and, in this sense, the commodity balance of trade may be regarded as the 'governor' regulating the whole balance of indebtedness.

Under normal conditions, however, variations in commodity imports function more sensitively in this matter of maintaining equilibrium than do variations in exports.[1] Especially is the variation in the flow of imports a critical function of the borrowing cycle. By this means, and by this means almost exclusively, is it possible to adjust the international balance of indebtedness to the variations in capital borrowing. The argument has special reference to Australia which belongs to that group of new and undeveloped countries needing the injection of great amounts of capital for the rapid and effective exploitation of their resources. For Australia, as for all such countries, comparative advantage in foreign trade is 'confined to the export of the primary products of her natural resources, limited in their range but representing a large part of her total commodity production'. Marked variations in the export of these few commodities is a natural consequence of seasonal variations in their production. Continuous production is, however, enforced by the necessity for providing employment, on the one hand, and for meeting the charges on capital invested in the industries, on the other. Changes in the price-levels for these commodities in world markets will be followed only very slowly by changes in production and export, and then only if the price changes are maintained over long periods.

Imports, however, are far more flexible. They display much greater variations, both in volume and 'make-up', than do exports; and are, moreover, less intimately associated with the volume of domestic production. Thus it happens, as Viner remarks for Canada, that 'marked and rapid fluctuations in imports cause less disturbance to industry, and necessitate less internal readjustment, than do correspondingly marked variations in exports'. The natural consequence of the relations existing between domestic production and overseas trade is that the sharp adjustments in the commodity balance of trade necessitated by capital borrowings are effected to a far greater degree by variations in the rate of imports than by variations in the volume of exports.

[1] See Viner, *op. cit.*, Chapter XI.