

family is no less necessary in the case of the nation as a whole, though of course certain enterprises within the nation may prudently borrow for certain purposes if other sectors will provide the savings. In addition to the test "Is it good?" there must be applied the further test "Can we really afford it? Can we pay for it out of our own production or income or within the limits of prudent borrowing at home?" And, if not, "Is there something else we want less and could do without in order to save and have this?" As a nation we cannot in the long run avoid this kind of choice any more than we can avoid it in our separate families. Relative to other countries the choices that face Canada, the second wealthiest country in the world, should not be too hard.

Three years ago, when reviewing the development of the very large balance-of-payments deficit of 1956, I remarked that "an import surplus or balance-of-payments deficit of the present size is the product and symptom of an excessive rate of spending in the economy, not just of a reasonable rate of real growth. It would be disturbing to think of an import surplus of such magnitude continuing for an indefinite period". At that time I expressed the belief "that total spending of all kinds ..... was at least \$1 billion greater than would have been desirable from the point of view of general stability and sound economic growth".

Three more years have gone by in which we have had large balance-of-payments deficits and we are now launched on another year with the prospective excess of spending over production being greater than ever, presumably to be made possible for the time being by an equivalent excess of imports which will have to be financed by foreign resources in one form or another.

The relationship between excessive total spending, the excess of imports over exports, and continued borrowing abroad (or investment in Canada by foreigners) is obviously one of interaction. If spending exceeds local production it must induce either inflation, or a flow of imports in excess of exports, or both. Such imports can only be financed either by running down the national reserves of foreign assets, or by new borrowing abroad, either of which causes the net foreign debt of the country to rise by an equivalent amount.

### Borrowing Abroad

Conversely, the ability to borrow abroad or obtain investment funds from abroad makes possible for a time the maintenance or expansion of spending programmes which otherwise would have to be curtailed or held to a smaller rate of increase. Borrowing abroad, therefore, not only finances a rise in imports, it makes possible the spending which gave rise to the increased load on the domestic economy which induced the rise in imports. (The imports are not necessarily made by the same person who does the borrowing and spending.)