Well, gentlemen, Herblock is right. If one goes back to the beginning one finds oneself talking about apples and oil, about cotton and coal. I hope that you will not feel that I am being offensively simple if, to illustrate the underlying nature of this dollar problem, I use an analogy which I developed for a talk I gave at the National Defence College in Kingston a year ago. This is the analogy between the financial position of a private individual in his own community and the international financial position of any country.

Each one of us earns a certain amount of money as a result of the efforts we perform. The efforts may consist of producing and selling apples or oil or other things, or performing services such as curing the sick, or keeping the honest out of jail or playing the piano in a night club. Each of us, on the other hand, has unfortunately certain expenses connected with living - we must pay for food, clothing and shelter; we may want to educate our children, run a car, go to an occasional football or hockey game. If our earnings exceed our current expenditures, well and good, we have a surplus, something left over. There is a wide variety of things we can do with the surplus - we can stuff it under the mattress, or deposit it in a bank, or buy Canada Savings Bonds or other securities, or make a down payment on a house, or pay off part of the mortgage or other debts we incurred in the past, or lend it to a friend or give it away. If the surplus persists we may decide to reduce it by increasing our current expenditures, i.e. by raising our standard of living. On the other hand, it may happen on occasion that our current expenditures exceed our income - in this unhappy circumstance we have a deficit which must somehow be covered. We may raid the mattress, or draw down our bank account, or sell Canada Savings Bonds, or borrow, or get a gift, or simply not pay our bills and try to keep one jump ahead of the bailiff. You will appreciate that I am not recommending these courses of action to anyone - I am merely exploring the different possibilities. No individual can, over any long period of time, maintain a level of current expenditure - in other words, a standard of living - which is out of line with his earning power. If, in the circumstance we have been considering, he is not able to increase his earnings, he will have to give up the dog races or whatever else he considers the least essential part of his current expenditures.

Now, as I have said, a country in its dealings with other countries is in exactly the same position as an individual in his dealings with the community. A country's international earnings consist of its exports of goods and of services of various sorts. Its international current expenditures consist of its imports of goods and services. If its international <u>earnings</u> exceed its international <u>expenditures,</u> then the country has a surplus - what is generally referred to as a favourable balance of payments on current account. This surplus it can take in the form of gold or foreign exchange, or it can invest it by making loans to other countries or buying foreign securities, or it can give it away. If, on the other hand a country's <u>expenditures</u> on goods and services - its imports - exceed its <u>earnings</u> - its exports - then the country, like the individual, has a deficit - what is generally called an unfavourable balance of payments. This deficit must be covered in some way, and again there is a rather limited variety of ways in which this can be done. A country can use up its past savings represented by foreign assets - gold or foreign exchange or foreign securities - or it can try to raise loans abroad or it can try to have recourse to gifts.

I have developed this analogy in detail because I