

## “What if there is a run on the pound?” asks Labour in the unlikely event of a Corbyn led government?

It was a moment of honesty from John Mc Donnell reminding us of Labour's struggle to get elected to government in the 1980s and 1990s. Post war Labour governments in 1945, 1964 and 1974 all suffered badly from market dislike of their high spending high borrowing policies, which led to sterling crises in each case. It is etched on the memory of older Labour figures that market disciplines have previously prevented socialist policies being followed, and have created political tensions within Labour governments to be followed by loss of office as electors lose confidence in their ability to manage the economy.

The first two Labour governments inherited and kept a system of managed exchange rates. They were forced to devalue the rate. In 1949 Labour devalued the pound by 30% against the dollar, taking it down from \$4.03 to \$2.80. In 1967 Labour devalued the pound again, from \$2.80 to \$2.40, a fall of 14%. In 1974 they inherited a floating pound. Over their five years in office they allowed it to float down from \$2.30 to \$2.08, a fall of 10%. In 1976 there was a sterling and payments crisis leading to a visit to borrow money from the IMF to stabilise the pound and the financial position. This crisis sealed the fate of the Labour government which lost power for a generation. Only the John Major decision to join the damaging European Exchange Rate Mechanism and its economic impact changed the electoral position back in their favour.

The Blair government came to office in 1997 determined to avoid a fourth devaluation and sterling crisis for post war Labour governments. They adopted Conservative spending and borrowing plans, and spent the first few years moving the accounts into surplus. The economy continued to perform well. Labour then decided to make substantial increases in public spending, to increase public borrowing and to follow a very accommodating money policy which allowed large debt build ups. The end result was a bad recession and banking crash. Over their time in office with a floating pound there was a modest devaluation of 11%. This crisis is likely to keep Labour out of office for a considerable time period.

In total Labour spent around 30 years in office and presided over the bulk of the fall of 64% that occurred in the sterling/dollar rate between 1945 and 2015.

In government the Conservatives kept the fixed rate of \$2.80 throughout their period in office from 1951 to 1964. In 1970 to 1974 with a floating pound the Conservatives presided over a 4% fall against the dollar. Between 1979 and 1997 with a floating pound there was a 22% decline. This included the Exchange Rate Mechanism fiasco which damaged the currency value and much else in the economy and led directly to the loss of office by the Conservatives.

It kept them out of office until Labour presided over a worse economic

crisis. Over the Coalition years 2010-2015 there was no change in the pound. If you average the rate of fall to an annual figure under Conservative governments the devaluation has been at a rate of 0.6% and under Labour at 2.2%. The Conservative devaluation was largely the result of the ERM disaster. a single policy error not to be repeated.

Floating rate policies are better than fixed rate policies. They give countries a bit more financial leeway. They do not, however, exempt a country from all the disciplines of the market. Mr Mc Donnell is right to worry about the market constraints on policies. The sorry history of Labour devaluations are a reason why I think a Labour win at the next election is unlikely. The constant resort to devaluation to deal with the consequences of the spending and borrowing policies shows the inherent tensions in their policy mix.

I have charted the pound in relation to the dollar as this has been the crucial rate throughout the period, with the devaluations formally expressed in terms of the sterling/dollar rate. The pound has also fallen against the DM and Swiss franc. Since its creation the Euro has had periods of both strength and weakness against the pound.

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## Because of Brexit...

The favourite pastime of some economic commentators and broadcasters is to

say such and such a figure about the economy they think is disappointing is because of Brexit. Often they are wrong to blame the Brexit vote for the figure they do not like. So let's have a look at some of the figures that must be in their view owing to Brexit, as they made forecasts of how the Brexit vote would hit these very figures.

1. The FTSE 100 Index. Before the vote they said it would fall if we voted Leave. Instead it has risen strongly from 6138 on 24 June to 7687 at the end of 2017. This rise is about the same as the French Index, a bit better than the Italian Index and massively better than the Madrid Index over the same time period. It is less than the US index. After the vote when they saw it was rising they shifted their forecast and said it would be the FTSE 250 of more domestic companies that would fall.
2. The FTSE 250 has instead risen from 16088 on 24 June 2016 to 20726 at end 2017. This is a bigger rise than the FTSE 100, which they said would only go up owing to its overseas earnings and currency effects. That's a 29% rise because of Brexit.
3. House prices. They forecast they would go down. They have risen gently since the referendum vote.
4. Employment. They said it would fall. It has gone up by half a million comparing the August to October 2017 figure with first quarter 2016 before the vote.
5. Unemployment. They said it would rise. It has instead fallen from 1.67 m in the first quarter of 2016 to 1.42 m in the latest ONS figures.
6. Economic growth. They forecast a recession in the winter of 2016-17. Instead the UK economy continued to report good growth of around 1.8-1.9%.

