of production in the output of international goods. But the real income may be proportionately affected over long periods by net borrowings abroad, and affected detrimentally if there has been uneconomic and wasteful application of capital to export industries. If the hire of the capital applied is not balanced by the gold value of the increased output from those industries, the need for exports will be correspondingly increased. Classical economists find the 'real ratio' of international exchange in 'labour costs', and by this the comparative advantage in international trade is to be measured under ordinary circumstances. But it will not explain why a country must persist in exporting greater quantities of international goods produced at increasing costs, and at a corresponding disadvantage in international trade. The only fact which will explain this phenomenon in the case of debtor countries is the real fact of over-borrowing, i.e. of having the farm over-encumbered with mortgages.

Relative to the loan situation, even more important are the trends to be noticed in the domestic sphere as between industries producing home-trade and those producing foreign-trade commodities. Heavy interest payments abroad must depend upon a sufficiency of export commodities to provide the necessary credit instruments. This compulsory premium upon exports forces on an undue expansion of all industries producing foreign-trade as compared with those producing home-trade commodities. The fundamental economic effects of such a situation arise from the excessive concentration of national effort and capital, and especially of loan capital, upon the production of international goods; and, despite current opinion to the contrary, it is extremely doubtful whether these industries share the national burden of external indebtedness to a proportionate degree. Thus, the ease with which capital has been borrowed in the past, the partial unloading of the interest charge for borrowed capital upon industries not employing the capital borrowed, and the political tendency in economic matters to take the line of least resistance, have all helped to attain the uneconomic situation outlined in the last chapter.

Every consideration of the consequences to be expected from an abrupt termination of overseas borrowing shows the very real difficulties which lie in the way of such a consummation; and it would be a disservice to belittle the risks involved in such