

## CHAPTER XV

### ANALYSIS OF THE TERMS OF TRADE BETWEEN 1914 AND 1928

'A large country with ample natural resources and simple manners, such as Russia or China, resembles a self-sufficing family: her real income consists mainly of her own products; and it is not very greatly affected by the terms on which she exports a small part of them in exchange for foreign goods. Nearly the same may be said of the United States: for, though her economic life is very complex, and though her people are alert to discover, and resolute to obtain, any foreign product that will meet their needs or their fancies; yet her area is so large, her mineral resources are so various, and the range of climate between her northern and southern states is wide. Therefore her consumption of foreign products is relatively small; and it is not a matter of vital importance to her whether the terms on which she obtains her imports in exchange for her exports are very favourable. But the case is different for a country whose natural resources are small; especially if her people have accustomed themselves to somewhat luxurious habits of life, in which a great part is played by imported products.'—ALFRED MARSHALL, *Money, Credit, and Commerce*, p. 109.

'An investigation has been made covering the ten years 1917-18 to 1926-7, inclusive, and for this decennium as a whole it has been found that Australian products averaging in value £125,000,000 have been exported annually, representing almost exactly one-third of the total production of our primary and manufacturing industries. The other two-thirds represent our local consumption of such products, thus indicating that our local market absorbs twice as much of this produce as the market overseas. The several industries contribute, of course, different proportions of their total output to this export outflow. Thus of Pastoral products 64% are exported, of Mining 59%, of Agricultural 36%, of Dairying 20%, of Forestry and Fishery products 16%, and of Manufacturing 5%. It thus appears that the Pastoral and Mining industries find considerably more than 50% of their market overseas.'—The Commonwealth Statistician, Mr. C. H. Wickens, on 'Some Statistical Aspects of Australian Industry', *Economic Record*, May 1929.

If the conclusions stated in the last chapters will bear criticism, if it is true that the war-period was in large measure normal in its abnormality and that the economic situation during those years was to a great extent conditioned and determined by the orthodox functions of the borrowing cycle, we may expect to find some confirmation in analysis of the terms of trade. Comparing the economic phenomena with those observed in the successive phases of preceding cycles we shall expect to find similar reactions in respect to the excess of exports over imports, to bank policy, to sectional price-levels, and to the decline in trading advantage. In view, however, of the internal inflation, and of the abandonment of the gold exchange standard, in short of all those conditions which tend