CHAPTER III

THE POLICY OF THE BANK OF ENGLAND

THE effect of a high exchange is to diminish the sterling prices both of imports and of exports. The fall in the price of imported food tends to reduce the cost of living. It is surprising, perhaps, that it has not had more influence in this direction. Probably the explanation is to be found partly in the world-wide rise of food prices, partly in a time-lag (in which case we may look forward to some further fall in the cost of living in the near future), and partly in the fact that, by the time a commodity, even an imported commodity, reaches the consumer, its cost has been considerably affected by the various home services performed on it. Nevertheless, the table printed in the first chapter shows that some reduction of British money wages on this score is, in fact, already justifiable—though not, for that reason, much the easier to accomplish. Since the higher exchange does not help us to *afford* a higher real wage in Great Britain, it only grants this boon to the workers in order that it may be snatched away again as soon as possible. Meanwhile, the apparent cheapness of foreign products causes us to buy more of them. At the same time, the fall in the sterling price of export reduces the business of the export industries.

The result is both to encourage imports and to discourage exports, thus turning the balance of trade against Great Britain. It is at this stage that the Bank of England becomes interested; for if nothing was done we should have to pay the adverse balance in gold. The Bank of England has applied, accordingly, two effective remedies. The first remedy is to put obstacles in the way of our usual lending abroad by means of an embargo on foreign loans and, recently, on Colonial