The estimation of the deflation consequent upon the return to gold, and of the relative disadvantage reaped by Australia, by virtue of the diminished value of exports and the increased total of the payments on account of imports, interest, and services, represents a difficult exercise in the measurement of the effects of currency appreciation. Over-lain as these effects are by price changes due to tariff adjustments and to wage fixation, the isolation of the purely monetary phenomena cannot be achieved with any great degree of satisfaction. Sufficient can be accomplished, however, to indicate the broad effects of the change upon Australian business, and to put the penalties of the previous inflation in a fairly clear light.

In his reply to the attack made by Mr. J. M. Keynes upon the decision of the Baldwin Government to restore the gold standard Professor Gregory has touched upon the very factors which have told most effectively in the Australian situation. The stabilization which was effected was on the basis of the higher, i.e. the external, value of both the British and Australian currencies, and in this way an adjustment crisis was induced which varied in the two cases by the extent of the divergence between the internal and external values of the pound, and with the elasticity of the factors of production, i.e. with the extent to which capital and labour in particular could be used more or less effectively than before the change. In particular, if there had been *over-valuation* of the currency prices for exports would represent a smaller return in the local currency; and this would form one of the chief tests to be applied to the situation.

'Meanwhile all expenses in terms of the local currency remain what they were. How will the adjustment be made? *If* wages in the exporting industries remain fixed, *if* there is no possibility that depression in these trades will lower supply prices in other industries, *if*, in spite of the fact that wages and prices in the other industries are not directly affected, labour cannot be transferred and by competition reduce wage rates, and by increasing supply, reduce supply prices, *if* there is no reduction in the cost of living, or, *if* there is a reduction, it is not allowed to affect wage rates; *if, in other words, we assume a rigid, water-tight organization of labour, a quasi-monopolistic organization of industry, there will be no speedy adjustment.* Under such conditions real wages in the 'sheltered' trades will rise, un-