

The fall in the pound mainly occurred before the Brexit decision

Today we will doubtless hear plenty of ill informed discussion about car sales and the fall in the pound. So let me remind people of what has happened to the pound in recent years.

It reached a peak of \$1.71 on 6 July 2014. It fell to a low of \$1.38 on 28 February 2016, well before the referendum vote when the establishment and City were still all convinced we would vote to stay in.

It was only at \$1.41 on 14 June before the vote, and fell to \$1.29 on 7 July after the vote. It is currently at \$1.35. As you can see from these figures the pound has moved in big swings in recent years, largely unconnected with the referendum. I doubt those who think the referendum is the main driver argue that the pound has rose 7% against the dollar last year because of Brexit.

The fall in diesel car sales is nothing to do with Brexit

Car sales rose well against the background of a falling pound in the year before the Brexit vote, and rose strongly for the first nine months after the Brexit vote when the pound fell further. Since April 2017 diesel car sales have fallen sharply, whilst petrol and electric car sales have risen but not by enough to offset all the fall in diesels. This has taken place against the background of the pound rising against the dollar and the yen and stabilising against the Euro which has been strong against all currencies. This history shows it was not the Brexit vote that caused the change in the market for diesels.

The SMMT and the media do accept that tax changes and a different mood towards diesels account for some of the fall. They should remember that the April 2017 budget increased VED strongly for dearer new cars. Presumably the intention was to cut sales of higher priced cars, and it certainly worked. There are also discussions about further taxes and bans on diesel cars in various towns and cities. This is leading some potential buyers to put off a decision pending greater clarity over whether modern cleaner diesels will be allowed in all places in the UK and what the tax regime for them will be. April also saw the tightening of new car lending by the authorities which added to the problems in the car showrooms.

What do people want from a currency?

I find many people still want to talk about crypto currencies. There is a line of thought amongst entrepreneurs and radicals that wants a crypto currency to emerge that is free of the controls of governments and Central Banks, reflecting their distrust of these organisations. There are two main lines of criticism of national monopoly official currencies. The first is the way most of the countries backing these currencies allows or even encourages some inflation, reducing their real value over time. The second is the way national monopoly currencies give the authorities greater controls over people's money and their way of life.

It is true that most Central Banks aim for a gentle devaluation of their money by around 2% per annum, as they think a little inflation helps growth and economic change. Sometimes they lose control and end up with considerably higher rates of inflation. Individuals in a free country which allows its citizens to buy and own real assets and other national currencies can protect themselves against an undesirable inflation in their national money by owning inflation proofed assets like local currency index linked debt or by holding other currencies less exposed to inflation. Inflation linked bonds, property and shares have some inflation beating characteristics. The so called crypto currencies have so far not proved to be a low risk way of protecting yourself against inflation in your national currency. There has been extreme price volatility, producing either an excess return well above the inflation erosion of your base currency, or days of large price falls reminding you that in the wrong one of these vehicles you could lose the lot.

It is true people can design crypto currencies with clever ways of restricting supply of them. All the time there is an increasing number of people willing to believe in their properties, this can create substantial upward pressure on their value. However, there is also a central paradox. To create the magic ingredient of pressure for the price to rise requires tough restrictions on the issue of new crypto currency. This means such a currency will struggle to be liquid enough and universal enough to meet the test of effective money that is freely and widely accepted in payment. National currencies are very flexible in response to demand for more money for legitimate uses. The very flexibility that allows too much money to chase too few goods, leading to inflation, is also a crucial feature to allow money to expand as economic activity expands to permit growth and business success. Judging the right amount of money, as Central Banks have to do, is a difficult task to get right.

Some of the advocates of crypto currencies I have listened to are even more concerned about the way commercial banks holding our deposits in national monopoly currencies are increasingly the regulated creatures of the state allowing the state to exert substantial control over our finances. The answer to this is not to create a new non government currency which allows people

to break the tax and financial laws. The main reason states are so suspicious of crypto currencies is they fear they can and will be used by drug traffickers, terrorist organisations, large scale tax evaders who want a currency that is not reported to the authorities and which allows them to do as they wish without trace. Some people used to like bearer bonds, gold bars and other stores of value that avoided direct reporting to tax authorities, but gradually governments brought these under regulatory control. Anyway people often found they had to use the normal banking system and monopoly currencies at the end of the process when they wished to spend their wealth.

The case for crypto currencies has to be made for reasons other than the dislike of tax that a national authority seeks to impose. If there are too many taxes or they are at too high a rate there has to be democratic pressure to change, or the person who objects strongly has to move to a lower tax jurisdiction to live and work permanently.

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