premium of 5 per cent, leaving the real cost of money at around 3 per cent a year.

● (1550)

I should like to quote from an article in the *Globe and Mail* of Friday, October 26, by Ronald Anderson, titled, "The Saving Habit," as follows:

Canada has traditionally been so heavily reliant on inflows of foreign capital that it is difficult for most Canadians to accept the thought that domestic savings might be, or could be, capable of financing an adequate level of capital investment.

By international standards, Canada is a nation of savers. National savings represent a higher proportion of gross national product here than in all but a few countries, notably Japan and some western European nations.

Capital requirements, though, also are unusually high. For reasons related to geography, climate, population and industrial structure, Canada has to invest more capital to achieve any given increase in output than most other countries.

The Provincial Bank of Canada calculates that from 1926 to 1972 Canada's gross national savings averaged 18.5 per cent of GNP, while capital spending averaged 19.2 per cent of the value of total output. "National savings have thus on the whole been inadequate and non-residents have had to fill a gap equivalent to 0.7 per cent of GNP."

There are a number of ways of measuring Canada's reliance on foreign capital, some of which show that non-resident savings are more important than is suggested by the GNP relationships.

The system of national accounts, for example, does not take account of the profits and depreciation allowances re-invested in Canada by the subsidiaries of foreign companies. These sums, while generated here, are not Canadian savings, strictly speaking.

The Provincial Bank says that, when these omissions have been corrected, the net use of foreign resources has fluctuated between 13 per cent and 27 per cent of gross capital formation during the past two decades. Using another approach, the "direct" foreign financing method used by Statistics Canada, foreign sources can be shown to have financed 29 per cent of gross domestic investment from 1946 to 1969.

These calculations, which take no account of Canadian investment and re-investment of earnings abroad, tend to over-state the national dependence on foreign savings. Nevertheless it is quite plain that Canada has not been able in the past to finance the whole of its investment programs. But the statistics also show that the degree of dependence on foreign financing has gradually diminished. Canada now is within shooting distance of a position of statistical self-sufficiency—that is, a position in which outflows come close to inflows of capital.

In 1970 and 1971, there was a net outflow of capital. The current account balance will be negative this year and probably in 1974. Even by 1980, the current account deficit, which is a measure of the new inflow of foreign capital, may run at about $1 billion a year.

The prospective deficit, though, will represent a steadily declining proportion of total output. Furthermore, if it were judged to be in the national interest, Canada could manage its affairs in a way that would eliminate the need for net capital inflows.

Critics of this line of reasoning contend that Canadians would pay for any reduction in capital inflows by a decline in the standard of living, or at least a slowing of economic growth.

But it is difficult to argue that Canada requires an exceptionally large amount of capital per unit of production without acknowledging, at the same time, that a moderate decline in the rate of investment would have a modest effect on the rate of economic growth.

Moreover, there could well be the possibility that Canada could reduce its use of capital by changing its industrial structure. One important reason for the extensive use made of capital in the past, as the Provincial Bank observes, is the dependence of economic growth on abundant natural resources. "Raw materials exploitation demands a particularly capital-intensive system of production."

This implies that capital could be conserved by increasing the degree of processing of raw materials in this country before the commodities are exported, instead of depending for growth on the export of enlarged quantities of relatively unprocessed materials.

It is not necessarily the case, in any event, that a reduction in capital inflows must be balanced by a fall in investment. An alternative might be to encourage a higher level of domestic savings. While Canadians already save relatively more than the residents of the United States and Britain, the Canadian rate of savings is exceeded in a number of other countries.

The Canadian and Quebec Pension Plans are mechanisms that result in forced savings. Private pension plans and registered retirement plans also increase individual savings. An instalment share accumulation plan, such as is proposed by the Canada Development Corporation, might well turn out to be a successful method of persuading small investors to save more. Profit-sharing plans, already adopted by a number of companies, could be used more widely by industry; savings would be increased if employees could be persuaded to take part of their future earnings gains in company shares rather than in cash.

Care must be taken in offering tax incentives to save. Such incentives tend to benefit the more well-to-do, and increase the gap between the rich and the poor. But government, industry, and financial institutions have not exhausted all the possibilities for persuading individuals to defer consumption. A relatively small increase in the rate of savings would narrow, or close, the gap between domestic savings and investment.

The objective should not be to isolate Canada from world financial markets or to turn away foreign direct investment that could benefit this country. However, self-sufficiency in savings, on a net basis, would improve Canada's ability to function as an efficient, independent economic unit.

Studies of the stock market in the 1960's showed that random investment portfolios yielded an average of 9 per cent. Unless one can improve on the long-term 30 year average it must be admitted that the interest rate on long-term bonds is a carefree way to equal the result that can be achieved on average common stock investments.

I have attempted to detail how investment money for the small industrialist and entrepreneur is being dried up. Institutions controlling investment pools, with their head offices in Toronto and Montreal, cannot be bothered and cannot practicably look after the peripheral areas of the country. Can any one imagine a workers' corporate pension plan, with its head office in Toronto, being able to offer financing to a business worth $250,000 in a small prairie or maritime town? Our registered retirement savings plans, our insurance savings plans and our mutual funds all operate to pool capital centrally. If a small manufacturing business in southern Ontario or Quebec is having difficulty finding a buyer, and if it does not get a buyer, the plant will close but the owner will receive sympathetic consideration from this investment tribunal here in Ottawa. And with the help of these large pools of capital in our large cities, such cases will be easily looked after. But should a similar situation arise in either the Maritimes or western Canada there is a much different scenario. The tribunal will have much less knowledge of the facts of the case. They will be less interested. If they make any contacts with the pools of capital in our financial centres, these in turn will be much less interested in investments in remote areas. I could well imagine the bureaucrats suggesting to Toronto investors that "There is a company for sale in Manitoba worth $5 million. The only