not included within these groups are home-trade goods, e.g. local services and bulky or perishable goods which cannot be transported.

Now, enlarged purchasing power consequent upon an expansion of credit in Australia will affect both home- and foreign-trade goods, although not to the same extent. Increased demand for the former will be followed by either increased supply or rising prices or both. 'But foreign-trade products will continue to be governed by world-prices, and the increase in demand for them will be felt mainly in the attraction of additional imports, and the diversion of exportable goods to the home market.'

The important consequence for our purpose is the excess of imports which develops, and which, if other factors did not intervene, would have to be paid for in gold. 'The true significance of this phenomenon is that, when the currency is depreciated by a credit expansion, the world prices of foreign-trade products at the fixed par of exchange become too low in relation to the people's purchasing power. Too many of these artificially cheapened goods are bought; and, being bought, have somehow to be paid for.' There can be little doubt from the examination made so far of the prosperity phases of Australian business cycles that this has been one of the factors operating to produce an excess of imports. But the banks, by timely control of credit, could manage such a situation with comparative ease. Always providing that other more powerful factors did not influence the situation, heroic measures would not be necessary.[1]

But the alternative of credit contraction in London is an entirely different matter. Again and again in the course of this survey the instantaneous and emphatic effect on the Australian financial system of a sudden credit contraction in Great Britain has been noticed. The explanation of this phenomenon is, of course, that a maladjustment of credit as between the two

[1] See Copland, *op. cit.*, p. 81: 'In addition to the automatic correctives applied by the exchanges to undesirable price and trade movements the gold standard gave the necessary elasticity to currency. . . . If imports were heavy and banks found it necessary to pay out funds in London on behalf of their Australian clients, they could always procure sufficient cash for their London reserves by the simple expedient of obtaining gold there or shipping it from Australia. This would cause a contraction of currency in Australia at a time when excessive importing demanded it. Such expansion and contraction of credit and currency in Australia was a prominent feature of pre-war banking conditions.'