

It indicated, at the same time, the close connexion existing between capital imports and land speculation.

The financial disasters which followed have been laid at the door of the government of the day, but very little blame can be assigned to that quarter. The most that can be said is that the crisis was accelerated and accentuated by the land policy. The considerable fund resulting from land sales, an amount that for some time exceeded £350,000, was placed by the government in the banks; and in this way imported capital became available for private loans based, for the greater part, upon the security of land. Thus the vicious circle of land purchases—government deposits in banks—bank loans for further purchases—government deposits in banks—was complete; and by this means the flame of speculation was kept burning so long as the government maintained its balances at the banks.¹

The actual crisis was, however, precipitated by the government's action. The immigration policy had made large demands upon the resources of the government, and it was forced to withdraw all its deposits at very short notice. To meet this sudden call the banks were forced into an unexpected restriction of credit that gave the initial and inevitable downward impulse to the whole structure, and sent it reeling to collapse. The banks, however, had been under no delusion as to the possibility of the recall of these deposits at any moment that they might be required. Over-speculation and over-trading alone made the outcome inevitable. The drainage upon productivity in order to pay for imports, the cessation of exports of capital from Great Britain, the withdrawal of the imperial subvention of £200,000 per annum, the protracted drought and the steady fall in the price of wool were the factors² that had far more to do with setting the stage for the ultimate tragedy than the action of the government in withdrawing its deposits.

The effects of the collapse are worth relating. Signs of financial distress were noticeable in the first quarter of 1840,

¹ For a careful and exhaustive account of the industrial and financial condition of Australia at this time see T. A. Coghlan's *Labour and Industry in Australia*, vol. i.

² The apprehensions of English capitalists concerning the fate of their Australian investments was deepened by the drought of 1838-40, which caused the failure of two successive harvests. By 1840 large imports of grain from South America and the East had been made, and these had to be paid for in gold. The price of wool fell from two shillings a pound to 14 $\frac{3}{4}$ pence in 1839.