

employed that the increased productiveness of the community does not counterbalance the additional burden of interest consequent upon the importation.

The distinction between the effective use of new capital and its mere expenditure on luxury is an exceedingly difficult one to draw; and any conclusion may be profoundly modified by a change in economic conditions which could not be foreseen at the time of borrowing. Fluctuations in price-level, credit constriction due to nervousness among investors, that psychological vacillation between optimism and pessimism which is utterly unpredictable, destruction of capital through war or waste, rising labour costs, diminished managerial efficiency in industry and other factors which need not be specified, may so affect the situation as to change economic advantage to serious disadvantage, even though the original estimate of efficiency was sound in the circumstances under which it was made. Most of the 'new' countries are turning to the economist with a demand for a criterion by which the economic consequences of capital investment in the mass can be measured; and it has to be confessed that the reply must, in the nature of the case and for the reasons just stated, fail to give complete satisfaction. But, even though the economist is not prepared to mark a clear line beyond which borrowing becomes dangerous, the results of the uneconomic use of new capital in relatively large masses is so plainly to be read that any access of caution induced in borrower or lender as a result of his researches is a decided gain. Edward Pulsford complained in 1892 that the intimate connexion between times of exuberant prosperity and large capital importations had never been studied.¹ 'The public', he affirmed, 'do not fully realize that it is an absolute impossibility to borrow in excess without bringing about a time of suffering more or less severe.' While we may plead some greater measure of public enlightenment in these days, the position is, in all essentials, unchanged. In vain will the voice of the academic prophet be raised in the financial wilderness while the volume of public indebtedness is determined by the sanguine expectations of politicians rather than by the prospects for the effective use of capital.

The detection of capital movements in the mature communities

¹ *Notes on Capital and Finance in Australia, 1892.*