

inevitably to abrupt restriction of bank credit in Australia and to the recession of business which was so marked a feature of the triennium following the return to gold.

Arising from this compulsory deflation were other effects of no less consequence. The year 1924 saw the almost complete re-establishment of world trading connexions, and it was a matter for comment in the bulletins of economic services that the uniformity of the international trade cycle once more definitely appeared.

'But whereas in the previous year the growing international solidarity was manifested in the expansionist tendency in the various countries associated internationally, this improvement at the turn of the year almost everywhere came to an end, and was displaced by a stagnation which became more marked month by month. This change in the world situation was marked by a general fall in the world level of prices, a decline in trade turnover and in the demand for credit, a growing unemployment in western and eastern Europe, and in a portion of the overseas areas.'¹

Under the urge of world conditions and local deflation, prices in Australia reacted sharply, and a movement commenced which took the wholesale price index from 1,878 in December 1924 to 1,710 by March 1927.

The maintenance of higher interest rates by the Bank of England relative to the New York rate was the second effect of importance. Professor Gregory has estimated that from July 1924 the London discount rate was in excess of that for New York by from 0.7 to 1.8 per cent., and that for the whole of 1925 it never fell below the American rate. A period of relatively dearer money was thus ushered in for Australia, which persisted until, by 1928, the depression in business and the anxiety among investors to play for safety by investing in Government securities in preference to industrial stocks achieved the paradox of a cheaper rate for money in Melbourne than in London.

¹ First survey by German Imperial Statistical Office, the Institut für Konjunktorschung, on the *World Economic Position at the end of 1925*.