determinant of national competitiveness."[18] Thus, deficit reduction can enhance the international competitive position of domestic firms through an indirect incentive to increase capital expenditures.

One of the determinants of investment spending is the level of net national savings.[19] In Canada, there is sufficient domestic savings to finance private investment, but government borrowing requires the use of foreign savings as well.[20] The reliance on foreign savings is reflected in Canada's current account deficit, which is the worst (relative to GDP) of all G-7 countries. A reduction of the fiscal deficit will address the savings-investment imbalance in Canada, reduce competition for domestic savings and perhaps allow for an increase in private investment that is presently "crowded out" by public-sector borrowing.[21]

For a large international borrower, it is also possible that drawing heavily on foreign savings might reduce the level of foreign economic activity and, in turn, reduce the borrowing country's exports, causing a deterioration in its trade balance.[22] There are two reasons to doubt that this is the case for Canada. First, although Canada's net international indebtedness relative to GDP is the worst of the G-7 countries, Canadian net international indebtedness is becoming more diversified.[23] Second, and more important, total Canadian international borrowing is small in

[18] See Council on Competitiveness, *Competitiveness Index 1994*, p. 8.

[19] Net national savings is defined as national disposable income minus national consumption minus depreciation. It is also understood as the sum of private-sector and public-sector savings.

[20] In 1992, of the savings required for government borrowing ($44 billion) and private investment ($109 billion), $29 billion was foreign sourced and $124 billion was from domestic sources. See Department of Finance, *op. cit.*, p. 42.

[21] See B.M. Friedman, "Implications of the Government Deficit", in *The Economics of Large Government Deficits*, Federal Reserve Bank of Boston, Boston MA, October 1983, pp. 73-95. The argument that private investment is crowded out by government deficits is considered most appropriate for closed economies that do not have access to international capital markets. But it is also relevant for an economy such as Canada's that has accumulated a large international debt which is serviced at an increasing premium. That premium can restrict the willingness and capacity of governments to obtain international financing, effectively curtailing their access to international markets.

[22] See *The Economic Report of the President*, U.S. Government Printing Office, Washington DC, February 1983, pp. 62-4, 69-70.

[23] See R. Lafrance and M. Kruger, *op. cit.*, p. 46.