trade goods such as farm implements. The money spent on investments will come mainly into the Australian investment market; and, as a consequence, Australian capital borrowings abroad will tend to be diminished to the extent that Government securities are taken up. Thus, as the result of good seasons, Australia may be expected to increase very largely her demand for foreign-trade products; and, in this way, to counteract the disturbance in exchange by intensifying the demand made on the London balances of Australian banks.

Again, increased spending power in Australia will, by affecting both the demand for home-trade products and the home investment market, tend to raise prices in Australia in relation to world-prices, and thus to stimulate imports. Increased incomes will accrue both to producers of home-trade products and to the merchants handling these, and they in turn will expend their incomes partly on domestic investment and partly on foreign-trade goods. The excess of exports will thus tend to be counterbalanced, or even more than counterbalanced, by the increase in imports.[1] The part played by gold during these developments is relatively simple. Gold in the hands of the bankers tends to increase as a basis for the temporary inflation of credit made necessary by the buoyant conditions. The effect on Australia, as a normal gold-producer is, of course, merely to retard the export of gold while the currency is expanding.

The condition peculiar to Australia and many other countries of predominantly primary products is the marked seasonal character of the export trade. But the problem is not one of great difficulty because of the possibility of predicting accurately the course of trade. The banks are prepared to 'hold assets in one country against liabilities in another' because of the certainty of an automatic adjustment of the balance as the wool-clip and the wheat and fruit crops are marketed. The risk inherent in the exchange operations, slight though it may be between Australia and Britain, in financing seasonal exports, is, in accordance with a well-recognized principle, thrown upon the Australian banks. In effect this is merely a precautionary

[1] In the contrary case where there is a shortage of exports the movements are parallel but opposite. 'The exporting interests must curtail their expenditure. External investment is diminished, external borrowing is increased, purchases of foreign-trade products fall off . . . There must be a contraction of credit; and, if the contraction is not sufficient, there will be an export of gold.'—Hawtrey, *ibid.*