

CHAPTER VII  
IMPORTATION OF CAPITAL INTO AUSTRALIA  
PRIOR TO 1893

'A period of prosperity is ushered in by a rise in prices caused, for example, by an increased supply of gold or by heavy government purchases. . . . The important factor in determining the character of a period is the discrepancy between current capitalization and anticipated earning capacity.'—VEBLEN, *Theory of Business Enterprise*.

'There never yet has been an occasion when a marked increase of prosperity, clearly traceable to the influence of British money, has not been treated as a national expansion, the consequences often being of a most deplorable character.'—EDWARD PULSFORD, *Notes on Capital and Finance in Australia*, 1892.

'In order that capital borrowings should enter in the form of goods instead of in the form of money there was necessary a change in the quantitative relationship of commodity imports to exports such that there would be an excess of imports over exports to absorb the surplus foreign credits created by the borrowings abroad.'—VINER, *Canada's Balance of International Indebtedness*.

THE descriptive treatment of the events leading up to the crisis of 1893 which was given in the last chapter has, admittedly, little reference to the verification of the theory of international trade by Australian instances. It was, however, necessary to complete the picture of the decade; and to indicate the extremely serious nature of that dislocation of the economic life of the community. The next stage of analysis concerns the statistical data connected with the import of capital into Australia; the extent of British investment in the colonies, especially through private channels; and the relation between the increase in indebtedness, the growth of population and resources, and the general level of prosperity.<sup>1</sup>

There is a distinct limit to the rate at which any community can assimilate capital. The mere absorption of capital does not mean assimilation in the economic sense of the effective employment of that capital. It is merely truism to reiterate that capital arrives mainly in the form of goods; and that, in the extreme instance, these goods may be consumed without any addition to the reproductive capacity of the community. Or, to take a less extreme case, the commodities imported may consist entirely of capital goods, so rapidly introduced or so wrongly

<sup>1</sup> Mulhall, *Dictionary of Statistics*, gives the following progressive figures for foreign issues in London: 1862, £144 m.; 1872, £600 m.; 1882, £875 m.; 1888, £1,698 m.