

payments would bring about, at the date when reversal of the relations began to set in, a slow and gradual readjustment, not a sudden overturn. The borrowing country would almost imperceptibly accommodate itself to a new situation, in which specie would seep out, prices gradually fall, merchandise exports rise and imports fall. A "favourable" balance would become in time a settled feature of its international trade. In fact, however, the loans from the creditor country, so far from being made at the same rate year by year, begin with modest amounts, then increase and proceed *crescendo*. With the advent of a crisis, they are at once cut down sharply, even cease entirely. The interest payments on the old loans thereupon are no longer offset by any new loans, *they become instantly a net charge to be met by the borrowing country*. A sudden reversal takes place in the debtor country's international balance sheet; it feels the consequences abruptly, in an immediate need of increased remittances to the creditor country, in a strain on its banks, high rates of discount, falling prices. And this train of events may ensue not once only, but two or three times in succession.'

The underlying causes of 1893, and of every other major crisis in Australian history, have never been more clearly stated. The true facts of the situation are that we have suffered in the past and are suffering in the present not from the effects of the business cycle but from the natural accompaniments of the borrowing cycle. Our progress, like that of Dante, has been through a series of heavens each one more glitteringly radiant than the last; but, to our discomfort, we have discovered that to each paradise is annexed a peculiar and appropriate purgatory wherein the errors of misapplied capital may be expiated.

Returning now to the discussion of Australia's relative disadvantage in overseas trade after 1890, it will be seen that the terms of trade tend to favour the borrower during the early stages of the international credit cycle; but that continued borrowing swings the balance of advantage more and more towards the lender. Over the whole period of borrowing and repayments, however, the balance of advantage tends to be nicely adjusted in the figures of international indebtedness, and the ultimate gain or loss is not likely to be great on either side. 'In the long run', nevertheless, is poor consolation to the community caught in the toils of commercial crisis, and 'while the grass grows the horse dies'.

The consequences to be predicted from a sudden stoppage in