

The Budget—Hon. D. M. Fleming

As to the servicing of external debt, I have already explained that a very large proportion of our national output consists of additions to our national stock of capital equipment which increases our total productivity. The inflow of capital has contributed to the growth of our gross national product. Over the years of our history economic growth has taken place at a faster rate than the additional net financial indebtedness to the outside world which has been incurred in the course of achieving it, and our ability to service this foreign debt has correspondingly improved.

From the mid-1920's to the outbreak of war in 1939 our net foreign indebtedness was equal to or exceed our gross national product. During the war years and in the immediate post-war years we made very large loans, amounting in total to more than \$2.5 billion, to our friends and allies overseas and to new international financial institutions. In the same years we had to defer much of the maintenance and most of the expansion of our social capital, while at the same time all levels of government in Canada were progressively paying off or buying back large amounts of foreign-held debt. As a result by 1950 our net foreign indebtedness was equal to less than one quarter of our gross national product.

Since 1950 we have been expanding very rapidly in resource development, in secondary industries, and in augmenting and modernizing our social capital, at rates considerably in excess of our domestic rate of saving. In this period the rate of increase in our net foreign indebtedness has exceeded the growth in national output, and the ratio of net foreign debt to gross national product is currently about 45 per cent. Thus in relation to our national product our net foreign indebtedness is today less than half what it was before the war and our ability to service it is correspondingly greater. The net cost of servicing our external debt in 1926-1930 represented more than 4 per cent of our gross national product; in 1950 it was just over 2 per cent, and in 1959 it was just under 1½ per cent. I do not anticipate that, if we manage our affairs prudently and properly, Canada will indefinitely continue to rely on capital from abroad as heavily as in the last few years. I expect that our need for capital from abroad, while fluctuating from year to year, will continue to decline in relation to our economic development and growth.

Admittedly, if a situation were to arise in which the economic environment or the financial climate deteriorated rapidly and radically, there would indeed be problems

[Mr. Fleming (Eglington).]

associated with past capital inflows, but happily that is not the situation in Canada, today.

We have been following constructive and realistic policies in matters of trade and finance, policies appropriate to present and foreseeable circumstances. What are the alternatives to such policies? A program of government controls? The imposition and enforcement of import restrictions and quotas? Individual restraints upon Canadians desiring to travel abroad and on the amount of money they could take with them? The creation of a centralized capital issues committee which would dictate to provinces, municipalities and to private business as to where, when, on what terms and how much they could borrow? I have only to list a few of these questions to indicate the obvious reply. They may be justifiable in the midst of a national crisis. In peace and prosperity, in a free society, they are not warranted. Indeed, some of them would be unconstitutional. Moreover, I believe that some of these so-called remedies would actually cause the disease that they are supposed to prevent or cure. Government controls, by interfering with freedom, cause confidence to falter, initiative to freeze, and capital to take flight.

Canadians can increase their own domestic capital and make this country financially more self-reliant if they are prepared to practise increased efficiency, productivity and thrift. This responsibility falls on all levels of government, private business and individuals.

We must place emphasis on greater productivity and efficiency rather than on sheer size, on cost control rather than on price increases, on greater saving rather than on excessive consumption. I have every hope that in the mood of renewed confidence in the soundness of our currency, and in the absence of shortages of goods, both business and the public at large will be disposed to review more carefully their spending programs.

In saying this I am fully aware of the role of leadership that falls to the federal government. It is the responsibility of the government to try to establish the conditions of financial balance within which the endeavours of others can be carried out successfully. Let me assure hon. members that the government is discharging this responsibility.

In the post-war years, in this country as in others, there has been a serious threat of inflation. Some people were actually led to suppose that chronic price increases were inevitable; others even suggested that they were desirable, or at least less undesirable