CHAPTER XI

AUSTRALIA'S FLUCTUATING ADVANTAGE IN TRADE BETWEEN 1900 AND 1913

'The point that is less familiar in connexion with the theory of the subject, or at least is not commonly considered, is the closeness and rapidity with which the varying balance of payments has found its expression in the varying balance of trade. The actual merchandise movements seem to have been adjusted to the shifting balance of payments with surprising exactness and speed. The process which our theory contemplates—the initial flow of specie when there is a burst of loans; the fall of prices in the lending country, and rise in the borrowing country; the eventual increased movement of merchandise out of one and into the other—all this can hardly be expected to take place smoothly and quickly. Yet no signs of disturbance are to be observed such as the theoretic analysis previses.'—TAUSSIG, *International Trade*, Chapter XX.

'Those commodities which advance most in price *in the world* markets should become, other things being equal, the most profitable to produce for export, and should consequently become a larger instead of a smaller proportion of the total exports. But the reverse was true as far as *Canadian prices* were concerned. It was the commodities whose prices rose least whose export increased most. This proves . . . that the relative rise in prices of the commodities important in the export trade was due predominantly to Canadian conditions, and was not simply a reflection of conditions in the world market. The factors incidental to great capital borrowings operated to break the normal relationship between the trends of prices of export commodities in Canada and in the world markets, and thus tended to restrict export trade.'—VINER, *Canada's Balance of International Indebtedness*, Chapter X.

THE task of clinching the connexion between the flow of capital and prosperity, and of linking stoppage of that flow in Britain to depression in Australia still remains. We have already noticed that the crisis of 1893 marks a stage of transition, a point where the tendency towards an excess of commodity imports gives way to a tendency towards an excess of exports. The reasons for the change will be quite apparent from an analysis of capital movements before and since. Although broken by intermittent phases of reversion, the dominance of imports before 1893 arises from the fact that Australia was still in the early stages with reference to its loan operations. After 1880 capital had been borrowed in rapidly increasing amounts, but it was not until after 1890 that the interest payable on the old loans began to exceed the amount of new loan raised each year.

At this stage the Australian loan position bears a striking similarity to that of the United States before 1873. In both countries, in the periods being compared, the pioneer phase of