World conditions of business affect the stream of savings in a remarkable manner; and, in addition, the minds of investors are so peculiarly susceptible to political and psychological influences as to make the prediction of the volume of capital forthcoming a very difficult matter for the market. But even more uncertain is the estimate of demand, and this factor has perhaps the greater influence in inducing relative shortages of capital from time to time. To sum up, the primary consequence of uncertainty concerning the volume of capital awaiting investment is the constant necessity imposed upon the exchange market to adjust itself to considerable exports of capital from Britain, which, moreover, are far from constant in volume.[1]

The manner in which these exports of capital are transferred to Australia constitutes a most controversial phase of our subject. The undisputed facts that the greater part of the capital borrowed will be expended in Australia in the payment of labour engaged upon developmental works, or on the purchase of material or machinery in Australia or abroad, has raised the question as to the exact amount of benefit which the industries of a lending country derive from capital loans. J. M. Keynes and others have rendered a service to economic discussion by calling into question the orthodox views held on this matter,[2] and by advancing the point of view that Britain and British industries would be better served by the investment of a greater part of surplus capital in Britain itself. More especially, doubt has been cast upon the stimulating effect upon the export trade of Britain which these loans are supposed to initiate. That such stimulation does take place as between Britain and Australia can scarcely be seriously questioned, although the benefit is shared by non-lending countries engaged in trade with Australia on a large scale, such as the United States. Nor can it be seriously questioned that there is a progressive stimulation over the long period as a result of continued loans.

[1] Copland has tested this by a comparison of the London funds and the excess of deposits over advances in Australia in the case of the Bank of New South Wales for the period 1903–24. 'It may therefore be assumed that the most important influence in Australian banking is the balance of payments and the flow of bank funds in London. Gold is used only to sustain movements in banking and credit set in motion by this controlling influence.'—*Op. cit.*, p. 83.

[2] See editorials and correspondence in *Economist*, March 1929.