

In connexion with the effect of borrowing upon imports some further features may be noticed. Australian experience would indicate the following sequence as fairly representing the facts of the situation. The issue of a loan is invariably for some specific purpose; and most usually is for some developmental work which requires the expenditure of the greater part of the loan in paying the labour engaged upon the construction. Undoubtedly some portion of the loan leaves Britain in the form of capital goods; but analysis tends to show how surprisingly small is the proportion of recent borrowings which is so expended as to stimulate directly the export of capital goods from Britain.

For an explanation of the contradiction of accepted theory involved in this statement we must turn to the conditions under which the loan is translated into purchasing power in Australia, i.e. in the payment of wages. The commencement of a constructional work and the mobilization of the labour necessary for its carrying out, either in rural areas or urban factories, involves the establishment of all sorts of retail supply services through the medium of which the greater part of the wage fund is expended in the consumption goods required by the labourers or technicians. The import of all the foreign-trade goods which the community ordinarily requires is stimulated; and the anticipated demand for these is measured by a multitude of petty traders of various kinds. The cumulative effect of a number of small and localized booms in trade excited by and dependent upon the expenditure of loan money is concentrated at a relatively few importing points. Thus the business of importing houses in the capital ports responds in a highly sensitive fashion to the stimulation of trade 'up-country' as the expenditure of the loan money proceeds. Owing to the distance over which foreign-trade commodities have to be transported, and to the time-lag involved, the ordering by importers of these goods is necessarily largely speculative, and always tends to be in excess of actual requirements. This is, in itself, one of the reasons for the 'over-spending' or 'over-trading' which normally characterizes booms based on loan expenditure. Correspondingly the depression in trade in the capital ports as the expenditure of loan funds ceases in the hinterland is again a normal reaction that tends to be very emphatic.