CHAPTER X

ANGLO-AUSTRALIAN EXCHANGE IN RELATION TO CAPITAL MOVEMENTS AND TRADE BETWEEN 1900 AND 1913

'The effect of borrowing money is inevitably to increase imports. For example, for the 10 years ended 1890 the Australian imports exceeded exports by £74 millions. The loan indebtedness increased from £61·327 millions in 1880 to £143·662 millions in 1890, an increase of £82·4 millions. The same explanation holds good of the phenomena of the past few years. It is the heavy borrowings by Australian states that account for the increased importations into Australia beyond the increases naturally to be looked for in consequence of increased productiveness and increased exports following a run of good seasons.'—Review by 'Scrutineer', *Melbourne Argus*, 8 July 1913.

'When reserves are dangerously depleted obstacles to advances are raised, therefore borrowing is made unprofitable. At this point there can be no further additions to the volume of trade (unless prices decline), and no further rise in prices (unless there is a reduction in the volume of trade).'—*Economic Journal*, September 1923.

'Equilibrium cannot be fully regained till the demand for capital has been damped down by the adverse state of the investment market, not merely to normal but *below* normal; for the exceptional indebtedness of the investment market has to be liquidated.'—HAWTREY, *Trade and Credit*, on the Gold Standard and the Balance of Payments.

It will be necessary at this stage to examine more closely the financial relations existing between Australia as a borrower and an exporter of primary products, and Great Britain as a lender of capital and exporter of manufactures, under the conditions of a gold exchange standard which obtained between the two countries during this period. Before doing so, but without entering into a discussion of the phenomena attendant upon the operation of such a standard, it will be well to emphasize the immediate function of gold in such a situation. The gold which moves from one country to the other merely 'plays the part of settling a clearing balance just like a payment made by one clearing bank to another', to use the illustration of R. G. Hawtrey.[1] It equalizes supply and demand between the two countries concerned, not by an adjustment of the relative values of Australian and British currency, but by providing a means of paying for the immediate difference in indebtedness between the two countries.[2] If these differences are merely transitory,

[1] For a comprehensive statement of the general argument which is here given particular application to the Anglo-Australian position, see Hawtrey, *Trade and Credit*, Chapter II.

[2] 'There is no free exchange market in Australia. The banks accept the rates