

The explanation of the stimulation of British exports lies in the 'compensatory tendency' indicated by Hawtrey. Contractors, labourers, and retail dealers employed in Australia upon the constructional work obtain an increase of purchasing power during the term of the contract. This purchasing power being spread through the country is translated into demand for both foreign-trade and home-trade products.

'In so far as they buy the latter, they bring about a rise of internal prices and an increase in the incomes derived from producing and dealing in home-trade products. These incomes, in turn, are applied partly to foreign-trade products. The process must go on till imports are so increased relatively to exports that equilibrium is attained, and the whole of the capital imported is being received in the form of goods.'

Again, the part played by Australian banks concerns the necessity for the provision of increased credit facilities consequent upon the capital imports. The effect of this inflation, whether it is temporary or cumulative, is to raise the price-level in Australia sufficiently to make it a more favourable market for foreign-trade commodities; and so to help in the tendency 'to attract a relative excess of imports equivalent to the amount of the capital imported'.

The play of loans upon the export trade of Britain in particular does not, however, urgently concern our present purpose. The fact that fluctuations in the volume of capital available in Britain for investment abroad do normally occur, and that the demand abroad for this capital also varies very widely, is the fact of primary importance. It is with the latter phenomenon rather than the former that dealers in loans are chiefly concerned. The demand periodically becomes excessive; and, as we have seen, the consequences of the inevitable stoppage of investment upon importunate borrowers are salutary but unpleasant. Regulation of the demand is, in fact, always necessary, and is practised as a usual function of the loan market. Far more strict control, and a process of 'queuing loans' is, indeed, strenuously advocated by some authorities.

The first indication that demand is exceeding available supplies is usually that a large proportion of the new issues is left on the hands of the underwriters. In such a case the market itself automatically regulates the situation; and a decrease in