throughout the Commonwealth which deepened with the progress of the months. An immediate reaction in overseas trade and disturbances in the rates of exchange between Australia and Britain were the immediate consequences. During the two previous years of wonderful prosperity the great excess of exports had acted so much in favour of Australia that 'drafts on London had sold at a discount, a state of things almost without precedent for half a century'. But the adverse trade balance which marked the last half of 1908 so seriously altered the situation that the exchange position was not only reversed, but gold shipments were stimulated and a credit restriction immediately developed.

The reaction of all these factors on Australian business was cumulative, and the course of events followed the usual distressing sequence. Dullness deepening to stagnation quickly succeeded the previous buoyancy, all industries experienced a sudden check, unemployment figures swelled, construction and building slackened everywhere, and prices for most materials fell. From the financial viewpoint the situation was quite as difficult. Bank deposits, advances and clearings fell sharply, the value of production declined largely on account of the drop in wool and copper prices, wholesale prices reached the lowest level since 1899, and bankruptcies showed a marked increase.

Even these facts fail to furnish the complete explanation of the credit stringency which developed so suddenly. The increased speculation and over-trading of the boom years had weakened the position of the banks very considerably. By 1907 the percentage of coin and bullion held against average liabilities, viz. 20·05, had reached the lowest point since 1889; and the ratio of reserves to deposits subject to cheque was dangerously low. The realization by the banks of their somewhat precarious position led to the usual recall of advances and credit stringency. This is, of course, merely a normal phase of the credit cycle which Hawtrey and others have treated exhaustively.[1] The tendency to inflation during the prosperity phase of the cycle is as common a feature of Australian business as it is of all

[1] *Vide* Hawtrey, *Trade and Credit*, p. 22: 'Before the war . . . the gold-using countries, as a group, used quite regularly to allow credit to expand to an excessive extent, and then, when their gold reserves threatened to fall short of legal requirements, they hastily took steps to contract credit, often at the cost of precipitating a panic.'