of its influence upon the business cycle, and because of its implications for national welfare as a result of sudden interruptions in the rhythm of trade. For the purpose of this discussion, some quantitative measure of the relative advantage or disadvantage of trade is indispensable; and the gross barter terms offer a convenient criterion by which the rise and fall of trade advantage can be judged. Where payment for services does not enter into the problem at all, it is clear that there must be some advantage for both parties in the exchange or there would be no trade at all. It is equally true that, where services have been rendered, payment of goods or services in return must be made; and, where the liability for repayment of borrowed capital or for payment of interest has been assumed on one side, some portion of the trade becomes a continuous and compulsory acknowledgement of that liability. It is in this variation between the proportions of the optional and compulsory parts of a country's trade that the greatest fluctuation in the relative advantage or disadvantage of trade becomes possible. Or, to be more precise in our Australian application, as a result of the interaction of so many factors there is possible a very wide range between more favourable and less favourable terms in overseas trade.

It is, therefore, as the non-merchandise factors enter into overseas trade that the necessity for distinguishing between gross and net barter terms arises. That part of overseas trade which is merely an exchange of exports for an equivalent value in imports has then to be distinguished from the excess of exports over imports which represents payments for services or 'the balance of non-merchandise transactions', to use Taussig's phrase. A country such as Australia which has borrowed largely has net payments to make on the invisible account, and must maintain over long periods an excess of exports over imports.

But the money value of imports and exports does not serve as an effective measure of the advantage of trade from year to year, since the *volume* of goods exchanged is not thus brought into the reckoning. It is for the comparison of the whole of a country's physical imports with the whole of its physical exports that the gross barter terms become peculiarly valuable. Regarding international trade from this angle the only meaning which can be given to such phrases as 'favourable balance of