

I should point out, that of course I am just reciting the lines of the argument as made by various people. I continue with the statement:—

It would be better still if idle money could be reached through taxation; but the difficulty of devising taxes which would affect only money which is not in use, and the harmful effect of any other type of taxation during depression, make it necessary, in the main, to resort to borrowing.

- (e) The elimination of all but frictional or seasonal unemployment should be the basis upon which policy with regard to the size of expenditures and deficits is determined. At the point where deficits begin to have a purely inflationary influence, presumably increased national income will make possible tax revenues sufficient to eliminate the necessity for borrowing.

Those who reject the case for deficits disagree with the fundamental assumption, which I noted under (a). In (a) I mentioned that "the strength of dynamic factors has suffered a secular decline." The statement continues: They refuse to admit that the so-called dynamic factors are wholly or even chiefly independent variables, in the sense that they are unaffected by the actions of government. They believe these factors would regain much of their former influence, though perhaps with a somewhat different weighting, if only business distrust of governmental policies could be removed. Apart from the possibility of government projects competing directly or indirectly with private business, they feel that continuance of government spending will induce lethargy and dependence upon the part of business. More important, they think that mounting government debt gives rise to such fears of greatly increased taxation, or, alternatively, inflation, that private initiative is stifled by the resultant feeling of uncertainty with regard to the future.

One's view as to whether or not there has been a permanent weakening of the dynamic factors underlying the existing type of economic organization must, it seems to me, be largely a matter of faith. It must depend, for example, upon one's view as to the future of international relationships. Having in mind the economic expansion which has taken place during the past century, I find it hard to believe that a fundamental change in trend can have occurred as suddenly as the extreme supporters of deficits seem to assume. However, one does not have to subscribe wholeheartedly to their assumption to agree that their point of view is worth very careful consideration.

In any case, the weight of events since 1930 has been such as to force the governments of most countries to take some degree of action along the lines of deficit spending, regardless of the theories of fiscal policy which they happened to hold. The important point to consider at this stage is whether or not it should be continued in Canada, and if so, in what degree.

My first comment would be that most advocates of compensatory deficit spending have developed their theory with tacit reference to countries which, to a far greater extent than Canada, produce for internal consumption.

Canadian thinking on this problem is inevitably influenced by developments in theory and practice which are taking place in the United States. In that country only about one-twentieth of the national income consists of receipts from goods and services sold abroad. In Canada the proportion is about one-third. In the United States the problem of achieving full employment and production is mainly one of offsetting or compensating for a reduction in the private demand for durable goods. No one would attempt to deny the existence of a comparable problem in Canada; just because our growth through the later twenties was so rapid the drop in private demand for durable goods has been all the more severe. But in Canada there is superimposed upon this a problem which is perhaps more important and certainly more difficult, viz., what to do about a reduction in the demand for goods and services which we sell abroad.