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IS STERLING DEVALUATION THE PATH TO PROSPERITY?

John Mills vs. Julian Jessop

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About the authors

John Mills is an economist, entrepreneur, author and the Chairman and majority shareholder of JML (John Mills Ltd), an import-export and distribution company. John will present a plan to grow the UK economy by 3% to 4% annually, while boosting real wages and tackling regional imbalances. At the heart of the plan is a proposal to lift the share of manufacturing and investment by engineering a substantial fall in the exchange rate.

Julian Jessop is Chief Economist at the IEA. He has thirty years of experience as a professional economist in the public and private sectors, including senior positions at HM Treasury, HSBC and Standard Chartered Bank. Prior to joining the IEA in March he was a Director and Chief Global Economist at the leading independent consultancy, Capital Economics. Julian has a First Class degree in economics from Cambridge University and post-graduate qualifications in both economics and law.

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Foreword

John Mills is one of Britain's most stimulating economic thinkers. Unusually, he has many decades of practical business experience and is also more commonly associated with the political left than the right. It is therefore an immense pleasure to engage with him on some of the most important challenges facing the UK economy today.

John's main contention is that a resurgent manufacturing sector is the key to solving the problems of sluggish real wages and low productivity, and that policy-makers should engineer a substantial fall in the value of the pound to help achieve this. In his words, he is seeking 'a way of combining the Keynesian legacy of substantial and sustainable economic growth with the neoliberal goal of low and stable inflation'.

However, this raises many questions, especially from a free market perspective. Has John diagnosed the problems correctly? Can the government successfully manage the exchange rate without any gains in competitiveness being eroded by higher inflation? Above all, is it even right to try?

This paper summarises John's views, with a response from the IEA's Chief Economist, Julian Jessop. Let the debate begin.

Dr Jamie Whyte
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1 John Mills
The Case for Devaluation

During the 1950s and ‘60s, the UK economy expanded by an average of 3.1% per annum and GDP per head by 2.4%. The expansionary Keynesian policies which drove this growth ran into the sand in the 1970s, however, as UK inflation reached nearly 30% per annum. Monetarism, which morphed into neoliberalism, took the place of Keynesianism’s and introduced a discipline into economic policy that had previously been lacking. Inflation was tamed but at the cost of the bringing about what now looks dangerously like a near permanently stagnation of living standards for most people. Our challenge now, therefore, is to find a synthesis – a way of combining the Keynesian legacy of substantial and sustainable economic growth with the neoliberal goal of low and stable inflation.

The UK economy has pressing problems. It grew by only 1.1% per annum between 2007 and 2017, and by no more than 1.9% between 2010 and now. Few people looking ahead think that, without major policy changes, we can expect growth to average more than about 1.5% per annum. This is a major problem because it is not enough to increase real wages for most people. This is because our population is growing by about 0.7% per annum; because our huge annual balance of payments deficits drain billions of extra pounds out of the wages pot every year; because the share of wages in GDP is steadily falling as wealth accumulates more rapidly than real wages; and because those who are already well-off tend to capture a disproportionate share of what increases in output there are. This is why we are facing static or falling living standards for most of our population as far ahead as we can see, in addition to widening regional and generational inequalities. This is not a good prospect for us politically, socially or economically.

I don't believe that this dismal future is necessary. On the contrary, in my view we can do much better than this using just the sort of free market approach which the IEA exists to support. Specifically, we could get the economy to grow by 3% to 4% per annum on a sustainable basis without paying a significant – or perhaps any – inflationary price. At the same time, we could achieve less acute gaps in living standards between London and the rest of the country, less inequality between the generations and, perhaps, also less glaring disparities between those doing well in terms of income, wealth and life chances generally and those who are not so lucky.

So what has gone wrong and how can we put it right? There are at least five major deficiencies in the way in which the UK economy operates which we need to tackle.

First, the UK consumes too much and invests too little to generate the increase in productivity we need for a reasonable rate of economic growth. Including intellectual property as well as physical expenditure, the UK currently invests rather less than 16% of its GDP per annum. This is one third less than the 26% world average and about two thirds less than the ratio in China. Worse still, of what we do spend, far too little goes on the limited sorts of investment which generate really big increases in output per hour, these being mechanisation, technology and power – and very little else. On the latest ONS figures, gross expenditure of this sort in the UK is only 2.7% of GDP, down a quarter since 2008. By the time depreciation of existing assets is deducted, nothing is left. This is much the most important reason why productivity in the UK is virtually static.

