

Britain, and which have been strengthened by custom and mutual benefit, and it will be clear that a situation exists that is favourable in an exceptional degree to the isolation of the dominant factors in the business of the country. The smallness of the population, even now only little more than six millions of people, and the comparative simplicity of a trade organization that confines its activities so largely to a single overseas community, together with a financial dependency upon the mother country that is as complete now as it was in 1820, all combine to offer facilities for the investigation of trade phenomena that are not presented with anything like the same clarity by the complex and many-sided trading and financial associations of older communities with much larger populations.

Arising from the importance of the part played by international trade in the life of a community thus organized and controlled, is the consequence that the operation of any factor which seriously disturbs the equilibrium of trade will have profound effects on the business and prosperity of the country. And the one factor sufficiently powerful at all times and in all circumstances to have this effect is the introduction of foreign capital, or, to use the accepted term, borrowing. The causal sequence which connects borrowing with business crisis through the operation of increased volume of imports, adverse exchanges, disturbed price levels, and hobbled credit is all too clear for its significance to be misinterpreted.

Professor Taussig has remarked of the Canadian situation after 1900: 'Occasionally it happens that there is a simple situation, a train of economic phenomena in which one cause alone is in operation, or is so predominantly in operation that others can be fairly set aside as negligible. . . . The import of capital was so great, overshadowed so completely all others, that there can be no error in attributing to this the main economic changes that appeared.'<sup>1</sup> The object of this study is to demonstrate that such a simple situation has existed during the greater part of Australia's history as a collection of self-governing colonies or as a federation, and to show that the one cause adequate to explain economic changes that were gradual enough to affect, over long periods, our capacity to

<sup>1</sup> *International Trade*, p. 234.