

CHAPTER XII

THE AUSTRALIAN BALANCE OF INTERNATIONAL INDEBTEDNESS FROM 1900 TO 1913

'In New and Old countries alike, consumption and therefore imports are usually large in an ascending phase of general commercial credit; and at the same time prices are high, and therefore imports appear larger than they are. But a lending country, like Britain, generally exports capital largely when credit is good; and her working and other classes are spending freely; while a borrowing country is likely to swell her imports by goods obtained on credit, just when her imports would be largest and at the highest prices, even if she were not borrowing.'—ALFRED MARSHALL, *Money, Credit, and Commerce*.

'We draw so extensively upon other countries for many commodities, while at the same time the prices of our great staple products are so affected by the foreign demand for them as to render the Australian price level more a product of two sets of factors, domestic and foreign, than is the case in most other countries. It is thus necessary to consider the whole problem relative to Australian conditions before any general conclusion may be stated concerning the relation of currency and prices.'—Prof. D. B. COPLAND, 'Currency Inflation and Price Movements in Australia,' *Economic Journal*, Dec. 1920.

ALTHOUGH in these days the use of certain terms borrowed from the writings of theorists upon international trade has become common in press and forum, some confusion in thought and language still persists. This ambiguity in economic discussion arises not so much from difficulties in the conception of international indebtedness, or from the want of thought upon the subject, as from failure to agree upon the exact connotation of the terms employed. There is little doubt that the attempt to express the two aspects of the international account in terms of 'exports' and 'imports' is primarily responsible for this confusion, since many items making up the total of international indebtedness can be thus described only by a somewhat violent distortion of language. It would therefore appear to be expedient to classify the items in indebtedness rather as 'debits' and 'credits'; and thus to emphasize the *effect* of the transfer of goods and services, rather than the *direction* of such transfers. Since strict consistency in the use of terms is indispensable to scientific discussion it is necessary to state here the exact sense in which they are employed. Transactions which create monetary obligations by Australians to individuals or firms abroad are debits, while transactions which create similar obligations to Australians are credits. The Australian 'balance of indebtedness' is therefore taken to mean the equilibrium established