So we can now say that thanks to Brexit unemployment has fallen, employment has risen, share prices especially for domestic companies have gone up and house prices have risen modestly.

It is true that they forecast a fall in the pound. It did fall against the dollar at first, but has put in a good performance more recently rising 12% off the lows. If it fell because of Brexit presumably it is now rising because of Brexit.

Wouldn't it be good if forecasters and commentators went back to thinking about what truly moves these numbers, and come to see the impact of Brexit has been greatly exaggerated. All the reasons why the pound went down or up before Brexit still apply!

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**[What do people want from a currency?](#)**



John Redwood won a free place at Kent College, Canterbury, He graduated from Magdalen College Oxford, has a DPhil and is a fellow of All Souls College. A businessman by background, he has been a director of NM Rothschild merchant bank and chairman of a quoted industrial PLC.

- [Read more about John Redwood](#)

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## Freedom is the prize

The endless and repetitious debate about the consequences of Brexit put out before and after the vote by Remain campaigners is depressingly narrow as well as wrong. They concentrate all the time on alleged short term economic losses. They have been comprehensively wrong with their gloomy short term forecasts for the aftermath of the vote, and are busy revising the timelines for the same old false forecasts. They are unwilling to engage in the much bigger issue of how we can now restore our democracy and reinstitute our freedoms.

Fortunately we do not have to choose between economic loss and freedoms gained, as Brexit can secure economic gain with the right domestic policies. We need to remember just how important our vote and voice used to be, and how they can again count for more when we have cast off EU lawmaking.

The history of England and the United Kingdom that came together in 1485, 1603, 1707 and 1800 is the history of the long march of every man and every woman to gain voice and vote. As we work to restore the sovereignty of the people and to give powers back to the UK Parliament and to devolved administrations and Councils we would be wise to remember the struggles to get us our democratic system.

Freedom from the tyranny of a monarch who ignored Parliament was the cause of the Parliamentarians in the civil war. The 1660 settlement entrenched rights and powers for the limited franchise of voters and their MPs to control a wayward King. The 1688 settlement when a new King and Queen were invited to assume the throne added to these limits on arbitrary power further. The early nineteenth century saw popular pressure to widen the franchise to all men, leading through the Reform Act to later completion of the task. In the early twentieth century the cause of female suffrage took to the political stage and finished the revolution.

These gains were hard fought and should be valued. The campaigners were right to dedicate their lives to ensuring all adults had voice and vote, that

governments had to heed public opinion and needed the approval of elected representatives who could demand redress of grievance and improved conduct of public policy.

Membership of the European Union reversed part of this process. The country was signed up to a system which meant laws could be created and taxation raised and spent without the UK public and their directly elected representatives having the final say or even an effective voice. The proponents claimed that the European Parliament met some of the democratic deficit, but in truth a single country block of MEPs was never strong enough to assert the UK public will when this was at variance with the EU wishes. Nor does the European Parliament have sole or even at times any sway on things that matter. They claimed that Ministers and the Prime Minister represented us at the Councils of the EU, but they were often outvoted or persuaded not to oppose something the UK public did not want.

The UK Parliament became a bystander, watching large volumes of law passing through which Parliament could neither amend nor reject. The voting public became powerless to change any of that law. If they voted out of office one party who had allowed the EU laws and taxes to pass, they voted into office another party that would do the same and uphold the EU laws and taxes.

When we leave the EU our vote to choose an MP and a governing party will once again have more power and authority. Government will no longer be able to say we have to tax green products and domestic fuel because the EU demands, or have to organise our fishery in a way which is damaging both local fishermen and fish. We will take back control. Either the elected government then changes things as we please, or it will be replaced by another government that will.

UK governments will not always be wise or get things right. What Brexit brings us is the ability to press them to change, or to change them if they refuse. The thing I most want to change as we leave the EU is to nurture this precious flower of freedom.