

investment abroad do not correspond to the net international balance on current account. The divergence is particularly wide during the last few years, since a large portion of wartime exports is included in government expenditure (Table 2, item 1).

Since gross national expenditure is a compilation of all the sales of final goods and services, it shows the way in which the components of gross national product are spent. Analysis of the distribution of national expenditure, as portrayed in Table 2, reveals the tremendous expansion in the share of the country's output absorbed by government expenditure and the extent to which this expansion was based on war requirements. In 1938, all governments purchased only 18 p.c. of the total flow of goods and services. In 1944 expenditures by Dominion, Provincial and Municipal Governments were responsible for 45 p.c. of gross national expenditure while Dominion war expenditures alone covered 39 p.c. As war expenditures decline, the problem is whether effective demand will increase sufficiently in the other sectors, in the form of consumer expenditure, private investment and exports to balance the decline in government expenditures. This is of crucial importance in maintaining full employment. In interpreting these figures it must, however, always be kept in mind that they measure increases in prices as well as growth in the physical volume of goods and services.

Personal Income Payments.—The concept of personal income payments (Table 5) is defined as the amount of income actually paid out to individuals in Canada. It is not the same aggregate as net national income at factor cost but it is directly related to it. On the one hand, certain incomes received by individuals are added which do not represent payments for production of goods and services and are, therefore, excluded from net national income at factor cost. These are transfer payments from governments and business to individuals, such as direct and agricultural relief, family allowances, unemployment insurance benefits, benefits from contributory government and industrial pension funds, and interest on the portion of the public debt which was not used to finance real assets. It is assumed that interest paid on the public debt incurred to finance existing real assets represents a payment for current productive services. This portion is, therefore, included in net national income at factor cost. The remainder of the public debt, such as that incurred to finance wars and relief, is treated as a transfer payment.

On the other hand, elements of earnings in the course of production which are not paid out to individuals are deducted. The more important of these are undistributed profits of corporations, corporate income taxes, government trading profits and employer and employee contributions to social security and industrial pension funds.

In 1938, the aggregate of personal income payments amounted to \$3,973,000,000, while in 1944 it was \$8,724,000,000, a rise of 120 p.c. It did not rise as steeply as net national income at factor cost because there was a relatively greater increase in the portion of net national income which was not paid out to individuals than in the portion which was paid out to individuals. Consumer expenditures, taxes levied on personal incomes and personal savings show the way in which personal income payments are disposed of.