

CHAPTER XVI

THE BALANCE OF INDEBTEDNESS, 1918-28

'The investment of capital abroad, the travel of tourists, and all the other factors outside of the balance of trade itself are the comparatively independent variables, the balance of trade in goods is the compensatory variable in the balance sheet of total indebtedness.'—A. C. WHITAKER, 'The Ricardian Theory of Gold Movements', *Journal of Economics*, Feb. 1904.

'The adjustment of the balance of trade to a newly introduced or increased disturbing factor is brought about through the influence of divergent price-levels on the quantitative ratio of exports to imports.'—VINER, *Canada's Balance of International Indebtedness*, p. 254.

As compared with the pre-war period, Australian overseas trade for the years between 1918 and 1928 exhibits some striking changes. Reference has already been made to the effects of war-time conditions upon the economic relations of Australia and Great Britain, and the weakening of former trading connexions must be regarded as not the least of these. The loss by Britain and the gain by the United States of financial power, the enlargement of advantages acquired by other nations in their trade with Australia during Britain's preoccupation in waging the war, and the search by Australia for markets for her increasing output of primary products, were all to some extent responsible for the more pronounced multi-angular trade relations of the post-war period. The Anglo-Australian trade organization which had such pronounced effects in shaping the financial system of Australia before 1914 was now passing; and the effects are to be seen in the curious changes in the trade balance, in the even more unusual exchange situations which developed, and in the uncertainties of business which are still a puzzle to both bankers and traders.

The history of the exchanges between Great Britain and Australia in the post-war period has still to be written; and the extraordinary situations which developed, particularly in 1921 and 1924, indicate the operation of factors that have not yet been adequately examined. There seems little room for doubt that the alternate plenty and dearth of funds in London awaiting transfer to Australia was the immediate explanation; but evidence concerning the causes of these fluctuations, except in