Letter to the Manchester Guardian, February 13th 1943.

ECONOMICS OF FULL EMPLOYMENT.

Sir, - In your issue of January 22nd you commented favourably on the recent pamphlet of Lever Brothers and Unilever, Limited, which makes certain proposals for the elimination of unemployment. Without wishing to dissent altogether from your favourable opinion I should like to point out certain features of modern unemployment which seem to call for a rather more radical cure.

The Lever proposals are based on the assumption that business life swings up and down as monetary circulation alternates between expansion and contraction. Such ebbs and tides undoubtedly exist. But is it also true that in the phases of expansion there is a definite excess of circulation ? Do we regularly experience booms in which money actually overflows so that a large part of it could be collected in taxes without impairing the existing level of employment and could be stored up against a future phase of contraction, to be then released as a cure for unemployment ?

The ordinary man, looking back on the period of 1919-39, can hardly discern any of these excessive booms on which the Lever proposals would rely as a source for funds to relieve depressions. And what little accurate knowledge we have of the monetary flow during the period in question bears out the common man's impression. Mr. Richard Stone, in a notable paper presented in October to the Manchester Statistical Society, has expressed the view that during the period 1929-40 the national income of the United States would have been steadily maintained at about $125 (American) billions if a state of reasonably full employment had prevailed. In actual fact the highest level, achieved in the boom year of 1929, was $90 billions (72% of capacity), and the weighted average over the 12 years in question was $66 billions (49% of capacity, as calculated from Mr. Stone's figures).

Had a policy of the kind at which the Lever proposals are aiming been applied - of draining the high tides of circulation and filling up its ebbs by the proceeds thus gained - this would have merely stabilised business activity at a comparatively low level, a level which, according to the data of Mr. Stone, would only just reach one half of available capacity. Hence it appears absolutely essential to possess a method which will not only keep steady but will raise, and raise very considerably, the average level of business activity.

Mr. Stone calculates that the raising of business activity to full capacity might have been achieved in the United States during the period under review by maintaining a steady rate of net private investment of $17.5 billions per annum, as against the actually observed average of about $4 billions per annum. This speculation, however, is purely academic ; it is not suggested by him, nor is it likely to be suggested, that such a level of private investment could have been achieved and maintained through applying any of the known methods for stimulating investment.

What then could have been done ? What can be done in future in similar circumstances ? There exists a possibility, well known to all economists, by which circulation can be maintained at full capacity. It consists in raising Government loans up to a sum equal to the deficiency of private investment and injecting the proceeds into public expenditure. In order to maintain full employment, for example, in the United States over the period analysed by Mr. Stone an annual increase of the public debt by about $7-8 billions would, at a rough guess, have been sufficient. As an equivalent of this there would have resulted at the end of the period an increase of roughly $100 billions in the holdings of cash and Government bonds in the hands of the public - that is, about $700 per head. The liquid savings desired by the public would thus have been attained without withdrawing from circulation sums of money required to run business life at full capacity.

The main difficulty obstructing this kind of policy would have been, and still appears to be for the future, the popular dread of an indefinitely increasing National Debt. The efforts of economists to dispel this fear and to impress on the general public the largely illusory nature of the "mounting burden" of public indebtedness have so far failed. Modern Society, however, may simply not be able to afford a kind of illusion which would rob it of its most efficient and possibly its only effective weapon against chronic unemployment.

Even though it is likely that the first period after the war will be dominated by the dangers of expansion rather than of contraction, it is necessary to recognise now the full scope of the measures available to society for avoiding unemployment. Otherwise there can prevail no true feeling of confidence in the future.- Yours, &c.,

The University,
Manchester, 13. February 10th.

M. POLANYI.