

what is the verdict as to the wisdom, first of incurring, and latterly of increasing, the public debt? The onus of answering these and similar questions is being thrown, to an increasing extent, upon the professional economist; and he would fail in his duty if he refused to assume it.

The first of the effects, and from the aspect of the business cycle the most important, is the almost inevitable tendency to develop a standard of living that is too high in proportion to the range of resources possessed, and to the degree of industrial development attained, by the community. The stimulation of purchasing power in the borrowing country, as a consequence of large foreign loans, has now been adequately examined through its effects in expanding credit, and in enabling the undertaking of great developmental schemes by means of which this purchasing power is dispersed through every channel in the community. The characteristic rise in the wages curve in the early phase of the borrowing cycle, and its tendency to fall towards the end, is a strict counterpart of the rise and fall in available bank credit. That the maintenance of heavy borrowing over a decade or more accustoms a community to a standard of living that is relatively too high has been emphasized in each instance we have examined. This was shown by the necessity for a reversion to the economic level of wages, and to standards of living within the capacity of the community to maintain, at the end of each borrowing cycle.

A second effect originates in the mental attitude which is characteristic of periods of prosperity generated by expanding credit, and that is the failure to measure rigidly every capital investment by its immediate productiveness. Admittedly this is a counsel of perfection in a community faced by the necessity for providing quickly so much permanent equipment, and in which the method of trial and error in solving problems that involve so many unknown factors is the only possible line of attack. But, despite this concession on the matter of urgency, it will scarcely be contended seriously that the expenditure of loans promotes that care in calculating probable returns which we would expect to find accompanying the investment of the domestic capital surplus, if that were the only source from which development could be financed. This condition will persist while overseas capital supplies remain cheaper than domestic