

## CHAPTER XIX

### THE IMMEDIATE FUTURE IN RELATION TO CAPITAL REQUIREMENTS

'Whether the wealth to be consumed in the outlay which is the primary cause of borrowing be derived from the stores of home or foreign lenders may have some immediate influence; but when we bear in mind the close connexion of all the countries of the world, and the great mass of private borrowing from foreigners, it is evident that the distinction may easily be exaggerated.'—BASTABLE, *Public Finance*, p. 679.

'The great additional foreign indebtedness incurred since 1914, much of it resulting from economically unproductive military expenditures, from the completion of an extravagant programme of railroad and town building, from the construction of an unprofitable merchant marine, and from the further extension of manufacturing industries of which few would have any expectation of surviving if their tariff subsidy were withdrawn, will intensify the seriousness of the problem which will face Canada when the borrowings cease and the difficult burden of repayment must be assumed.'—VINER, *Canada's Balance of International Indebtedness*, p. 306.

THE economic reactions set up within the Australian national economy by borrowing have now been examined in some detail. In particular, for three separate and independent cycles, similar long-period changes in prosperity, operating through rising and falling prices in the earlier and later phases, respectively, of each cycle have been traced; and the necessity imposed upon the community for assigning an increasing proportion of its disposable income to the payment of interest upon the external debt has been indicated. The mechanism for adjusting the disequilibrium set up in the international balance by heavy external borrowings, and the parallelism of gold movements and capital importations, have been investigated. Lastly, an equation between the volume of capital imported and the total difference between the debits and credits in the international account over the long period has been established; and an attempt has been made to synchronize credit restriction within the Commonwealth with the temporary divergence between the moving averages of capital imported and the excess of debits over credits in the balance of external indebtedness. It now remains to consider the development and persistence of a world credit situation which might involve a reversal of the whole process; and to anticipate as nearly as possible the effects which