

Canada, coupled with the punitive measures in the 1967 Bank Act directed against the only Canadian bank wholly financed by American investment capital.”

While strong concern has been expressed by many Canadians about the large amount of American capital invested in Canada, it may be concluded from the foregoing review that from time to time Canadian governments have adopted policies which have maintained the flow of foreign capital into Canada.

The dilemma faced by Canadians was very clearly expressed by Mr. McLaughlin in his evidence before the Committee:

“I should like to begin with what I consider to be the contradictory nature of Canadian attitudes towards Canadian-American economic relations.

Canada, today, seems to be ‘enjoying’—if that is the word—a ‘love-hate relationship’ with the United States.

For example, not only do we welcome American capital into Canada but many Canadians, including some in government, seem to believe that any significant falling off in the inflow of U.S. capital would be little short of disastrous. Nevertheless, many Canadians, including many of the same Canadians, fear and resent the assumed economic and social consequences for Canada of that same inflow of capital from the United States.

Now, clearly, there is something wrong here; and to discover just what is wrong is one of the ‘problems of prime importance’ to which I have just referred. Indeed, I believe the fundamental problems in Canadian-American economic relations can best be approached by attempting to answer three questions:

- (a) Why do we feel so abjectly dependent on U.S. investment in Canada?
- (b) Why, at the same time, do we fear and resent that investment?
- (c) What do we propose to do about it?

I believe that a good part of our assumed ‘dependency’ on foreign capital, and the excesses of policy to which this assumption has led, are based on a misunderstanding of the mechanism that underlies the balance of payments.

It is commonly assumed, both here and abroad, that Canada must scrounge the world’s capital markets to finance her balance-of-payments deficit on current account: that Canada—profligate Canada!—spends more abroad than she receives in her trade in goods and services and must, therefore, be prepared to go to her creditors hat in hand for even more credit to cover the cost of her riotous living.

This is a complete myth.

The greatest single reason that Canada has a ‘chronic’ deficit on current account is that she has a ‘chronic’ surplus on capital account. And the reason she has a ‘chronic’ surplus on capital account is that private foreign investors like what they see in Canada and invest their funds here.

Through the complex mechanism of the balance-of-payments, a capital-account surplus has to be balanced by a current-account deficit. Thus, other things equal, the greater the confidence that foreign investors have in Canada’s future, the greater Canada’s balance-of-payments deficit on current account must be!