believe that most of the world's international financial problems can be fitted into this simple pattern. Let me turn back, for example, to the so-called dollar problem. At the core of the matter is the fact that the amount of money the rest of the world has wanted to spend on United States goods and services has been far in excess of the amount of money the rest of the world has been able to earn by selling goods and services to the United States. This gives rise to no special difficulty as long as the excess demand for United States goods and services can be financed by receipts of private United States capital which has been attracted by promising investment opportunities, or by loans from such an organization as the International Bank for Reconstruction and Development.

It is the excess demand not financed in these ways that gives rise to, and is a measure of, the "dollar" problem. This is the gap that measures the unbalance between the United States and the rest of the world.

Immediately after the War, countries whose dollar expenditures exceeded their dollar earnings financed this gap by using up their gold and dollar reserves, or by seeking assistance from UNRRA; in 1946 and 1947 the gap was bridged by loans extended by the United States Government; and since 1948 it has been mainly covered by the Marshall Plan. The part of the gap financed in 1948 by this special assistance and out of official reserves of gold and dollars amounted to about $6 billion. The remainder of the gap is being plugged by import and foreign exchange restrictions imposed by governments to limit the demand for goods and services for which dollars must be paid. It is not possible to say how large is the hole plugged in this way, but the import and other exchange restrictions enforced by most overseas countries are very severe and this strongly suggests that the hole is very large indeed.

If we look at the countries of the world as so many individuals in a self-contained community we see the United States in the position of one who spends on his maintenance far less than he earns; one who is living far below his income. The other members of the community taken as a group are in the opposite position - they are living above their collective income. They have in consequence the sort of payment problem that always confronts people who live above their incomes. In these circumstances some borrowing and lending among individuals is clearly in order, but it is equally clear that the basic adjustment required is that the individuals in this group should earn more. This they can do only if they earn more from the individual who is spending less than he earns. And so they must tempt Uncle Sam with offers of goods and services of a sort and at prices that he likes. He, on his part must cooperate by overcoming his prejudice against buying goods and services from others. In other words, he must act human and be ready to yield to temptation.

I have suggested that the dollar problem mirrors the fact that the world apart from the United States is living beyond its income. This is, I think, true for the rest of the world taken together but it is not necessarily true, nor is it in fact true, for each country individually. The fact that any single country suffers from a shortage of dollars is not in itself evidence that the standard of living in that country is higher than its earnings warrant. Perhaps the best example one could find of a country which has a dollar problem that is not due to living beyond its international earnings is our own country, Canada. But before I turn to Canada I want to say something about another country whose problem in this respect is a good deal closer to our own than most people realize. I