An important feature in determining the relative advantages of tax reduction versus increased government spending, would be the productiveness or value of the type of spending in which the government might engage. If increased government spending would be non-productive, then probably it would be preferable to try and get even a partial response from private industry. On the other hand if there were productive avenues of investment open to the government, then an increase in government spending might well be better than relying on the results of an effort of the kind under discussion to encourage increased activity in private industry.

Changing rates of taxation impose burdens which established rates usually do not, according to the axiom that "an old tax is a good tax." It is quite likely that if a decrease in tax rates had to be reversed at a later date there would be more dislocation than would be caused by a proper easing-up of government expenditures as private spending recovered.

Quite apart from the question of reducing taxes, I believe that uncertainty on the part of the public, regarding the nature and extent of future tax increases may be an appreciable factor in holding back private spending. Private business initiative has of course been curtailed not only by the international political situation but also by domestic uncertainty.

To summarize, I would say that reducing taxes to promote recovery is not a plan which is likely to be widely effective in raising private spending and at the same time has disadvantages from the viewpoint of flexibility. I do believe, however, that it is a proposal which is worthy of careful consideration with respect to the limited field in which it might be a practical alternative to increased government spending.

(*h*) Domestic versus Foreign Borrowing

(Submitted by Mr. Towers in reply to Mr. Tucker)

(Volume 8, page 203)

This further question was asked: Why is it necessary for Canada to borrow abroad instead of making use of its domestic credit facilities?

Before attempting to reply to this question I would like to point out again that during the last few years Canada actually has reduced its obligations abroad by over five hundred million dollars.

One should remember that the decision between foreign and domestic borrowing does not simply rest upon whether it is possible to create a certain amount of money in Canada. The real consideration is the amount of our obligations and requirements abroad in relation to our means of paying for them.

For instance, the amount of foreign debt which can be repatriated at any given time depends upon the credit balance on international account. Repatriation of foreign debt cannot exceed the amount of that credit balance and if maturities of foreign issues are larger, then it is necessary to make refunding issues abroad.

If borrowing is for domestic purposes which may require an increased import of goods and services from abroad, it may become necessary to borrow abroad rather than internally in order to obtain the needed purchasing power in other countries.