

existing between the rise in price-levels and the volume of loans has, however, escaped examination; and it would seem to be necessary to attempt to evaluate the effect of loan operations upon price changes for the war and post-war years. It is also, for our purpose, very necessary to sketch the financial system which was developed as a response to war conditions, particularly in so far as these bear upon the circumstances governing public loan policies.

A prime factor in the new situation after 1914 was the development in the banking system which had been commenced in 1910. In that year two important Acts had been passed by the parliament of the Commonwealth, viz. the *Australian Notes Act* and the *Bank Notes Tax Act*.<sup>1</sup> The joint effect of these two measures was to concentrate the issue of paper money in the hands of the Commonwealth Government. Under the original *Notes Act* a system was inaugurated by which the Commonwealth was empowered to issue notes subject to certain safeguards. Up to the amount of £7 millions a gold reserve of not less than 25 per cent. was compulsory, while all issues above that amount had to be secured on a pound for pound basis. Whether some prevision of the monetary disturbances incidental to a world war inspired the change or not, in 1911, and in the face of the very vigorous opposition of the private banks, the provisions of the Act were amended; and the Treasurer was afterwards merely required to hold 'in gold coin a reserve of not less than one-fourth of the amount of Australian notes issued'. The new power of issue authorized by the amendment was not called into play until September 1914; but after that date, as will be shown in a later chapter, it was freely exercised.

Another momentous change in the light of after events was the establishment in 1911 of the Commonwealth Bank.<sup>2</sup> The newly-constituted bank was performing all the normal functions of issue at the outbreak of the war; and it was afterwards of the utmost service in giving effect to war-time financial measures, especially in floating and administering the successive war-loans, and in putting into circulation the greatly increased note-issue authorized by the Federal Government. 'With a State

<sup>1</sup> See Commonwealth Parliamentary Debates, vol. lv.

<sup>2</sup> On the formation and control of the Commonwealth Bank see Copland, *Foreign Banking Systems*, p. 85; and articles in the *Economic Journal*, Dec. 1920 and March 1925.