is currently running at a rate about 10 per cent higher than 1955. The increase in 1955 took up most of the slack which developed during the 1954 pause. The increase this year has absorbed more than the regular annual increase in the labour force resulting from population growth and immigration: good jobs have attracted more people into the labour force who would not be there under less buoyant conditions. The increase in gross national product this year includes a larger element of price increase than previously, and the current account deficit in our international payments has increased very substantially. Both of these developments reflect the growing pressure on our resources...

INDUSTRIAL BOOM

"Since 1950 we have had the equivalent of between 8 or 9 normal wheat crops in seven years, with firm prices and good demand in all but a couple of years. Forest products have been almost continually in good demand--newsprint has been at capacity demand or better since 1947. Since the Korean war there has been an apparently insatiable demand with generally high prices for nickel and aluminium and more recently copper. Nor is this all; when agricultural markets began to sag off a few years ago we began to enjoy the first fruits of some of our long-period resource development. From a few million dollars a year, iron ore exports have grown to over $100 million. In spite of the exceptional rise in oil consumption in Canada, the prairie discoveries have enabled us to hold fuel imports at a level only a little over 1950 levels, and at the same time provide exports--which were negligible before 1955--at a current rate of over $100 million per annum. And uranium production is only on the verge of assuming important proportions.

"Our rising current account deficits are therefore wholly due to a greater rise in imports than in exports. Our imports are running 70 per cent higher than in 1950, with practically all the increase due to increased volume rather than price. The basic cause of the rise in imports is the intensity of demand for investment and other purposes. The physical limits of productive capacity are quickly reached in a small and relatively new economy, and when this happens the whole weight of demand is thrown on external sources.

"The principal increases in our imports can be directly traced to the investment boom. A commodity classification of imports by purpose which has recently become available shows that between the first half of 1955 and the first half of 1956, when our total imports went up by almost 30 per cent, imports of investment goods rose by as much as 43 per cent while consumer goods were up only 18 per cent. This distribution of imports is gratifying, of course, because it means that the bulk of the large increase in imports has gone to broaden the structure of the Canadian economy and provide for increased output in the future.

"I would now like to comment briefly on the other side of the medal, i.e. the financial counterpart to these deficits, our net capital imports.

"In the case of Canada a very large share of the capital inflow takes the form of direct investment. Since 1950 this has amounted to over $2,300 million or about two thirds of the total net long-term inflow. Direct investment is not a debt settling operation, but a dynamic independent development. The initiative is taken abroad rather than in Canada, and it often carries with it skill, technical know-how, market connection and access to the very large pools of money required to finance major projects under modern conditions. Capital investment of this type frequently takes the form of imports of capital equipment and machinery to be used in a Canadian project. Direct investment should therefore be regarded, in a sense, as a cause of the current account deficit rather than as a means of covering it.

"The other main channel of capital investment in Canada has been the purchase by non-residents of Canadian securities. The largest element in this has been the net sale of new issues by Canadians to investors outside Canada. On balance from 1950 to mid-1956, sales of new issues have exceeded retirements by over $1,400 million, exclusive of large retirements of Government of Canada issues to which I shall refer in a moment. Most of the new issues sold by Canadians abroad have been provincial and municipal securities, though recently a number of large new corporate issues have also been sold in outside markets.

"Non-residents of Canada have also increased their holdings of common and preferred stocks in Canadian corporations. The very large two-way trade in outstanding Canadian securities has resulted in a net capital inflow between 1950 and mid-1956 of over $500 million, excluding the trade in Government of Canada securities. An increasing number of Canadian equities have been listed on stock exchanges outside Canada. Growth potential rather than yield appears to have been the important consideration influencing foreign investors in Canadian equities, and this is exemplified by the formation of diversified investment funds incorporated in Canada but designed to give American investors an opportunity to share in capital appreciation.

TWO-WAY STREET

"Although the inward movement of capital has been preponderant, one should not conclude that capital movements between Canada and the rest of the world are a one-way street. For example, Canadians have since the beginning of 1950 repatriated from abroad Government of Canada obligations to the amount of about $700 million. We have also added to our foreign assets abroad in various ways. Our investment

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