

in that or succeeding cycles of expenditure. Some increase in imports would result no matter how carefully the program was designed to employ exclusively domestic factors.

Mr. Deachman has pointed out that our present active balance of payments allows some leeway for an increase of imports. However, as I mentioned in a memorandum which is on page 561 of the record, this active balance exists only by virtue of very large exports of resources which are not being replaced, and the total volume of imports of consumption goods has, in fact, been well maintained. It is possible to argue that an increase in consumable imports should, as it has done, wait upon a growth in exports of the type which do not deplete our natural resources; and that the proceeds of quasi-capital exports should be *invested* either in imports of capital goods or in repatriation of foreign debt. During the last six years, because openings for profitable private capital development in Canada appeared to be lacking, the result has naturally been the latter of two alternatives.

This raises the question which has come up in a more general form many times during the past ten weeks: Would a program of government investment, which would stimulate imports of capital goods, have been preferable to the type of private investment which has taken place, viz., the repatriation of foreign debts? This is, of course, a matter of government policy. In so far as its economic effects are concerned, as I pointed out in a memorandum which is on pages 148-151 of the record, they are entirely dependent on the specific character of the expenditure. Perhaps the most fundamental problem facing this country is whether it shall stake its future on increased exports or greater self-sufficiency. There are so many major uncertainties at the present time that probably no basis for a reasoned decision exists. But unless or until the government of Canada has decided upon a policy of moving the country toward a much greater degree of self-sufficiency, it seems to me that a most important criterion of the desirability or otherwise of government expenditure is that it should strengthen the competitive position of our economy rather than weaken it by increasing any overhead or fixed operating expenses which are chargeable to exporting industries. As Mr. Deachman mentioned, we must, in order to stimulate private enterprise have either a rise in prices or a reduction in costs. In the export trades, where prices are largely outside our influence, the emphasis must always be on costs. That is why I think that the types of expenditure included in a government program are more limited in scope and should be chosen with much greater care than they would have to be in more largely self-contained countries such as the United States, Germany, or even Great Britain.

Finally I must mention once more a consideration which is vital in all countries; if private enterprise is to remain the motive force of a functioning economy every precaution should be taken to see that government policies do not have the effect of discouraging it.

(d) Considerations *re* Alternative Use of Balance of Payments Surplus

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

(Volume 17, page 560)

During the last few years Canada has had a favourable balance of trade which has enabled her to repatriate some \$500 millions of foreign obligations. Before discussing the advisability or otherwise of reducing our foreign debt under existing conditions, I should like to mention a few factors concerning the situation in which this large favourable balance was created.

To a very large extent the lower level of our imports in recent years relative to 1926-29 has been due to smaller imports of capital goods—commodities which