

for Australia since 1890, and corroborates the evidence accumulated by Viner for Canada.

Still another effect, and, from the standpoint of fluctuations in business, one of critical importance, is the effect of borrowing abroad upon the regulation of credit. It is an economic disadvantage of the utmost influence that expansion by means of borrowing should be initiated in one community, when the control of that capital stream, and consequently to some extent the control of domestic bank credit, is dependent upon the decisions arrived at in another community, remote, independent, and organized industrially in a vastly different manner. In other words, it is a relatively easy matter for Australian banks to regulate the momentum of development and to regulate the flow of credit and hence to control the factors generating crises; but it is a relatively difficult matter, if not impossible altogether, to prevent crises from developing when the check to expansion is applied in London, and through causes that are only remotely connected with Australian conditions. The only course of action for the Australian banks when that check is applied is a proportionate, or, since the stimulus to pessimism then operates, a more than proportionate constriction of credit in Australia. This contraction, since it is necessarily rapid, is almost certain to cause depression or even crisis. And, in the position occupied by London, dependent to such an extent upon world economic conditions, and sensitive to a superlative degree to economic fluctuations in any quarter of the globe, this contraction at the London end is always liable to take place more or less suddenly.

Finally, and solely in the domestic field, the effect of borrowing in stimulating imports must be further considered in relation to government revenue. Owing to the operation of the Federal tariff system the effect of borrowing is to inflate the revenue from customs, since imports are accelerated. Thus a part, and a relatively large part, of the capital imported becomes transformed in the process of entering the Commonwealth into current revenue which drains away along many channels. Whether the uses to which this revenue is put are productive or otherwise is beside the question, since they are presumably quite alien to the purpose for which the loan was floated in the first place. This, of course, bears very closely upon the