Contrariwise, willingness to do without foreign borrowing, willingness to hold spending programmes to amounts that can be raised at home out of revenues, or available loanable resources at home, will reduce inflationary pressures and the volume of imports, and, therefore, the size of the current account balance of payments deficit. It will also increase our ability to compete in export markets.

New foreign investment in Canada each year may be divided into two broad categories. One is that which is undertaken by foreigners on their own initiative, either by way of direct investment in Canadian subsidiaries or by way of purchasing in the market Canadian stocks and bonds, payable in Canadian currency. The other broad category is that which would not take place without the initiative being taken by Canadians, whether governments or business. In this category, the parties chiefly involved in recent years have been the provincial governments and a number of municipalities which have borrowed abroad through the issue and sale of bonds payable in foreign currency. The Federal Government has not borrowed abroad since 1950, but provincial and municipal net new issues abroad, of bonds payable in foreign currency including guaranteed as well as direct issues, have been substantial every year except 1955 and rose to $340 million in 1959. Gross new issues have of course been considerably larger.

Local governments and their government-owned business enterprises and other agencies that issue or guarantee securities payable in a foreign currency incur an exchange risk of unknown dimensions. Because they have no foreign currency revenues and because no one can know what rate of exchange will be ruling at various times in the future when payments of interest and principal have to be made, they do not in fact know what he borrowed money is going to cost in terms of Canadian dollars, the currency in which their revenues are paid.

Although at one time access to the United Kingdom capital market, the United States capital market and other foreign capital markets may have been a helpful standby to remedy inadequacies in the Canadian capital market, it has not been necessary from that point of view for some years. Canadian savings and the machinery of the Canadian capital market can now supply all the capital funds needed by governments and business combined to carry on a capital expenditure programme as large in total as is sound and healthy for the Canadian economy to sustain in any one year.

Further resort to foreign borrowing in such circumstances by local governments and their agencies would be based either on the opinion that such borrowing will prove cheaper in the long run--which is a gamble on the exchange rate, not a sober judgment--or on disregard of the possible consequences for future budgets and future generations of Canadians. It is difficult to see how this can be considered sound finance.