situation of a bill rate 1 per cent. higher in London than in New York.'[1]

Both of these measures had important reactions upon Australian finance which must now be examined.

The embargo on foreign issues was in effect a form of censorship exercised by the Bank of England ever since the difficult times of 1924. It was continued until the end of 1925 ostensibly with the object of preventing a strain on the exchanges at a time when world prices favoured the export of gold from Britain. It was not remarkably successful, since it was impossible to hold back all types of foreign issues, and, particularly, to prevent private purchase of foreign securities which was the alternate form assumed by the 'flight of capital'. While the censorship was both unpopular and ineffective, it had very serious effects upon the Australian financial situation.[2] For the rationing of issues led to the rigorous scrutiny of all overseas issues; and, because of the privileged position held by Australian Government bonds as trust securities in the British market, a great deal of criticism was directed against Australian loan policies.

There can be little doubt that the attitude adopted in Britain evoked the defensive response which took shape as the Australian Loan Council.[3] The immediate result of the embargo was to cut down loans of all sorts to Australia from the £42 millions which were transferred in 1924 to less than £3 millions in the following year. Over the three years 1925–6–7, loans of all classes averaged a bare £25 millions per annum. This oscillation from fat to lean years in the matter of capital loans led

[1] See J. M. Keynes, *The Economic Consequences of Mr. Churchill*, pp. 17 *et seq.*

[2] See on this aspect of the embargo, article 'Australian Credit as viewed from London', by Sir Hal Colebatch, *Economic Record*, Nov. 1927.

[3] By an agreement between the Commonwealth and the States which was arrived at in 1928 and validated by statute in the following year, (i) State debts are taken over by the Commonwealth, (ii) a Loan Council is created, (iii) Annual contributions are to be made from Commonwealth revenue towards the payment of interest on the State debts, and (iv) Sinking funds are provided. 'The new law provides for a Loan Council, to consist of one member of the Commonwealth and one for each State. Each Government (Commonwealth or State) must submit to the Loan Council a programme setting forth the amount it desires to raise by loans for each financial year; and if the Council decides that the total is not available at reasonable rates and conditions the Council shall fix the amount to be borrowed and shall allocate the amount between the Commonwealth and the States.'—J. R. Collins, *The Public Debts of Australia*, p. 20.