the external factor. But further consideration suggests a partial explanation which accords closely with the facts of past experience, and with the theory of international trade.

That the government's financial policy of currency inflation at a time 'when the quantity theory was operating in a closed system' was the main cause of disequilibrium and of the rise in prices scarcely admits of argument. From the study of other phases of our monetary history we should be prepared to find a connexion between capital imports and the rise in domestic prices; and, despite the abandonment of the gold-exchange standard, there are grounds for supposing that, in part, the increase in foreign indebtedness was the external supplement of the internal inflation policy. Between 1914 and 1920, the Australian overseas debt increased from £208 millions to £375 millions, i.e. at the rate of £24 millions a year, whilst the total interest on the overseas debt rose from £8 millions to £16½ millions. In other words, the annual amount of new overseas loan was once more largely in excess of the interest on the old debt. The meaning of this change has scarcely been appreciated in discussions concerning Australia's present economic position. *Under circumstances which could probably never be repeated, the borrowing cycle had begun afresh*, and all the 'boom' phenomena associated with the early phases of heavy borrowing—the cheap and easy money, extended credit, ambitious public works and rapid industrial expansion due to governmental spending—became more prominent at a time when every circumstance called urgently for the conservation of capital. In this astonishing expansion of loan issues, allowing for the proportion of borrowings spent abroad, is to be found one efficient cause, not only of the paradoxical prosperity of the war years, but also of the settled depression of the later years. Only the most highly favourable circumstances for the production and marketing of her commodities, resulting in a rapidly enlarged proportion of the national income applicable to the payment of external liabilities, in short nothing but a miraculous comparative advantage in trade, could have enabled Australia to traverse unscathed the years following 1920. And these highly favourable and urgently desirable conditions for either production or marketing have been notably lacking. The phase of ascension in the borrowing cycle had to be followed