gold would move to one or the other but in relatively small amounts. If, however, the excess on one side or the other were long continued, gold would be drained away in such quantities that bank reserves would be in danger of exhaustion in the debtor country. The manipulation of a gold exchange standard demands, in fact, continuous and close consideration of adverse movements of the exchange because of their tendency to stimulate the export of gold, and it also necessitates the formulation of measures to check undue depletion of gold reserves, i.e. credit contraction, which, as we have seen, may be sudden and severe enough to produce a crisis.

Hawtrey has examined very exhaustively the root causes of such movements of gold, and has shown that they arise both from purely monetary and non-monetary causes. The monetary causes of gold movements are connected with changes in the relative value of British and Australian currency. Gold moved from Australia to Britain either because British currency appreciated in value owing to contraction of credit there, or because Australian currency depreciated through expansion of currency here.[1] Keeping in mind the conditions between 1900 and 1913, consider the case of an inflation of credit in Australia in its effects on trade and gold movement. An expansion of credit increases temporarily the purchasing power of the community affected. Exporters of Australian products may be expected to enlarge the scope of their operations by working on increased overdrafts. Primary producers from whom they buy receive the money as income; and, as this is spent, the demand for both foreign-trade and home-trade commodities is increased. Foreign-trade commodities are those which might be either exported or imported, together with Australian commodities which compete with imports, that portion of primary products which is consumed in Australia, and, lastly, any commodities which, though wholly produced and consumed in Australia, are so far exposed to potential competition that they are tied approximately to world-prices. All commodities

on foreign countries ruling in London, and fix their rates with London according to the state of their cash balances in London. Only in exceptional circumstances do the (British and Australian) rates move far from parity.'—Copland.

[1] An excellent treatment of the Anglo-Australian exchange situation will be found in Chapter II of *Foreign Banking Systems* (Henry Holt) entitled 'The Banking System of Australia', by Professor D. B. Copland.