

abroad. Steeply rising prices had been a feature of the whole of 1919 and most of the following year.<sup>1</sup> After the break there followed an equally rapid decline of 42 per cent. in less than eighteen months. This sudden collapse of prices was a feature of the recession in all countries. The severe check due to the onset of the 'writing down' period in Britain brought about an inevitable double reaction in Australia, first through the fall in the prices for Australian products, and, secondly, because of the shortage of overseas loan supplies. Bearing in mind the relation between interest and new loans sketched in the last chapter, we must now mark the coincidence of several factors which tended to intensify the subsequent credit shortage. 'During this process of deflation difficulties of another kind arose. For each of the years 1917-20 there had been an excess of exports over imports, and for the year ending 30th June, 1921, this excess reached the record figure of over £50,000,000. But for the following year there was a decrease of exports of over £16,000,000, and a very heavy increase of imports of £65,000,000. This brought about an excess of imports of over £30,000,000, and caused great difficulties in financing imports at a time when the banks were deliberately restricting their advances for home trade.'

The immediate debit balance, as an index of the very serious situation which developed, was estimated by the Commonwealth Statistician to amount to £27,000,000 in respect of excess of imports and £22,000,000 by way of interest liability, 'consequently the value of the exports for the year was about £50,000,000 short of the amount required to pay for the imports and to meet the standing obligations on account of interest, &c.'<sup>2</sup> The strain imposed upon the exchange facilities as the outcome of such a situation can easily be imagined.

Contraction of credit we have now learnt to regard as the normal reaction at the end of the borrowing cycle following the expansion which characterizes its earlier phases. The crisis of 1921 was no exception: restricted credit and the recall of advances once more marked the cessation of capital supplies. The inflation

<sup>1</sup> 'The rise in this period was nearly 40 per cent., and indicates a period of feverish trade activity.'—Copland, *ibid.*, p. 564.

<sup>2</sup> Commonwealth Year Book, No. 14, p. 497. 'Exchange on London was very difficult and demand drafts rose to £1 17s. 6d. per cent. No doubt business was done at a much higher figure, but this was much the highest official quotation since 1900.'