

expenses; and the depreciation in government stocks was another cause of concern. An ominous state of tension developed in London; and money, even at 6 per cent., was now difficult to obtain. Many large colonial concerns, especially building and other contractors, were in desperate trouble; and all the factors of stormy conditions were assembled in force.

In November the thunderbolt fell, and from an unexpected quarter. The concussion was felt all over the English-speaking world; and, because of the staggering blow to Australian credit which was the immediate sequel, some statement of the origin and effects of the shock is here necessary.

The main cause of the crisis in London was the injudicious lending of vast amounts of British capital, especially to borrowers in the Argentine. The great financial house of Baring Brothers had placed more than a hundred millions sterling within seven years. The collapse of Argentine securities in the middle of 1890, and the subsequent attempt to bolster these, had pushed this firm into difficulties; and in November 1890 the authorities of the Bank of England discovered that the Barings were on the very edge of bankruptcy with liabilities of over £20,000,000.¹ Prompt action saved an enormous disaster. The Bank of England borrowed £3,000,000 in gold from the Bank of France, realized one and a half millions on Russian securities, and exercised its enormous influence to induce all the great banks to become guarantors for the threatened institution. There was no suspension and no great dislocation of business. In fact, the country knew nothing about the crisis until the danger was well over.

But the incident had a calamitous effect upon the Australian situation. In the first place the distrust that followed the disclosure of the danger that had loomed and passed, as it were in a night, affected all foreign securities; but it affected more especially those of countries in a similar stage of development to that of the Argentine. The finger of suspicion, most naturally, swung towards Australia. Financial papers in London called attention, almost hysterically, to the heavy Australian indebtedness; and the nervous state of the market was reflected

¹ Australian comments on the Baring crisis are to be found in the *Insurance and Banking Record*, 17 Mar. 1891, 17 Dec. 1890, 17 Jan. 1891; and in the *Bankers' Magazine*, Dec. 1890, May 1891, and Oct. 1891.