

components: transfers; profits, interest and dividends; services -- despite the fact that neither the U.S. nor the Canadian Balance of Payments records entries in this way. This report is concerned with services narrowly defined as in the U.K. accounts.

Interest and Dividends

It is worth noting that the balance on Canada's interest and dividend transactions is affected substantially by world inflation. Canada is a net debtor nation whereas the U.S. and U.K. are net creditors. As a result, Canada's payments of interest and dividends exceed its receipts. The proposition that the percentage rate of expected inflation becomes incorporated in interest rates is now widely accepted by economists. High inflation in recent years has likely been an important contributing factor to the widening deficit on Canada's interest and dividends account. The reverse effect would apply to the U.S. and U.K. This factor should also be taken into account in making international comparisons.

Freight and Shipping

In the Canadian Balance of Payments service account there is a component called "inland freight" which consists of the value of transportation services in carrying merchandise from the point of lading (the factory or wholesaler) to the customs frontier. In the U.K. and U.S. Balance of Payments accounts, merchandise exports and imports are valued at the customs frontier, not the place of lading, so the value of inland freight appears in their merchandise trade figures and not in the service account as in Canada.

Freight and shipping in the Balance of Payments figures includes payments to non-residents by Canadian airlines and ships for fuel as well as receipts from non-residents for the same. Since these payments/receipts are for merchandise and not services, estimates are made for ship fuel (bunker fuel) and these sums are deleted in this report. Available data do not permit a similar adjustment for jet fuel.