in short, be reversed; and no possible manipulation of domestic credit or of foreign exchanges could stave off some measure of the reaction inevitable during such a period.

Irrespective of whether there is deliberate intention on the part of the authorities, or whether it is forced on by the pressure of the external debt, it is certain that the final position, apart from the increase in the total volume of production and the change in proportion of foreign-trade to home-trade commodities, will be achieved by a fall in nominal wages relative to those of the creditor countries. The lowering of nominal wages, however, would be accompanied, step by step, by a fall in the prices for home-trade commodities; and the fall in real wages would, if there were an acceptance by the community of the necessity of the change, not necessarily be very great. The chief benefit from the standpoint of the balance of trade would be the lowering of the cost of production, and a corresponding betterment of the terms upon which Australia competes in foreign markets. That is to say that the terms of trade would turn to the advantage of Australia; and as the change gathered momentum the advantage would necessarily increase.

It is to be thought that in this betterment of the comparative advantage with which Australia competes in the industries for which she is naturally qualified lies the silver lining to the cloud which must accompany the transition. Compulsory limitation of loans from the British end must automatically force on the economies theoretically foreshadowed above. The extravagances associated with unrestricted borrowing will, it must be supposed, be corrected by the negation of the very conditions which induced them. The transition period leading up to the time when Australia will be capable of providing her own capital requirements with the assistance of private importations can scarcely be pleasant; but it should result in a stability which could be achieved in no other way.

The assumption has been made that Great Britain, by reason of her own vastly increased international liabilities, will be no longer able to sustain her pre-war rate of capital investment overseas; and this assumption needs substantiation. The most efficient measure of Britain's lending capacity is to be found in the annual statement of the Board of Trade relative to the national income and the surplus for investment. The difference