For the fact that the two governments deal with their business quietly, without fanfare or excited appeals to public opinion, must not be taken to show that there are no serious issues to be settled. It is true that there are no issues of the sort that split countries apart and lead to the closing of frontiers, ultimata, and the marshalling of troops. It is not true that the governments have no serious problems between them to face and to seek to settle.

A recent illustration of this, to which I shall devote some attention, was the action which the Canadian Government was forced to take in the middle of last November. Since November 18th the importation into Canada of a long list of consumers' goods which had been entering almost wholly from the United States has been prohibited, and quota limitations have been imposed on an even longer list of similar goods. At the same time, Canadians who wished to travel to the United States for pleasure were severely rationed to a total expenditure each year of 150 U.S. dollars, and certain other measures were imposed to restrict Canadian expenditures in this country.

Now all this was directly contrary to the general principles of international trade and freedom of movement which have been long and sincerely advocated by the governments of both countries. It was a detour, as the Prime Minister described it, from the path which the Canadian Government had pursued and wished to resume. It was a detour which was followed with the greatest reluctance only under the hard pressure of necessity, a pressure which was recognized as unavoidable by the authorities in Washington in the friendly consultations which preceded the announcement of these unpleasant and unwelcome measures.

Why did the necessity arise? The Canadian economy was going full blast. It was producing more than it had ever produced before in time of peace. There was no noticeable unemployment, but rather a serious shortage of labour. The volume of exports and imports was higher than ever before and the over-all trade balance healthy. Many demands of Canadian consumers for things which they could only get in the United States were still unsatisfied. Canada seemed one of the very few really bright spots in a tormented world.

The basic trouble was that Canadians, who need a large volume of imports to keep going at all, were buying them all for cash, and over three-quarters of them were coming from the United States. They were buying about twice as much from the United States as they sold to the United States. More goods were going from the United States to Canada than to the United Kingdom and France combined, which are the second and third largest customers of the United States. While Canadians were sending abroad exports somewhat larger in value than their imports, a substantial proportion of these exports was being sold on credit to the United Kingdom and countries of western Europe.

Imagine a merchant who pays cash for all his stock, but at the same time extends long-term credit to perhaps one-third of his customers. If he continues to carry on business in this way, before long he will run through his capital in order to maintain his stocks and eventually he will go bankrupt. When he sees his business getting into this condition, he can cut down his outgo by reducing the volume and variety of the stocks flowing into his warehouse, and he can improve his income by restricting the credit which he extends to his customers. These are not pleasant things to do. The merchant does not like them; his customers do not like them; his suppliers do not like them; but they are better for all concerned than bankruptcy.