

INTRODUCTION

IN these days when economic opinion is divided between an unwavering allegiance to some theory of the business cycle and a sceptical refusal to acknowledge any cyclical movement in the fluctuations of prosperity, any attempt to find an adequate explanation of the instability that has manifested itself from time to time in Australian economic affairs is bound to meet with formidable criticism. Under these circumstances it will tend to avoid argument that would merely cloud the main issue if it is declared at the outset that the use of the term *business cycle* in these pages depends rather upon the welcome convenience of a label that can be applied to these fluctuations, than upon the acceptance by the writer of any particular theory which professes to explain this instability.

It may, indeed, be objected that this somewhat naïve attempt to disarm criticism is invalid in that the whole trend of the thesis merely constitutes one more interpretation of the causes lying behind business cycles in Australia. The objection may or may not be tenable, since it is contended that the present argument postulates one efficient cause that is external to Australian business, rather than the operation of a number of inter-related factors forming a complex whole *within* the economic structure itself. The dominant control of Australian business has, in fact, usually been sought in conditions that are external to Australia; and, apart from the meteorological factor, the contraction of world credit has most frequently been regarded as the chief cause of our economic indispositions. A marked consilience can, indeed, be traced between credit contraction in London and commercial crises in Australia, a close connexion that tempts explanations of the *post hoc ergo propter hoc* order. For example, the crisis of 1843 followed the British crisis caused by the multiplication of banks and credit facilities, that of 1866 was apparently consequent upon the Overend-Gurney trouble in England, while the Baring crisis of 1890 and the post-war depression of 1921-2 were closely followed by financial malaise in Australia. What more natural than to find a causal sequence in these events?

But it becomes abundantly apparent upon investigation that these events overseas were not responsible for the sudden