the dollar and the pound, is at the heart of the present international financial problem of the Western World.

The problem itself is about as easy to state as it is difficult to solve. It is certainly not enough to say that it is merely a shortage of dollars which causes all the trouble. The dollar shortage is, of course, real enough but it is the result, not the cause, of the present difficulties. The difficulties themselves arise out of the present lack of balance between world production and world distribution. This, in turn, is largely due, either directly or indirectly, to the war; or rather to the uneven impact of the destruction and dislocations brought about by the war, which left certain countries - normally great importing countries - much more crippled and shaken than the great North American supplying countries. The old European world was smashed; the new world hardly dented by war. And in the old world the smashing was uneven and the recovery consequently uneven.

The roots of the crisis go much deeper, in fact, than anything in recent history. From about 1870 until after the first world war, genuine international economic equilibrium was achieved by an expanding, delicately balanced and highly complex system of trade and finance involving capital and gold movements and internal adjustments in the participating economies. The system was originally made possible by technical improvements in transport and production, and was based on the classical division of labour. Through its operation, industrialized countries imported raw materials and exported part of their production. The United Kingdom more than any other country followed this economic trend to its logical conclusion by becoming dependent to a very high degree on food and raw materials from abroad.

It is at least half a century since the growth of new industrial areas outside of Western Europe created the first stresses and strains upon this complicated structure of international trade. The first world war gave it a tremendous jolt, and greatly accelerated the processes which were undermining it. The depression, of course, hit it with the force of an earthquake and when the second world war followed, it was not possible to patch up the fissures which by this time had appeared. For the British, in particular, the two wars brought real economic distress because they forced the United Kingdom government to liquidate rapidly and without hesitating over the long-term consequences, the great financial reserves and assets which it held abroad.

It is now clear that the Western World must set about re-designing the structure of its international economic relations, even as it must rebuild its international political life. This re-designing and rebuilding may do some pretty drastic things to the old concept of the separate state with its insistence on unrestricted national sovereignty.

The fact is that we are faced with a tough long-range economic problem which is as political as it is economic; which is in some ways as novel as it is complicated and for which there is no single or simple remedy. A return to the freedom of trade of 1914 is not practicable because the political and economic conditions of that age have disappeared, possibly for good. At the other extreme is the remedy of total control of trade by governments. As I see it there is no salvation to be found in this approach which restricts enterprise and initiative and which inevitably tends to limit the areas of exchange and subsidize high cost production.

Somehow or other the flow of goods multilaterally must be restored and this can only be done by a concerted effort based on friendly understanding and working together in the part of the new world and the old. This may involve a re-examination of economic policy by all the countries concerned in the light of the present situation. It will also mean that any new measures taken over here which will assist European recovery must be met by measures on the other side which will give the necessary assurance that any assistance given will be effective.

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