

1962 as having a 6 per cent increase and I average it out over the period from 1957 to 1962, I arrive at a rate of increase in the gross national product which would be less than the rate of increase in our population. Economists have said—and I am sure my friend has seen it, and if not I can give him references—that in order for our economy to take care of our labour force and the accretions to it, we must have an annual increase in our gross national product of the order of $3\frac{1}{2}$ per cent.

I should point out to my friend—although I know this is a horrible thing for me to do, because what went on in Canada prior to 1957 when those Liberals were in office is something that you just do not speak about, since Canada just started living in 1957—that the average rate of growth of the gross national product in Canada for the ten years prior to 1957, or up to 1957, whichever way you want to take it, was of the order of $4\frac{1}{2}$ per cent.

I could also point out to my friend that in 1950 our dollar was down to 91 cents in terms of United States dollars, notwithstanding that it went up in value before 1957 until it reached something of the order of 5, 6, 7, 8, or 10 per cent. I should also point out to my friend that—he undoubtedly knows but I will recall it to him—in that period we had the same problem as we have today of having to meet our balance of payments, to close the gap, and a very substantial gap, between exports and imports which has to be settled by the provision of exchange. But there was this big difference that between 1950 and 1957: there was a substantial inflow of foreign capital year after year, and even in 1958 it was of the order of \$1.5 billion. Our balance of payments was of the order of about \$1 billion, \$1.1 billion or \$1.2 billion, but we had from the capital inflow source enough to take care of our balance of payments.

In 1959 the capital inflow got down to \$1,150 million; in 1960 it dropped to \$875 million; in 1961 it was just over \$600 million, and in the first six months of 1962 it was \$135 million.

One of our big problems continuously has been that of taking care of this gap in the balance of payments. You will recall, I am sure, the budget speech which the then Minister of Finance made in December, 1960—not his maiden, his baby budget—when he introduced measures increasing the withholding tax, or placing withholding tax, on interest and dividend payments to non-residents where formerly there had been no tax or a substantially lower tax. He gave certain reasons for doing it, and although I am sure

you are all familiar with what he said on that occasion, I shall repeat his words:

In the light of the developments I have described, however, it has become desirable to propose certain measures which will, I believe, help the Canadian economy to achieve an improved equilibrium with the outside world. At this stage of our national development it is appropriate to withdraw some of the special incentives which were designed in past years to attract foreign capital. As a result of such special concessions, non-residents profiting from investment in Canada do not always bear their fair share of the general costs of government and administration, although they benefit in full measure from them. To redress this situation, I shall be recommending several amendments to bring the principal non-resident withholding taxes up to a uniform level of 15 per cent, which is recognized in our law as the standard or normal rate.

Now, this is significant to me, but my friend may say that it is an entirely unrelated matter and is purely coincidental with the change in taxation in relation to interest payable to non-residents holding Canadian bonds, federal and provincial, that in 1960 our capital inflow was of the order of \$875 million, that in 1961 it dropped to \$600 million, and in the first half of 1962 it was down to \$135 million.

So long as the Canadian economy is in a position where we cannot close the gap between exports and imports and we have to find exchange to take care of the balance of payments, then for just that long this must be a healthy climate for foreign capital to live in.

The best witness I can call—and a witness that my friend would not, in view of what he has said, dispute—is the Prime Minister himself, in the Speech from the Throne, where he says that one of the functions of his Government is going to be to make this a climate hospitable to foreign capital. I suggest that there is some relationship. There may have been other reasons, inducing reasons, which I will deal with in a moment. However, I should point out certain other things to my friend that may take just a little of the rosy hue off the picture that he gave us the other day of this great era of prosperity.

The economists seem to be agreed that so far as capital expenditure in Canada is concerned the drive in capital spending in this country is lagging, and that it has not been picking up in line with the pick up in business leading to more exports and consumer spending. One reason for that may be that we still