

seriously affects the one must also affect the other in some measure. Secondly, and perhaps more importantly from the aspect of the business cycle, is the relation in which Australia stands as debtor to Britain. The dependence upon Britain for capital supplies is of far greater significance, especially in the post-war period, than the relation between the English and the Australian pound. It is scarcely to be supposed, therefore, that the Commonwealth has come scatheless through the most momentous change in her recent financial history. The disabilities for which that change was partly responsible in British industry have, on the contrary, been shared in full measure by Australia; and an examination of its concomitant circumstances will do much to explain both the facility with which the transition was made and the manner in which the effects of the return to gold have been masked by other developments.

It is not proposed to translate the controversy concerning the expediency of the return to gold into the Australian field. The step having been taken, our interest lies rather in its economic results than in hypothetical alternatives. Nor will our purpose be served by entering upon an inquiry as to whether the period of transition commenced by that momentous decision is yet over, or whether the difficulties of the consequent monetary adjustments are safely surmounted. But, in so far as the return to gold affected both the value of the Australian pound in relation to other currencies, and the British surplus of capital available for investment overseas, it has had an immediate reaction upon Australian business that cannot lightly be dismissed. Nor can this matter be viewed in its proper perspective without some description, however brief, of the world situation at the moment when the Imperial Government decided upon the restoration of the gold standard, or apart from some theoretical discussion of the issues involved.

Alarmed by the steady inflation accompanying the post-war boom, and fortified by the Cunliffe Report in 1918, the Bank of England raised the bank-rate to 7 per cent. At about the same time and by similar measures, the Federal Reserve authorities of the United States sharply constricted credit in the United States, and by 1919 had achieved a notable appreciation in the value of the dollar. The British wholesale price index fell from 306 to 158 by January 1922; while, over practically the