

made so far in dealing with this problem, but we do not think it affords us any ground for complacency. We are certainly not prepared to accept a 5 percent rate of unemployment as satisfactory over the longer term, and we are continuing our search for realistic policies designed to provide expanding opportunities for our expanding labour force.

Balance-of-Payments Deficit

A recurring problem which has been facing us in Canada is the balance of our payments with the rest of the world. This is a problem our two countries share, although the Canadian position is substantially different from your own. For, whereas your difficulties have arisen in spite of a large current-account surplus, ours by contrast are due entirely to a large current-account deficit. In fact, this deficit is more than accounted for by our transactions with you. In the ten-year period 1952-1961, we were running a surplus with the rest of the world averaging just under \$300 million a year. Over the same period, our deficit with you averaged over \$1.3 billion a year. If we take this deficit and convert it into the relative terms of your own economy, this would be equivalent to a deficit for you of the order of \$20 billion a year.

Over the past two years, I am glad to say, we have managed to to reduce our overall deficit. But the figure is still much too high for an economy the size of our own and, in particular, when account is taken of the fact that it has to be met by foreign borrowing. It is also significant, I think, that the improvement in our external balance to which I have referred has come about as a result of increased Canadian exports to other countries, principally Britain and Japan. We are hoping for further improvements this year as a result, in part, of our large sales of wheat to the Soviet Union and other Soviet-bloc countries. Though valuable and welcome, these are elements which cannot be relied upon to help solve our balance-of-payments problem over the longer term.

Problems of Capital Inflow

I have referred to the fact that the very large deficits which Canada incurred in recent years have had to be offset by inflows of foreign capital. However much we welcome the participation of foreign capital in the development of the Canadian economy, we cannot, I think, shut our eyes to the difficulties which this very considerable volume of foreign borrowing has presented for us. It has, of course, added to our external debt. It has also tended to make our economy more vulnerable than we should like it to be to changes in inflows of foreign capital. For these and other reasons, we find it difficult to contemplate the indefinite continuance of a deficit of the order of magnitude of recent years. Because of the very crucial role which our deficit with the United States plays in this overall deficit, it is clearly in that sector that we must look for real and abiding solutions.