the revolving spiral of inflation."

In regard to the rest of the paragraph I do not think *The Economist* was passing any comment upon the validity of the theory which it was quoting. What it seemed merely to say, in effect, was, "If this theory is correct it is vitally important for us in Great Britain to determine how close we are to full employment."

In dealing with this question *The Economist* rightly pointed out that consideration of global figures of unemployment was not enough. And examining the number who were available for employment in the individual industries which would have to expand to meet government orders it came to the conclusion that important "bottle-necks" would develop some time before the irreducible minimum of unemployment was reached. In other words, the immobility of labour places important practical limits upon the validity of the theory that deficit spending cannot cause inflation while the over-all figures for unemployment remain large. This limitation does of course apply with special force to Canada where distances increase immobility and where the industrial mobility of its most distressed group, the farmers, is particularly low.

There is another important limiting factor which this article in *The Economist* does not mention but which has been widely discussed in the British press, viz., the nation's foreign resources. If government expenditure necessitates increased imports without producing correspondingly larger exports the currency will sooner or later depreciate, and prices will rise regardless of how much unused capacity may exist within the nation.

Even if a program of public expenditure in Canada was such that it did not call, directly, for any import of foreign materials, it is inconceivable that *none* of the income thus distributed would be spent on foreign goods or services,