therefore, that the Bank of England's other remedy comes in. By maintaining discount rates in London at a sufficient margin above discount rates in New York, it can induce the New York money market to lend a sufficient sum [1] to the London money market to balance both our trade deficit and the foreign investments which British investors are still buying in spite of the embargo. Besides, when once we have offered high rates of interest to attract funds from the New York short loan market, we have to continue them, even though we have no need to increase our borrowings, in order to retain what we have already borrowed.

Nevertheless the policy of maintaining money rates in London at a level which will attract and retain loans from New York does not really differ in any important respect from the French policy, which we have so much contemned, of supporting the exchange with the help of loans from Messrs. J. P. Morgan. Our policy would only differ from the French policy if the high rate of discount was not only intended to attract American money, but was also part of a policy for restricting credit at home. This is the aspect to which we must now attend.

To pay for unemployment by changing over from being a lending country to being a borrowing country is admittedly a disastrous course, and I do not doubt that the authorities of the Bank of England share this view. They dislike the embargo on foreign issues, and they dislike having to attract short-loan money from New York. They may do these things to gain a breathing space; but, if they are to live up to their own principles, they must use the breathing space to effect what are euphemistically called "the fundamental adjustments." With this object in view there is only one step which lies within their power—namely, to restrict credit. This, in the circumstances, is the orthodox policy of the gold

(1) The Harvard Economic Service estimates that in recent months American banks have advanced to the London Money Market between $200,000,000 and $300,000,000.