Second, we have deindustrialised to a dangerously large extent. Even as late as 1980, about 30% of UK GDP came from manufacturing. Now the ratio is 9.7%. This matters hugely. It is far easier to achieve increases in productivity in manufacturing than it is in the service sector, reflected in the fact that incomes in manufacturing are about 25% higher on average than they are in the rest of the economy. Perhaps even more crucially, although 80% of the UK economy is made up of services, we still depend disproportionately heavily on manufactured goods to pay our way in the world, and at the moment we are conspicuously failing to do so. Our annual trade deficit on manufactures is about £100 billion a year.

This is why, third, although the UK does very well on exporting services, with a surplus of £92 billion in 2016, we still have an overall trade deficit every year recently averaging about £40 billion. On its own this might be manageable but, unfortunately, our foreign payments position has two other components which are also heavily in the red. One is our net income from abroad, which as recently as 2011 was positive but has recently become more and more strongly negative, largely because of the cost of financing our huge overall deficits every year by selling off assets and borrowing from overseas. The other is net transfers overseas, made up of payments to the European Union, remittances from migrants and our aid programmes, which in total have doubled over the last few years. The result is that we have a larger and larger overall balance of payments deficit every year – about £100 billion a year for the last four years and £115 billion in 2016 or nearly 6% of our GDP.

Fourth, because we are not paying our way in the world, we are running up more and more debt to plug the gaps. Our balance of payments deficit sucks demand out of the economy which, to avoid us plunging into recession, has to be replaced by either the household or corporate sectors or – most prominently – the government spending more than their incomes. The reason why we have a public sector deficit every years is not because of government extravagant over-spending. The government is forced to borrow and spend to replace the demand lost overseas by our foreign payments deficit. Government borrowing has recently declined despite our increasing foreign payments deficit, but mainly because consumers are borrowing more. This is an unstable and probably unsustainable development which may unwind, leaving the economy even more dependent on government spending than it is now.

Fifth, what little growth we do have is not driven by investment and exports, as it must be to be sustainable, but by ultra-low interest rates, equity withdrawal and consumer demand – all of which cannot go on as they are forever. The resulting anaemic and unstable growth rate not only means that average wages are virtually static; it also results in chronic underinvestment in social infrastructure – roads, schools, hospitals, rail and especially housing. We are also a very long way from investing enough to keep our existing accumulated capital assets from being diluted down as our population increases. Hardly surprisingly, the result is endless reports of congested roads, overcrowded trains, and overstretched health and education facilities. In addition, we are building not much more than half the housing we need each year to satisfy younger people's desperate urge to get on the housing ladder.

The big advantage from setting out our problems in this way is that it points clearly to what needs to be done to get our economy to perform very much better.

The starting point is that we have to get the proportion of our GDP that we spend on investment up and, in particular, we need to create conditions where there are high levels of expenditure on the kinds of investment typical of light industry – mechanisation, technology and power – which generate the highest increases in output per hour or per employee. This is the key to turning the economy round.

The problem at the moment is that the exchange rate it too high for this to happen. The pound needs to be much lower – so that it makes sense to locate a wide range of new light industry in the UK rather than in China or in Germany. To get this done we need the pound to be about par with the dollar – something like a 25% reduction from where it is now, which is around $1.30.

The exchange rate is so crucial because for typical internationally tradable manufacturing operations, about one third of costs – for machinery, components and raw materials – are imported at world prices but about two thirds of costs are in sterling – paying for wages, overheads of all kinds, interest charges, taxation and profit. These sterling costs must be charged out to the rest of the world at a competitive level to enable manufacturing to flourish – so that is located here and not elsewhere – and this is almost entirely an exchange rate issue. If we get this right, however, then we move into the virtuous spiral of export and investment led growth. Then all our other major problems begin to unwind. The high returns on light industrial investment are the key to creating the conditions we need.

To rebalance the UK economy, we need to get manufacturing back to about 15% of GDP. This is not as high as the 20% typical of Japan, Switzerland and Germany because we have a big services export surplus – about 5% of GDP – which they do not. But it still a lot more than the barely 10% we have now. This will produce a swathe of new high productivity jobs, thus helping to redress the regional imbalances from which the UK suffers more acutely than almost anywhere else. And it will tackle our balance of payments problem. At present the UK exports about £250 billion worth of manufactured goods each year. If we could increase the proportion of

GDP coming from manufacturing by 50% (from 10% to 15%) and increase our net exports pro rata, their value would rise by £125 billion. Allowing for one third of these costs being imported inputs, as a first approximation we would see a balance of payments improvement of about £80 billion a year, leaving us with a sustainable foreign payments position.

