One further aspect of the relation between gold and capital movements may be conveniently observed at this point. The present analysis of capital transfers from Great Britain to Australia has not made possible any material contribution to the debate as to whether the flow of gold precedes or follows the issue of a loan. The retention of gold parallel with the import of capital which has been noticed for the pre-war period may be regarded as either a gold flow, in effect, from the lending to the borrowing country, or as an anticipatory strengthening of the gold basis upon which the consequent expansion of currency, the enlargement of purchasing power, the rising price-level, and the secondary stimulus to imports and check to exports will depend. Under the conditions of intimacy existing between the Australian and British financial systems effect is given to the loan issue by opening credits which enlarge the London funds of Australian banks; and it is, within certain limits, immaterial whether the gold resides in the English or the Australian vaults of these banks. These funds are moved as required and largely in accordance with expediency, i.e. in the light of the existing equilibrium of payments; but the more or less gradual transfer of the credits to the Australian end necessitates, in the last analysis, an expansion of the Australian reserves of the banks affected. The order of precedence as between the enlargement of bank stocks of gold in Australia and the issue of the loan thus becomes largely an academic question of little practical importance; and recent modifications of the theory of international trade would appear to support the view stated here.[1]

Nothing further need be said concerning the commodity balance of trade for the post-war years, except to call attention to the very curious fluctuations in the differences between debits

[1] Cf. Angell's position: 'The doctrine set up here regards the gold flows as an essentially short-run phenomenon usually of temporary importance alone. It bases its more long-run conclusions on the effects which significant changes between the demand and supply of bills of exchange produce upon the total volume of purchasing power in circulation.'—*Theory of International Prices*, p. 414.

Also Keynes: 'The modern age in which debits and credits between nations are settled by changes in the volumes of liquid balances held in international financial centres, instead of by movements of gold, brings with it a new type of problem for which ready solutions are not available. At present our authorities are content that the so-called "invisible" items in the international balance sheet should remain invisible in a literal sense.'—*Economic Journal*, 1927, p. 551, 'The British Balance of Trade'.