

in freely to bring prices back to a realistic level. The spur of competition would certainly stimulate growers to produce a higher quality product. At present there is little incentive to do this. Some farmers might produce too much in a year, others too little, but it is unlikely that the sum of their errors would be as costly as the policies of the monolithic Board have been. At least no competitive market has ever charged taxpayers several million pounds for depriving them of 1.7 million tons of its products.

The Beggar Gets His Loan

HENRY MEULEN

THE FINANCIAL TIMES headline 10th September, 1968 read: "Sterling Gets New Line of Defence But At A Price." The article then proceeded to state the price: "(1) To the extent that sterling balances are withdrawn and the standby credit is used, a deposit in London that might not have been called upon at all is exchanged for a debt that will have to be repaid by 1978; (2) The British Government has had to give sterling area countries an exchange guarantee for the bulk of their officially-held balances. This means that if there were another devaluation, those balances would be written up to maintain their dollar value."

Point (2) indicates the depth of our humiliation. No country that has hitherto devalued has felt itself called upon to compensate foreign holders of its currency; the rule was that anybody who holds a foreign currency does so at his own risk. Evidently our credit abroad has sunk so low that the sterling area countries are unwilling to hold pounds unless we guarantee them against loss. We are lucky that they did not demand that we guarantee the gold value of the balances instead of merely the dollar value. If, as seems likely, both the dollar and the pound will depreciate further in relation to gold, we shall be spared the heavy burden of paying compensation for that depreciation.

But how can we bear the humiliation of going cap in hand to small countries like Austria, Belgium, the Netherlands, Norway and Sweden, begging for consideration and for a loan, when the dignified alternative of a floating pound is available. A free and proud man does not go begging when he wants something; he either works harder, or he does without the object. When we have imported more than we have exported a floating rate for the pound would force this decision on all foreign traders. It would make imports dearer, thus compelling economy in consumption here, and our exports would become cheaper for the foreigner, inducing him to buy more from us, thus providing us with the incentive to work harder.

Against these manifest advantages of a floating rate, the only objection that is raised is that under floating rates foreign traders would not know what the future value of their currency would be. It is, of course, an inherent difficulty of a free market that it depends on demand and supply by free men, and under freedom the price ruling in the market represents not only the balancing of current payment demands against current supply of currency, but also a balance between the hopes and fears for the future among the traders in that market. Every price embodies a part of this speculation, and prices will vary according to whether the bulls or bears do the speculating. The values of currencies cannot be shielded from this sort of speculation. A government can fix the value of its currency at home; it cannot fix the value of a country's currency abroad. Nobody can fix the future value of a country's currency abroad. We try to fix the foreign value of the pound and the value of gold. But this compels us to restrict the supply of pounds at home whenever the balance of trade goes against us, and we call this providing the certainty of money.

The objection that floating rates would cause uncertainty would have more weight if the objectors could show that state control of the price of foreign currencies gives us more stability. Fixed exchange rates, however, merely shift the speculation from the money market to the politicians. And the result? For months everybody has wondered whether German politicians would up-value the mark. A few weeks ago the German excess of exports over imports became so great that people here were convinced that the mark would have to be up-valued, and there was a rush to buy marks. But such violent speculation could hardly ever occur under floating rates, where the rate would move daily by very small degrees.

Moreover, our opponents never seem to take into account the fact that when we continue to sell foreign



currency at a fixed rate to importers, there must arise frequent occasions when we run short of foreign currencies, and have to pay in gold. If this drain becomes serious, the government must raise our bank rate, squeezing the money supply to all buyers here, and we have now had a crisis bank rate for the longest period on record. This continued restriction of home credit prevents production here. I have yet to find a single objector to floating rates who faces this argument.