With this in place, the need for borrowing on the present scale would fall away. Government borrowing as a percentage of GDP could be reduced to less than the annual growth rate, fulfilling another requirement for sustainability. The exceptional returns from the highly productive types of investment now possible would enable the economy to shift towards growing at 3% to 4% per annum, instead of the current 1.5%. These extra resources would enable us both to increase the proportion of overall investment in the economy over, say, a five-year transitional period from less than 16% to at least 20% or higher while also allowing wage levels to rise slowly initially but then faster. While perhaps half of the increase in investment would need to go into industry, the other half would be available to deal with the expenditure which is key for social as well as commercial purposes – on infrastructure, transport facilities, schools and hospitals and especially housing.

Would this all be possible? A programme along these lines depends on two conditions being satisfied relationships. The first concerns the price responsiveness of UK exports and imports. The sum of the elasticities of UK imports and exports (ignoring their signs) must be substantially in excess of unity. The second condition is that the social rate of return on investment in the highly productive areas – mechanisation, technology and power – must be sufficiently large to provide the resources needed to increase investment as a percentage of GDP and to allow wages to increase to make the whole programme politically acceptable. There is much statistical evidence that both these conditions could be met by policies implemented by a determined and clear-sighted government which knew exactly what it was trying to achieve.

These are the arguments for a truly competitive exchange rate strategy. The arguments against a much more competitive pound are surprisingly weak when closely examined. There are six of them.

The first is that devaluations always cause inflation, which may well soon offset the initial benefit of any early increase in competitiveness, leaving the country no more competitive than it was before but with an additional inflationary problem. Although widely believed, the statistical record of many devaluations since World War II show decisively that this view is wrong. Most devaluations produce little or no extra inflation above what would otherwise have occurred and some produce even less – including what happened in the UK when we came out of the ERM in 1992. In 1991 the inflation rate was 5.9%. Two years later it had fallen to 1.6%. In no cases were the additional competitiveness from a lower exchange rate lost to faster inflation than would have occurred anyway.

Second, although there is everything to be said for the UK remaining an open economy, this in no way precludes the government from having an exchange rate strategy and ensuring that the currency is adequately competitive, as is clearly demonstrated by countries as varied as China, Switzerland Singapore and South Korea and Germany before the euro was established. Japan recently brought down the value of the yen by about one third as a result of deliberately adopted policies of the sort we ought to copy.

Third, although there might be risks of retaliation if we were starting with a balance of payments surplus, with our huge current deficit, retaliation against the UK devaluing sterling would be completely irrational and is extremely unlikely to happen. When sterling fell from US$2 in 2007 to $1.50 in 2009, the rest of the world did not react adversely. And with the UK now having less than 3% of world trade, there is no reason for adverse reactions to devaluation in future.

Fourth, would a major devaluation make us all poorer? Measured in US dollars of course it would. But UK residents do not shop in dollars. Harold Wilson was essentially right when he went on radio and television after the 1967 devaluation to say that “this does not mean, of course, that the pound here in Britain, in your pocket or purse, or in you bank, has been devalued”. If, as a result of a weaker pound, the economy grows faster and the population stays the same as it otherwise would have been, as a matter of simple logic, GDP per head must go up and not down. Of course, it is true that if we have more investment and a smaller balance of payments deficit, consumption as a percentage of GDP will have to go down, but this is a price which will have to be paid for any improvement in our economic performance.

Fifth, we will be told that we have tried devaluations before and they have not worked. Not true. They have always made the position a bit better than they otherwise would have been. But the UK has a long record of adjusting downwards the strength of the currency too little and too late and thus leaving it chronically too high. When the devaluation has been sufficiently large – as in 1931 and again to a lesser extent in 1992 – the result on growth was unequivocally positive.

Finally, many people seem to believe that UK entrepreneurs would not respond positively to opportunities for making money out of manufacturing if the conditions making it profitable to do so were there. There is not a shred of evidence for this proposition. Able business people shy away from investment in light industry at the moment because, with the exchange rate where it is at the moment, there is no business case for investment. But with a competitive cost base the evaluation would all change. The UK was the cradle of the Industrial Revolution and if humanity across the globe has reacted positively to making money out of manufacturing when the conditions for doing so have been propitious, there is no reason whatever for thinking that this would not happen again in the UK.

