

If domestic monetary policy had been less expansive and domestic interest rates higher, it is probable that the relative interest rate structures here and abroad would have offered somewhat less incentive for Canadians to repatriate foreign-held securities. But even if interest rates had been higher in Canada, I think the favourable balance of trade would have been at least as large as it has been and the pressure of such funds upon the exchange market might well have raised the exchange value of our dollar to a point where repatriation would be as attractive as under the actual conditions of lower interest rates and a lower exchange value of the dollar.

**(e) Real Cost of Increased Government Debt**

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

*(Volume 8, page 202)*

The next question was to this effect: Why is it said that taxpayers have to pay for debt increases and what justification is there for fear of an increasing amount of internal debt?

In my opinion one should not attempt to generalize upon the consequences of an increase in debt, because the burden depends upon the use to which the debt has been put and upon the future income of the country concerned.

When the government borrows, it acquires the use of a certain amount of labour and equipment. If the purposes to which these factors are applied, are at least as productive as the alternative uses to which they would have been put if the government had not borrowed, then I would say that there was no real burden upon the taxpayer. Although he would pay more in taxes to cover the government's interest charges, he would receive back the interest paid and have at least as large an income of goods and services as before.

However, when the government borrows for non-productive purposes or purposes that are less productive than the alternative uses to which the labour and equipment would have been put, then there is a definite burden on the taxpayer because he receives a smaller income in goods and services than he otherwise would have received. The real limitation upon an increase in non-productive debt is the extent to which people are willing or able to do without goods and services which they might otherwise have had.

Mr. Tucker's question appears to imply the suggestion that only if debt is paid off in the future is there any burden upon the taxpayer. On the contrary, the real burden of debt is borne at the time the debt is incurred, when factors of production are diverted to other uses than producing the goods and services which he has been consuming.

Paying off internal debt does not necessarily add to the taxpayer's burden and indeed may be in his best interests. In theory, it should not matter how great an amount of debt interest is collected by the government from the people and paid back to the people. But in a country such as Canada where national income and government revenues fluctuate quite widely, it is desirable to keep fixed charges as small as possible. Otherwise the pressure upon the government to obtain sufficient revenue to meet its fixed obligations during a period of depression, may cause serious maldistribution of income and further impair the general level of economic activity.

To summarize, I would say that it is very important to remember when considering the effects of an increase in internal debt, that in so far as the country as a whole is concerned whatever burden is involved is inevitably imposed at the time the expenditure is made—not at the time when the debt is paid off.