trade' or 'adverse balance of trade' is seen to depend rather on the *ratio* at which goods of one country are exchanging for the goods of another, or on the rising and falling advantage incidental to that trade, than upon a 'balance' which may be quite as fallacious and deceptive as a government 'surplus'. Stated in another way, (i) the disadvantage in net terms may be due to changes in the demand or supply of international trade goods by which the people of one country must give more of their own goods in exchange for the goods of the other country than they did previously; or, (ii) the disadvantage in gross terms may be due to an over-indulgence in international credit which amounts to furnishing the national house on the hire-purchase system; a plan which may result eventually in ownership, but which always entails a long struggle to satisfy the demands of the mortgagee, and too frequently leaves insufficient living expenses out of the national income. In the second case the non-merchandise factors in overseas trade become the most potent of the immediate causes which depress living standards, expecially at those times when national production is for any reason suddenly diminished.

It must now be noted that the progress of a borrower follows a certain logical sequence. It will be seen that there are well-defined phases in the economic history of a new country which constitute a definite evolution from youth to maturity, an evolution that is determined by the relation between the amount of fresh capital and the interest payments on the old capital. A country in the early stages of borrowing, i.e. when the amount of fresh capital is greatly in excess of the interest payments, tends to have an excess of imports—an 'unfavourable' balance of trade—which may persist over a longer or a shorter period during which the new capital is arriving. If we assume a steady continuance of borrowing, it is clear that a time comes when the new capital arriving is just balanced by the annual payment for interest on the old capital, and at this point exports tend, approximately, to equal imports. This is a stage of great financial instability when the equilibrium of trade is most easily overset, and when the trade crisis is perennially imminent. But, as borrowing still continues, the annual interest bill comes, more or less quickly, to exceed the volume of new capital arriving, the country becomes a mature borrower,