The UK therefore has a choice. We can continue as we are with no exchange rate policy, leaving the pound grossly uncompetitive for manufacturing industry, in which case we are likely to see the economy growing too slowly for real wages to rise materially. The left will propose interventionist industrial strategies which will not work, while the right will put its faith in deregulation and increased competition which, on their own, will be equally ineffective.

The social and political effects of stagnant wages for the majority of the population for the foreseeable future remain to be seen. Alternatively, the UK can recognise that the root of so many of our problems lies in what we have done to make our manufacturing base uncompetitive and unviable, by charging its output to the rest of the world at too high a price. We need to take the steps necessary to reverse this condition, to keep up with the rest of the world with rising living standards and to restore ordinary people's faith in the capacity of their political leaders to get things right and in free markets to deliver results. I know which way ahead I think IEA supporters ought to choose.

2 Julian Jessop

Why currencies should be left to the markets

The prevailing consensus is that the UK's poor performance on real wages since the financial crisis is a consequence of sluggish productivity, and this in turn is largely due to a low rate of investment. John has added two more links to the chain: that a resurgent manufacturing sector is the key to solving these problems, and that policy-makers should engineer a substantial fall in the value of the pound to achieve this. Overall, this is a compelling and well-told story that deserves to be taken seriously. However, in my view at least, each successive link in the chain is weaker than the one before, and the case for an active policy of devaluing the currency is the weakest of all.

John starts by warning of an era of 'permanently stagnant living standards for most people'. To be clear, there are many valid concerns here, including the challenges faced by some public-sector workers and the problems in the delivery of welfare benefits. Nonetheless, the evidence of an economy-wide crisis is not as strong as the headlines might suggest.

At face value, the most worrying numbers are those on real wages – usually measured as average weekly regular pay adjusted using the CPI. These have undoubtedly been weak: on this basis, real wages were 0.4% lower in the three months to September 2017 than the same period a year earlier, and more than 3% below their 2008 peak.

However, these numbers need to be interpreted with care. For example, crude averages do not adjust for compositional shifts in the labour market. These have been particularly important recently, partly as a result of lower skilled (and therefore lower paid) people finding jobs again, and partly due to older (and therefore higher paid) people leaving the workforce.

These shifts have lowered the average wage, but not necessarily left most individuals worse off.

In contrast, if you look simply at people who have been in continuous employment (in the same job for at least 12 months), wages have been rising at an average of around 4% per year in nominal terms and close to 2% in real terms. This is slower than the pre-crisis pace, but not a catastrophe. Statements to the effect that ‘Britain hasn’t had a pay rise’, or reference to ‘a decade or more of falling wages’, are therefore potentially misleading.

Other exceptional factors have played a part too. There have been several inflation shocks since 2010 – including two VAT hikes, a surge in global oil prices above $100 per barrel, and the fall in the pound since the Brexit vote. And on the wages side, there has been the public-sector freeze and large-scale migration from the EU. It is possible that some of these factors will persist, or be repeated, but on balance it is more likely that their impact will fade.

Finally, other measures of ‘living standards’ tell a rather different story. For example, median household real disposable income was £1,000 higher in 2016 than in 2008. Consumer spending has also continued to recover (rising by 2.7% in 2015, 2.9% in 2016 and an average quarterly pace of 0.4% so far in 2017).

That said, this resilience has come at the expense of a sharp fall in the savings rate. But price inflation should drop back next year as the impact of past sterling weakness drops out of the annual comparison. In the meantime, the labour market has continued to tighten, and surveys show that nominal wage pressures are building again.

Nonetheless, many forecasters have predicting a prolonged squeeze on real incomes. The Resolution Foundation has argued that ‘Britain is on course for the longest period of falling living standards since records began in the 1950s’. The basis of this claim is a forecast that average annual earnings will still be £555 below their pre-crisis peak in 2023 and, extrapolating from this, that they will not return to this peak until 2025, implying an ‘unprecedented squeeze’ lasting 17 years.

This gloomy outlook takes as given the new projections from the OBR, particularly on productivity. Like most forecasters, the OBR has consistently been too optimistic about productivity since the financial crisis. It has now chucked in the towel and assumed that output per hour worked will remain significantly below its pre-crisis trend. This in turn implies a lower profile for economic growth – and real wages.

