

## CHAPTER XVIII

### THE ECONOMIC EFFECTS OF CONTINUOUS BORROWING

'Even if external borrowings were to cease altogether, and the existing amount of Government capital expenditure undertaken either by taxation or internal loan or both, the effect on the nation as a whole if the change were carried out gradually should not involve more than either an average reduction in the standard of living of, say, about 5 per cent., or an increase in the efficiency per head of a similar amount.'—MR. E. C. DYASON, 'The Australian Public Debt', in the *Economic Record*, November 1927.

'The necessities of a nation in every stage of its existence will be found at least equal to its resources.'—ALEXANDER HAMILTON in *The Federationist*.

'A reference to the nature of credit shows that a national debt is no creation of wealth; that at best it can only be, in Bagehot's phrase, "additive" and give greater energy to production. Moreover this position can only be obtained where credit is productive, i. e. used in the creation of fresh wealth. Where the resource whose use is obtained serves merely for some object which, however important, is not conducive to economic production . . . there is so far a loss of material power. Present borrowing of this latter kind implies less income in the future until the loan is repaid.'—BASTABLE, *Public Finance*, p. 658.

It is to be supposed that, since borrowing first began, this method of acquiring property has not lacked defenders. Nor have there been wanting those ready to justify the quality of the statesmanship which initiated and maintained the policy of public borrowing in Australia. It is to be pleaded, of course, that it is easy to be wise after the event; but experience shows that it is easier to be instructed than to be wise concerning the follies of financial sin, that is if borrowing is to be placed in the catalogue of transgression. The belief may be modestly tenable, in any case, that the facts concerning national indebtedness as presented in the preceding pages, justify at least some hesitation in pronouncing upon the wisdom of a plan of action that would persist in following the paths which have led to such economic disorders in the past.

A very close parallel is to be observed between the economic situation resulting from public borrowing and that policy in retail trading known as instalment buying, or the hire-purchase system. Most of the arguments, too, that are used so freely in