place undue emphasis upon the industries producing the world commodities applicable to the payment of overseas interest. The debtor, in short, is compelled to devote his energies to producing those things which the creditor is willing to receive in payment. Tariff policy, designed to develop manufactures, and the steady persistent influence of the external debt in forcing on the development of primary industries, are thus, to some extent, complementary; but this method of securing co-ordination may be both unwise and costly. The greater the external debt, the greater the dependence upon overseas markets, and the greater the proportion of labour power engaged in the production of purely consumption goods. So long as heavy external indebtedness is a dominant factor in the national economy, so long will the natural emphasis be placed upon primary as opposed to secondary production; and so much greater will be the apparent necessity for increased protection to manufactures.

The failure to consider in sufficient detail the relation of overseas debt to overseas trade is the main defect to be indicated in the report of the special committee on the tariff.[1] The peculiar significance, for Australia, of overseas trade resides in the fact of external indebtedness, and the periodical resurgence of debate upon over-trading arises from the disequilibrium set up in overseas trade by heavy imports of capital. The relatively large international trade for Australia is due not so much to its 'specialized conditions' as to the necessity for overseas payments which arises from the migration of capital from Britain to Australia; in other words, it derives from the fact that, over any period, the gold values of goods and services imported must be balanced by the gold values of those exported. It requires rather a serious distortion of the facts of the case, therefore, to assert that external loans are the effect of the movement of goods rather than the dynamic cause. The classical theory of international trade has, in fact, made too little of the operation of capital loans upon demand schedules, standards of living, and real wages in the borrowing country. It would hold that the real income of a country depends upon its efficiency in production, and that the gains in external trade are roughly proportionate to the relative efficiency of the combined factors

[1] *The Australian Tariff*, An Economic Inquiry by a special Committee. See especially the arguments advanced in Appendix T, and in Part III (*b*).