LAND & LIBERTY

Editor V. H. BLUNDELL — *Asst. Editor* R. C. GRINHAM

NOVEMBER & DECEMBER 1966 TWO SHILLINGS

Exhorters & Exporters

By HENRY MEULEN

THE ROOT CAUSE of the imbalance of trade in Britain today, lies in the fixed price of foreign exchange adopted at Bretton Woods in 1944. The motive for its adoption was to restrain the war-devastated countries from resorting to note printing and inflation as a very present help in time of trouble. Yet I am certain that little credit is due to Bretton Woods for the monetary restraint that followed Word War II. The main reason for the smooth transition from war to peace was the unparalleled generosity of the U.S.A. in pouring out monetary aid to the devastated countries. These countries rapidly found their feet again, but the Bretton Woods agreement remains—a striking example of the way nations, like individuals, can get used to chains.

It is everywhere argued today that free exchanges would introduce uncertainty, but the essence of freedom is its unpredictability; that is what we mean by free choice. The Bretton Woods agreement represents a decisive interference with the free market. Instead of allowing the price of foreign currencies to respond to the market fluctuations of supply and demand, we copy the wartime practice of fixing the price of foreign currencies; and price fixing works as badly in this area as it did when it was applied to ordinary commodities. It is worse, because whereas to fix the price of any ordinary commodity affects only a small part of the market, to fix the prices of foreign currencies affects all foreign trade.

Surely we ought not to have to shout from the housetops the obvious truth that we could never import more than we export if the government did not prevent the price of foreign currency from rising when importers were demanding more foreign currency than was being currently earned by exporters. What hinders acceptance of this truth? Is it a dislike of seeing the pound worth more foreign currency—the shame at seeing a fall in the value of the pound? But in a free market, wherever the supply of a commodity diminishes, or demand increases, its price will rise, and this rise represents a fall in the value of money. We might feel shame if the pound falls because we have printed too much money; but there can be no shame if the pound falls in value abroad because importers here are trying to buy more foreign currency than we have earned. All the commodity markets maintain a delicate balance between supply and demand precisely by using a fluctuating price, and nobody has ever seen a flush of shame around Spitalfield, Billingsgate or Mincing Lane.

The present system inevitably leads to recurrent trade imbalances, and governments keep desperately trying one restrictive scheme after the other; and every one of these schemes aggravates our difficulties without correcting the fundamental imbalance. Tariffs, import quotas, export subsidies, and now a payroll tax; all of these measures making work for a host of accountants and tax collectors. They hinder production at home, and they do not prevent adverse trade balances.

The air is full of exhortations to export. Manufacturers proudly announce the percentage of their product that is exported. Those who do not export are upbraided by the Prime Minister for their "sheer damn laziness." But what nonsense this all is. The object of a business is to make a profit, whether the profit comes from home sales or exports. Our exhorters seem to overlook the fact that our exports are another country's imports; and our best customers are today taking equally stern measures to slow down their imports.

What we need to do is not necessarily to increase exports, but to keep exports in balance with imports. When a man is in debt, he can either earn more, or cut down his spending; either method will remove his financial worry. Our Government cuts down imports by imposing import quotas and tariffs and the EFTA countries reproach us bitterly. But a floating exchange rate is much more sensitive in its corrective action. It requires no political decisions, no consultations with economic experts who, as often as not, contradict each other. It allows the pound to fall exactly in proportion to the imbalance of trade. This fall automatically and continually discourages imports and encourages exports. It invites no indignant enquiries from abroad as to when a tariff will be lifted; as imports slacken and exports increase, so the value of the pound abroad recovers, until our foreign trade is again in balance, when imports will again begin to flow in. And the decision lies, not with politicians and economists, but with the foreign traders themselves. Is this why our politicians dislike the proposal?