The Folly of Exchange Control

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"WHAT IS improbable beyond the reach of imagination is that all the forces which affect the relative supply and demand for the national currencies—however many or however few countries you like to look at—should exactly and precisely balance out, so that the pattern of their relative values either remained absolutely unchanged or was at worst a constant mean, around which they narrowly varied or vibrated but to which they ever and again returned. All that we know about human life in the real world makes it incredible that Providence should have decreed the existence of such a pattern."

Thus writes Enoch Powell, in a new pamphlet* in which he attacks the idea of fixed exchange rates.

Mr. Powell questions many cherished concepts in the course of his argument and disputes that there is a liquidity problem at all. There cannot be a shortage of a medium of exchange, he says, if prices are free to fluctuate, and the argument for stable prices is entirely spurious. A standard of value evaluates different items of wealth at any one moment, not over a period of years. In any case, internal currency values fluctuate widely; so why must external values be fixed?

The fallacy of the liquidity problem, says Mr. Powell, lies in the assumption that an increased supply of international credit would avoid balance of payments problems resulting from pursuing an inflationary domestic policy. As long as exchange parities remain fixed, increased liquidity would not prevent domestic inflation leading to balance of payments crises.

Why do we have fixed exchange rates? Mr. Powell attributes them to the war-time influence and economic activity. "The current (1944) presumption was in favour of management, and since management was 'winning the war,' management was looked to with optimism to 'win the peace.' Men were living and had been living in a period when the automatic processes of self-expression and mutual adjustment—in short, markets—were suspended; and nothing is harder to prove when a market happens not to be working, than that it could ever work again."

Even so, Mr. Powell argues that the Internationanl Monetary Fund regarded post-war parities as provisional. The subsequent rigidity has largely reflected the fear that free movements in national currencies would raise the price of gold, thereby benefiting the world's two primary producers of gold, Russia and South Africa.

Mr. Powell's theme is not only economic; it is libertarian as well. The control of the international price of currencies, like every other suppression of market prices, leads to other controls which make a mockery of the individual's freedom to trade, travel or invest.

"Today," says Mr. Powell, "the governments of reputedly free societies say to their citiezns: 'You may not take your own property out of the country; you may not use your own money to buy assets elsewhere; you may not pay for services which foreigners are prepared to render to you; you must not own gold or other currencies, and if you get any you must hand them over to us at once; you must not buy what you think you can afford nor sell what you think will bring you profit' Having locked their citizens up in these prisons, the governments then say to them: 'Rejoice; for we have not been unmindful of you. We have just set up yet another organisation "to assist in the establishment of a multilateral system of payments in respect of current transactions between member nations and in the elimination of foreign exchange restrictions which hamper the growth of world trade".' ".

This paper will give fresh heart to those who dare to oppose the "experts," and will encourage the layman to see beyond the clichès and platitudes served up to him by politicians; it seeks to undermine the uncritical acceptance of orthodox opinions and the reluctance to submit untested propositions to the "indecency of being seriously examined."

*_Exchange Rates and Liquidity_ by J. Enoch Powell. Occasional Paper 18. Institute of Economic Affairs Ltd., 4s. 6d.