Does devaluation help? [1]

Written by **Sam Bowman** [2] | Friday 11 May 2012

A pamphlet [3] by John Mills arguing for currency devaluation was recently sent to the "3,000 most influential Britons" (whoever they are). Thankfully, Prof Kevin Dowd and Gordon Kerr of Cobden Partners [4] (Helping Nations Solve Banking Crises) and author of our paper The Law of Opposites [5] have penned a short response rebutting the points made in the pamphlet:

> "Devaluation (or at least unexpected devaluation) does produce one-off boosts to exporters (whilst also penalising importers: what about them?), but any 'benefits' it produces are only temporary, and cannot form the basis of a sustained policy without disaster. Moreover (contrary to Mills' assertions) there is no credible evidence - in the 1930s, post Bretton Woods, or any over any other period, anywhere - where a policy of sustained or repeated devaluation actually produced the benefits claimed for it. If it did, Argentina would be a role model.
>
> "In essence, Mills fails to appreciate that any benefits it produces are only temporary, and if engaged in repeatedly will obviously rapidly debase the currency. I would argue that in the UK over the last 18 or so years the steady reductions in interest rates, followed by QE has indeed been exactly what Mills sets out as a policy of competitive devaluation. Repeatedly the authorities have claimed (on every brief GDP or balance of payments uptick) that this policy has been working, yet we are clearly in dire economic circumstances. For how many more years should this failed experiment continue?
>
> "Devaluation is only the external manifestation of a currency losing its value, the internal manifestation being the old enemy, inflation. Devaluation and inflation are two sides of the same coin.
>
> "Look at it another way: it is a basic fallacy to believe that simply tinkering with money (i.e., printing more of it) can possibly solve underlying real economic problems that require underling structural changes.
>
> "In the 1970s the UK enjoyed the Barber Boom experiment - which worked too until we ended up with stagflation, the economy on the brink of collapse, the legitimate government brought down by Arthur Scargill and the Hard Left ready to institute a siege economy. But thankfully, the Goverment was forced into rehab and the policy was abandoned temporarily.
>
> "Debasing the currency is never a long term answer and never works long term. It has produced disaster after disaster, and has been condemned by historians for thousands of years. Yes, concerns over unemployment, costs, etc are very real, but these have other (free market) solutions. As per William J. McKinley, the former US President and a firm advocate of the gold standard: "Good money never made times hard". I would also refer Mr Mills to theattached brief WSJ piece on the high price of a cheap pound [6] by my Cobden Partners colleague Jamie Whyte."

blog comments powered by Disqus [8]

Source URL: http://www.adamsmith.org/blog/money-banking/does-devaluation-help

Links:
[1] http://www.adamsmith.org/blog/money-banking/does-devaluation-help
[2] http://www.adamsmith.org/taxonomy/term/5809
[3] http://www.adamsmith.org/sites/default/files/marciaw_20120420_102202.pdf
[4] http://cobdenpartners.co.uk/
[5] http://www.adamsmith.org/sites/default/files/research/files/ASI_Law_of_opposites.pdf
[6] http://www.adamsmith.org/sites/default/files/High%20Price%20of%20Cheap%20Pound.doc
[7] http://disqus.com/?ref_noscript
[8] http://disqus.com