

other gold-using countries ; but the policy is more than usually dangerous owing to our peculiar sensitiveness to derangements of world credit. The key to this situation, as indicated by Professor Copland, lies in the tendency for bank policy in Australia to be regulated by the size of funds held in London by Australian banks. The connexion between bank policy and the rate of exchange in Australia, and the balances of loan funds in London awaiting transfer to Australia, is sufficiently obvious. That it has been a very persistent factor in our financial relations with London, and still influences, perhaps unduly, our bank policy cannot be doubted ; and it constitutes the greatest weakness or the greatest strength of our financial system, according to the two opposing schools of thought on the subject.

But to return to the history of the period. The year 1909 was one of the most remarkable of the period for many reasons ; but the chief of these was the rapidity of the revival which now took place. The 1908-9 wool season was 'one long succession of pleasant surprises' ; and it was, doubtless, due to the recovery of the wool trade that business so quickly took on a sanguine tone. By the middle of the year the country was again moving on to prosperity with easier monetary and more active investment conditions. Every state enjoyed a splendid season, wheat and wool prices were high and metal prices improving, while industry was quickening everywhere. These circumstances formed the chief justification for a big series of loan issues for developmental works.

But, in order to understand the phase of prosperity which now commenced, the vigorous world developments of the period must be considered. A great outburst of investment took place which involved all the primary raw materials, especially wool, wheat, cotton, silk, and rubber. Australia's position in the face of this increased industrial demand was most favoured. A wave of prosperity ensued which swept the country along with it until 1913. The two features which stand out most prominently in our economic history at this time were, first, a remarkable increase in prices which affected Australia in common with the rest of the world ; and, secondly, the growing burden of the public debt. Reserving the matter of the public debt for the next chapter, we must consider the movement of prices a little further. It will be remembered that since 1850 prices had