CHAPTER XVII

THE ECONOMIC EFFECTS OF THE RETURN TO GOLD IN 1925

'The re-adoption of the gold standard may prove in the future to have been the wrong policy to adopt: revolution may undo again what was done last year, or the slower and more subtle modifications which the development of technique can bring with it may perhaps make the recent change irrelevant. But for the moment the fundamental decision, fatal or beneficent, good or evil, has been taken; and we are now concerned, not with questions of high principle, but with questions—irritating, difficult, insistent questions—of immediate policy and results. It is with these questions, and not with the gold standard as such, that we are concerned here.'—Prof. T. E. Gregory, *The First Year of the Gold Standard.*

'The credit restriction already in force has been effected in several ways which are partly independent. First, there is the embargo on new issues which probably retards the normal rate of the circulation of money; then in March the bank-rate was raised; more recently market-rate was worked up nearer to the bank-rate; lastly—and far the most important of all—the Bank has manœuvred its assets and liabilities in such a way as to reduce the amount of cash available to the Clearing Banks as a basis for credit. This last is the essential instrument of credit restriction. . . . Credit restriction is an incredibly powerful instrument . . . especially in circumstances where the opposite course is called for. The policy of deliberately intensifying unemployment with a view to forcing wage reductions is already partly in force, and the tragedy of our situation lies in the fact that, from the point of view of the advocates of the gold standard, this course is economically justifiable.'—Mr. J. M. Keynes, *The Economic Consequences of Mr. Churchill.*

For Australia the decision to return to gold was made at a most propitious moment. Actually, in point of time, the event could not have happened more fortunately. But the ease with which the change was accomplished, and the apparent absence of untoward consequences, have been responsible for a too-ready acceptance of the belief that the restoration has had none but good effects upon the economic situation in the Commonwealth. Yet we should be justified, on the grounds of economic theory alone, in adopting an attitude of profound scepticism towards this belief; and, in fact, all the weight of the evidence is in the other direction. In the first place, Australia is, financially, so dependent upon Great Britain,[1] and the monetary systems of the two countries are so vitally connected, that a circumstance which

[1] 'There is no evidence that the position of dependence is likely to be changed in the near future. Australia at present finances most of her external payments through London, and accepts the prevailing rates of exchange ruling in London. There is thus no independent exchange market; and the rates of exchange vary only occasionally as announced by the banks after agreement with the Commonwealth Bank.'—Copland in *Foreign Banking Systems*, p. 85.