necessity for making increasing external payments; and the only response possible would involve an increase in exports, a decrease in imports, or both. To the extent that Australia finds it economically impracticable to secure additional supplies of capital on the same scale as in the last half-century, she would be compelled to widen the margin between production and consumption. All the phenomena characteristic of the short-period credit restriction occurring at the end of the borrowing cycle would become the normal condition of a less marked but more protracted period of depression.

Within certain limits an increase in exports and a decrease in imports might be easily achieved; and the impact on living standards, as Dyason indicates, might be so slight as to be almost negligible. Beyond these limits, however, a depression of the standard of living must be anticipated; and, in the process, a certain amount of economic friction would characterize the change. To cover the increased payments abroad—increased, in effect, because there would be no incoming capital as an offset—both State and Federal governments would be under the necessity of increasing taxation; and the effect of this upon the community as a whole would be to reduce consumption by a like amount. The decline in demand which would follow diminished purchasing power would be felt in the markets for both home- and foreign-trade commodities. The effect on the market for foreign-trade goods would be to diminish imports: that on domestic markets would be to release an additional portion of production for export. To that extent the regulation of the international equilibrium would be automatic and sufficient.

It will be seen, however, that the effect upon the balance of trade is merely an indirect one. A situation is conceivable, indeed has already developed, when this indirect stimulation of exports would not be adequate to bridge the discrepancy between the two sides of the international account. Means would then have to be devised, partly by means of still higher taxation, partly by industrial policy, to enlarge the disposable income, i.e. to divert such a proportion of the productive power of the community from the production of home-trade commodities to that of foreign-trade commodities as would cancel the difference in the balance of payments. Such a diversion could only be