

it can command is made up of what it earns, plus what it receives as gifts, plus what it can obtain from the sale of assets - that is, from looting the national piggy bank - plus what it can obtain by borrowing. A country's current earnings are the proceeds of its sales to foreigners of goods and of various kinds of services such as transportation services, business and professional services, services to tourists, service on loans and investments, etc. Its expenditures for current upkeep consist of the payments it makes to foreigners for goods and services provided by them. If a country's foreign earnings exceed its current upkeep expenditures, it is said to have a surplus or a favourable balance on current account. This means that the country is "saving" in so far as its international transactions are concerned. The saving will be reflected either in greater holdings of foreign cash, foreign securities or other foreign assets or in a reduction in old debts to foreigners. If, on the other hand, a country's expenditures on current upkeep exceed its earnings, it is then said to have a deficit or unfavourable balance in its current account. This deficit must be met either by drawing down foreign cash balances or other foreign assets or contracting fresh foreign debts - or, if the country is fortunate enough, by the receipt of sufficient gifts from abroad.

While I am recommending to you the analogy between the financial problems of an individual and the external financial problems of a country, I should like to warn you against another apparently similar analogy which is widely used. This is the analogy between the financial problems of an individual and the internal financial problems of a country. This analogy is false and it is false because a government has one means of financing its internal expenditures which an individual does not have of financing his. A government can if it chooses create the money it lacks. It is of course true that some individuals refuse to recognize that the acquisition of money by creating it is a prerogative of government only. Such individuals resort on occasion to balancing their accounts by printing a few dollar bills in the basement. But the practice is frowned on and is fortunately not widespread. When done by governments, however, the financing of internal expenditures with money created for the purpose is a widespread practice. There is a good deal of disagreement as to the circumstances under which it is commendable, but that is another story. As long as there are any circumstances under which government creation of money is considered appropriate, the analogy between government internal finance and individual finance is not valid. But when one turns to a country's external financing there is no such defect in the analogy. Not even the most enthusiastic proponents of inflationary finance have claimed, hitherto at any rate, that one country should create the money of another country. It seems reasonable to assume that the United States Treasury would fail to regard such a proposal as a constructive solution of the so-called "dollar shortage" problem.

If an individual makes investments or loans to friends in excess of his own current savings, he may sooner or later find himself pinched for cash and even forced to cut down on his own expenditures and to borrow in order to keep his head above water. This is exactly what happened to Canada a year ago. After the war we did a great deal to assist in European reconstruction by making very large export credits available to the United Kingdom and other Western European countries. These loans did not particularly reflect Canadian generosity. They reflected rather a realization that Canada had a great deal at stake in the economic revival of Europe. Europe represents the traditional market for some of our staple export products and in the past has been a source of foreign exchange to pay for our large surplus of imports from the United States. This triangular circuit was broken at the outbreak of the war. Broken, that is to say, so far as finance is concerned but not so far as the movement of goods is concerned. Our pattern of trade has continued to be triangular - a surplus