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Why you really don't want capital controls even in extremis [1]

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There are, to a useful level of accuracy, two forms of capital controls. The first is the type we're seeing in Cyprus today, limited and supposedly shot term controls in order to stave off imminent disaster. Even the OECD and the IMF tend to say that these are OK in the right circumstances. The second sort of capital controls comes from the grottier end of the fascist economic spectrum. Capital, in some manner, belongs to the country not the individual so it's just fine for the country to deny the individual the right to send it where they wish.

The problem with this distinction is that the former tend to end up transforming into the latter [3]:

> The authorities said at the time the controls would be temporary and limited in scope ? lasting a few weeks or, at worst, a month or two. Half a decade later, the capital controls are still in place and getting more and more restrictive. This was the second time Iceland had implemented `temporary? capital controls.
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> The first time it did so, in the 1930s, led to the controls being in place until 1993. This is in line with the historical evidence; once capital controls are imposed, they are really hard to abolish, and a temporary arrangement usually ends up being permanent.
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> The reason is that when a country implements capital controls, it signals the authorities have lost control over the economy, needing to employ desperate measures. That is does not exactly build confidence, so anybody with money will seek to abandon the sinking ship as quickly as they can, persisting in that desire until things look better. While the controls last, however, it is unlikely that things will look better because the abolition of the controls can become a necessary condition for improving economic conditions. This is why the official pronunciations on the duration and the scope of the capital controls in Iceland were always too optimistic.

If you look around the UK at present you will see the usual suspects quite slavering over the new consensus that the short term controls are OK. For exactly this reason: they know that short will become long. It even popped up in the Green New Deal from NEF and other economic ignorants. The idea was that if British capital could be stopped from leaving Britain then there would be more capital to invest in their lunatic plans. This doesn't really work for:

> The Icelandic capital controls have proven to be highly damaging for its economy; investment has collapsed and is just about the lowest in Europe at 14.4% of GDP in 2013, compared to the EU average of 18%. The reason is that foreign direct investment almost completely dried up...

It most definitely wouldn't work in the British situation. You may have noticed that we're running a trade deficit. We have been since, ooh, the early 80s I think? What often gets missed is that if you're running a trade deficit then you are, by definition, running a capital account surplus. That is, more foreigners have been investing in Britain than Britons have been investing in foreign. This is simply an identity, it's not an arguable point.

So, institute capital controls in order to increase the amount of capital available for investment and.....suddenly Britain has less capital as Johnny Foreigner no longer sends his capital here for people to enjoy.

We really don't want to let them reimpose capital controls you know. It's not just the vileness that accompanied them, the having to ask permission before taking more than £25 out of the country and all that. It's that capital contols would be hugely damaging to the economy of the country. Because, just for those who are in the Green New Deal and thus too stupid to notice, we import capital in Britain. And if we have capital controls then we cannot do that, can we?

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