

as the effects of the new gold production could be expected to reveal themselves. From a credit balance of £6,086,000, there is an abrupt change to a debit balance of £6,601,000 in the following year, that is a swing of nearly £13,000,000 following the wonderful year that yielded £19,000,000 of new gold. With the exception of one slight recovery in 1855, the excess of imports continued until the community had, by severe crisis and sustained depression, been brought to a realization of the over-trading which had occurred. (Fig. II, p. 36.)

The course of exchange during the early years of this golden age affords unique testimony to the unusual circumstances of the time. The graph (Fig. I, p. 36) will indicate the extent to which the sensitive foreign exchange will respond to changes in the complexion of trade, and the handicap imposed upon a community by such high charges as £12 for the transfer of £100 to London needs no further comment.

Examination of the banking statistics for Victoria and New South Wales, for the periods immediately before and after the inflation due to the gold discoveries, has a particular relevance to the matter under discussion. The chief factor which accentuated the inevitable pinching of the financial shoe in the moment of crisis is exposed; and the partial, even if involuntary, abandonment of the principles of sound banking stands revealed as one of the elements of the unsatisfactory trading position. Whether we have regard to the ratio of reserves to liabilities, the cover of coin for notes, or the ratio of reserves to total deposits, there does appear to have been a serious disregard on the part of the bankers of what might be considered, especially under most unusual circumstances, to be the necessary policy of safety and caution. By 1853, when the full effects of the gold discoveries were making themselves felt, the position of the banks was, on paper, a very strong one indeed. But, after that date, the drain upon their resources to cover commitments of Australian merchants to British consignors caused a rapid decline in the ratio of reserves to both liabilities and deposits, to a point below the normal for the years preceding the inflation, i.e. 32 per cent. and 26 per cent. respectively below the ratio held in 1853. Between 1853 and 1855 the ratio of notes in circulation to the reserve of coin rose from 37 per cent. to 75 per cent.