

epidemic of reconstruction followed; and within thirty days the E. S. & A., Australian Joint Stock, and London Chartered had closed their doors, with liabilities totalling 30 millions; and it seemed little short of a certainty that the National of Australasia with 13 millions of liabilities would supply the dramatic climax. At this juncture the government declared a moratorium which the banks, despite their lack of a common policy, totally disregarded. The worst was now over, and calmer conditions soon returned, although the National along with six other banks went through the mill of reconstruction.¹ The devastation wrought may be judged from the fact that, of thirty-two institutions which traded as banks in Australia in 1890, only ten survived. Of the purely Victorian banks only one—the Royal—weathered the storm; while of the English banks two only—the Australasia and the Union—avoided suspension and reconstruction. The total losses are estimated by Coghlan to have been not less than 11½ millions through reconstructions alone; but this estimate is very far from covering the total casualties, since many private companies of sound reputation and long standing came to grief.²

This tremendous financial convulsion was finally stayed by a measure that could have been employed from the first if the government had shown intelligence and leadership instead of weakness and vacillation. The Bank Issue Act of 1893 made bank-notes a first charge on the assets of the banks, and authorized the Governor in Council to proclaim them as legal tender. This declaration acted magically. The banks met all demands by the issue of notes; and, although a phenomenal amount of bank paper was in circulation for some time, the panic soon died away.

¹ The reconstruction schemes are probably unique in the history of banking. The restraint from criticism, and the evident desire on the part of bankers and depositors to make the best of a situation for which they were jointly responsible, helped a speedy readjustment. The average time taken for reconstruction was two months, although the two English banks took four. In the light of the action of the depositors themselves Coghlan's assertion that their rights were totally disregarded is neither fair nor true.

² Note the comment made by Powell, *Evolution of the Money Market*, p. 640: 'There was also a reversal of the policy in pursuance of which the Australian banks gathered deposits in the United Kingdom for use in Australia. Since then the financial relations of London and Australia have been wholly reversed. The (Australian) Banks keep large balances in London with a resulting accentuation of their dependence on the central store of gold, and of their susceptibility to be influenced by the opinion of the financial hierarchy which protects and administers it.'