Increasing Money in Circulation Creates Jobs
Byron A. Ellis – December 18, 2020

In 1947, Evsey Domar noted that if unemployment were present yesterday, it would still be present today; and if yesterday's income were at full employment level, that income level would be retained today. However, it might not be at the full employment level due to an expanding labor force. Thus, rising employment is contingent on increases in real income.

Keynes in his psychological law of consumption argued that as income increases consumption increases but not by as much as the increase in income. Accordingly, consumption (C) can be represented mathematically as:

$$C = \alpha + \beta Y_d + u \qquad (1)$$

Using econometrics, we can estimate the intercept, α, and the coefficient, β, of equation 1; β is positive and less than 1. So, we can mathematically validate Keynes law of consumption, since a change in disposable income (Y_d) changes C by $\beta\Delta Y_d$ $\{\Delta C/\Delta Y_d = \beta\}$.

Therefore, government officials could forecast the amount of disposable income for attaining the full employment level, then determine the level of consumption needed to achieve full employment, and allocate the required currency in circulation to achieve that level of consumption.

So, there are mechanisms to increase incomes, consumption, and employment. These mechanisms are monetary expansion and fiscal spending. We saw monetary expansion during the bailout of the automobile industry, banks, and even foreign banks during the 2008 recession, where government officials gave banks and other financial institutions about $254 billion.

Given that the beta coefficient is positive and less than 1, but greater than zero, any increase in disposable income, Y_d, leads to more consumption and more demand for goods, services, and labor. Thus, government officials can increase disposable income by increasing money in circulation and hence consumption and employment. If they can, why don't they?

We have seen the pettiness of the recent Covid-19 bill where the Republicans opposed providing income relief to citizens, including their constituents, and are in favor of shielding businesses from Covid-19 related lawsuits.

When government officials allow the demand (consumption) for goods and services to remain stagnant or to diminish, particularly in depressed communities, they are signaling to investors and entrepreneurs that these communities are not a place for them to invest.

Communities prosper when there is a rising influx of income, which leads to increased consumption of goods and services.