

## CHAPTER VIII

### AUSTRALIA'S RELATIVE DISADVANTAGE IN OVERSEAS TRADE AFTER 1890

'In popular talk on these matters it is assumed that a creditor country *ipso facto* has an excess of merchandise imports and a debtor country an excess of exports. The creditor country—so people imply in their everyday talk—has payments to receive, the debtor country has payments to make: the former is expected to show a net credit in its accounts, the latter a net charge or net outgo. Not at all. The state of the merchandise account, the balance of the money values of imports and exports, may run either way, for either debtor or creditor country. It depends on the stage which credit operations have reached.'—Prof. F. W. TAUSSIG, *International Trade*.

'Thus it is usual to speak of countries such as Brazil, Argentina, and (before the war) the United States as "debtor countries" because "they had an adverse balance of indebtedness". All this was intended to mean was that such countries have borrowed large sums on capital account in Europe. . . . How was this "adverse indebtedness" liquidated? All that happened was that, in addition to exporting enough to pay for current purchases of goods, these countries exported wheat and maize, meat and rubber, in sufficient quantities to meet their instalments of debt interest as these fell due. There was no "adverse balance" at all in the sense that, taking all the items into account, during each successive period, there was not available sufficient means of payment.'—Prof. T. E. GREGORY, *Foreign Exchange Before, During, and After the War*.

THE last three chapters have been concerned with the history, description, and statistics of the decade previous to 1893. The entire episode, comprising the collapse and the events which led up to it, has been regarded as a means of verifying the theory of international trade by observing the effects of an experiment in the course of which great quantities of capital were injected into a community small in numbers and isolated in an unusual degree. We have now to trace the causal connexion between capital imports and the commercial crisis, and to investigate the influence of protracted borrowing upon national prosperity. The approach to the investigation is indicated by the foregoing argument; and consists, in the main, of an analysis of the Australian balance of trade. Since, however, so much of the data necessary for adequate analysis has either not been recorded or demands so much assistance for its dissection, we are compelled to adopt the methods devised and applied with conspicuous success by other investigators in similar circumstances.

But before entering upon this task a few preliminary observations having reference to the terms to be used in the discussion