(see footnote on page 167) began in an upward direction in 1915, fell back again in the next year, and then mounted rapidly through the years from 1917 to 1920. That this first rise was an effect of the shortage of essential supplies from overseas, and the second of the internal credit expansion and grand-scale borrowings, has already been demonstrated. But the extraordinary operations by which this credit was diffused throughout the Commonwealth call for further examination.

The machinery set in operation by the Federal Treasury in pursuance of the war-time financial policy, served to expand the circulating medium even more effectively than did the actual retention of gold. Professor Taussig's description of the analogous situation in the United States is so close in its application to the Australian situation that it might be adopted almost *verbatim*. The disposal of the successive war-loans was accomplished by utilizing to the utmost the credit machinery of the banks. Purchases of the bonds and certificates were encouraged, 'indeed were fairly pumped up, by great subscriptions for which the banks supplied the funds'. Millions on millions were disposed of by this forcing process. 'The banks made loans to the subscribers, creating deposits to their credit; cheques against these deposits served to pay for the bonds, the Treasury again deposited these to its credit, and in due time drew its own cheques for war expenditures.'[1] The large stock of gold held in the country enabled inflation to take place without any dangerous symptoms manifesting themselves, and surprisingly little criticism of what at ordinary times would be regarded as a dangerous proceeding was evoked.[2] Indeed the one infallible sign and the one effective check—the movement of gold—had been damped down by the embargo. In other words, the traditional links between price changes and international trade were no longer present; and the banks were thus free to raise war-loans by unlimited creation of credit. These new deposits were no temporary addition to the credit structure; but were piled one on another in the process of 'pyramiding', as the phrase of the time went. 'First they were used by the Treasury

[1] Taussig, *International Trade*, Chapter XXV.

[2] See Parliamentary Debates, 1918, No. 32, p. 4329. 'I do not consider that we are within the danger zone. What should be the extent of currency reserves is largely a matter of opinion. I feel that at the present time the Australian note issue is perfectly safe.'—The Federal Treasurer (Mr. Watt).