

borrowing country mainly as commodity imports, we should expect some correlation to be observable between the ratio of exports to imports and the new capital introduced. Unfortunately it has not been possible to estimate with sufficient accuracy the amount of private capital arriving each year;

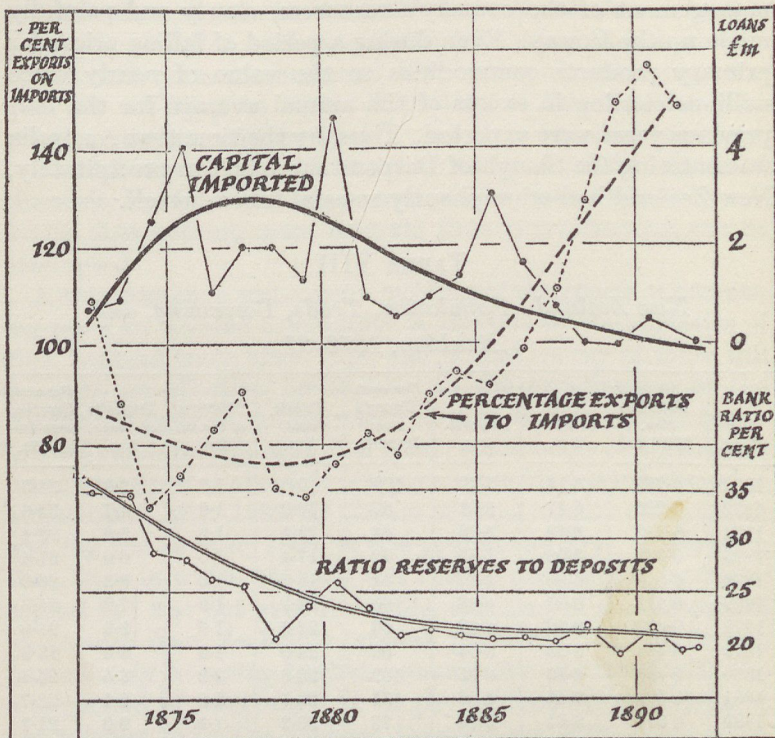


FIG. IV. NEW ZEALAND. BORROWINGS, BALANCE OF TRADE AND BANK RESERVES, 1872-91

Smoothed 5-year moving-average curves shown heavy

but, accepting the public borrowings alone as an index, the correlation to be noted between the moving-average curves in the graph is well-nigh perfect. Interpolating a lag for a year in the arrival of imports due to loans, the annual plottings move consistently in opposite directions, i.e. exports increase as new capital declines, and *vice versa*. Again, if the capital borrowings do serve as a basis of credit expansion, the demand for accommodation should show itself, if any degree of inflation exists,