monopoly of the note-issue and a State bank, Australia was in rather a unique position for financing a war.'

The use made by the Federal Government of its powers has a direct bearing upon our theme, and the course of events must be carefully noted. The three main safeguards under the gold standard were the free export of gold, the use of gold as a reserve for bank clearings, and, just prior to the war, the maintenance of the original conditions of the Australian Notes Act of 1910. 'Within three months of the declaration of war these safeguards had all been surrendered. The note-issue was restricted, in a country where new gold supplies were forthcoming yearly, by a 25 per cent. reserve only; the export of gold was prohibited, and the banks had adopted Australian notes as a basis for clearings. The gold standard was thus in practice abandoned, and Australia had a note-issue which was virtually inconvertible, inasmuch as the banks had adopted the notes for clearing purposes and would not press the Treasury for gold, where alone the notes were legally convertible.'[1] The normal corrective of gold movements was thus abolished, an inconvertible paper issue established, and a system of financing war-loans adopted which amounted to a deliberate policy of inflation, not only of government notes, but also of bank credit. The evidence all goes to show that the enlarged issue of notes was the main dynamic behind the general expansion of bank credits which occurred, and that the fluctuation in prices was in some degree dependent upon the increase in the note-issue from £9·5 millions in 1914 to £59 millions by the end of the war.

But to attribute the whole difference in price-levels to the influence of the inflation of the currency would be to disregard the very important influence of borrowing operating through the trade balance. Copland, indeed, realizes to the full the importance of this factor; but, owing to the difficulty of

[1] The actual details of the change are well summarized by Copland, *Foreign Banking Systems*, p. 51. 'The traditional arrangements under the Anglo-Australian gold exchange standard . . . were completely altered soon after war broke out. In the first place, an embargo was placed on the export of gold which was allowed only under licence from the Federal Treasurer. Secondly, the mints no longer freely issued sovereigns to the public in return for gold bullion. Thirdly, the practice of the banks in providing gold freely was abandoned, and notes became the basis of their clearing-house arrangements. The Federal Treasurer also discouraged the practice of paying out gold in return for notes at the seat of government, and the note issue was thus virtually inconvertible.'