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Common Error No. 80 [1]

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80. "We need to control movements of capital across borders to prevent funds leaving the country that are needed for investment here."

We used to have exchange controls, dating from World War II and regarded as permanent. People going abroad were only allowed to take out £50 at a time, and had their passport stamped on each occasion. In 1979, early into the first Thatcher government, Chancellor Geoffrey Howe quietly abolished them. The predicted panic and chaos never materialized.

A vital part of our earnings comes from our foreign investments. Because we allowed investment abroad in the past, we now reap the dividends as part of invisible earnings. If we stop people investing abroad, we cut off that future source of income. It is a good thing to have us investing overseas; it means we can make money out of the economic activity of other countries.

It is also good to encourage foreign investment at home. If we make it difficult for our people to invest abroad, foreign governments tend to retaliate, denying us access to investments from there. These investments could be helping to produce economic growth and jobs in the UK.

Exchange controls are part of the mentality of a siege economy, which wants to isolate itself from world trade and trends and seek self-sufficiency instead. Free trade in investment, like free trade in goods, is of all-round benefit. If we want people to invest in Britain we should make it attractive for them to do so, just as we should make our goods attractive if we want people to buy them.

In an increasingly globalized economy, the mentality which seeks to restrict currency flows is a throwback to the mercantilist ideas which preceded the modern world. People once thought we had to hoard gold and silver bullion and prevent its export; now they try to treat currencies similarly. In truth, we live and thrive on trade and free movement of capital and goods.

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