Frankly, this is little more than guesswork. To be fair, the OBR has acknowledged that 'huge uncertainty remains around the diagnosis for recent weakness and the prognosis for the future'. But it is therefore all the more important to question these forecasts.

I would argue that the UK's productivity performance, like the record on real incomes, has not been as bad as the headlines suggest. It is true that the 'productivity puzzle' – the difference between actual output per hour and the pre-crisis trend – is larger in the UK than in any other G7 country. A great many explanations have been proposed, ranging from the impact of 'austerity' to an increased drag from 'cyber-slacking'. There are also many measurement problems.

However, I would give most weight to the argument that low productivity growth has simply been the flipside of rapid growth in employment – which is obviously a good thing – due to the UK's relatively flexible labour market. As the economy runs short of new workers, companies will have every incentive to prioritise gains in productivity once more.

Two other developments should also help to raise productivity. One is the return of interest rates towards more normal levels, which will encourage the reallocation of resources to more productive uses. The other (hopefully) is an easing of uncertainty about the impact of Brexit, which should encourage companies sitting on large cash balances to look again at new investment projects. The upshot is that now may be precisely the wrong time to slash forecasts for productivity – or dramatically change government policy.

I'm sceptical also of the role that low investment has played in explaining the productivity puzzle. Again, it is true that the UK invests a relatively low proportion of its GDP, but this is not a new development since the financial crisis. What's more, to some extent it simply reflects the greater importance of services to the UK economy.

This is where the significance of manufacturing comes in. John is surely right that, in the past, the major gains in productivity have come from the manufacturing sector and other relatively 'heavy' industries. But I would question whether this will continue to be true in future, given the scope for new technology to transform productivity within traditional labour-intensive services. Consider the impact of artificial technology (AI), blockchain, or driverless cars.

I'm wary too of the link between the decline of manufacturing and increases in inequality. As it happens, income inequality has been flat or falling in the UK. And while wealth inequality has increased, this is more of an intergenerational issue, due in part to the housing crisis, but also the natural consequence of older people who had more time to accumulate assets doing better when asset prices rise.

As for regional imbalances, the UK is not actually that exceptional compared to other European countries. (For example, it is in the middle of the pack for the reduction in GDP per inhabitant if the capital is excluded from the data.) Nor is there any no compelling reason why the regions could not benefit more from services-led growth.

Moreover, I'm more sanguine about the existence of a large current account deficit. For a start, there are substantial measurement issues here. Much of the reported deterioration has come on the income side, rather than trade in goods or services. It is a concern that this deficit has been used to sustain consumption rather than increase investment.

However, if real incomes are set to recover, there should be scope for households to save more again. While I'm wary of getting bogged down in a discussion of the direction of causation between a current account deficit and imbalances in the household, corporate and public sectors, a little more fiscal discipline on the part of government would help improve the balance of payments too.

This brings us to the crucial issue of the exchange rate. John's central argument is that a substantial devaluation of the currency would help to restore competitiveness, especially in the manufacturing sector, that it would increase the attractiveness of investing in the UK, and that it would address the balance of payments problems.

From a free market perspective, though, there are two major problems with currency intervention. First, the level of the exchange rate, while particularly important, is ultimately a price like any other. It should be determined by normal economic forces, rather than set by the government.

Some would counter that currencies can deviate significantly from measures of ‘fundamental value’ for long periods of time, in the same way as equities or property. But it is not sufficient to show that markets don’t always get it right. To justify intervention, policy-makers need to be able to explain why they know better. For example, it is sometimes argued that the UK’s exchange rate is artificially high because of our (relative) political stability, business-friendly environment and the openness of our markets. But these are, surely, precisely the sort of fundamentals that justify a strong currency.

Indeed, it is not so obvious that sterling is currently misaligned. Looking at the real effective exchange rate index, for example, the pound is now roughly where it was in the mid-1990s, when the current account deficit was last close to balance. For what it is worth, the pound is also fairly valued, or even cheap, on the basis of measures such as PPP and the estimates of Fundamental Equilibrium Exchange Rates produced by the Peterson Institute.

Second, a policy of devaluing the currency could just be a zero-sum game. If the UK only gains at the expense of our competitors, this might appeal to British politicians but is not obviously something that a global-minded economist would support. Advocates of this policy therefore need to show that there is some asymmetry that a devaluation by the UK would help to correct. This could be the argument that large current account surpluses elsewhere create a disinflationary bias in the global economy. But in this case, the focus should be on devaluing the currencies of all major deficit countries, not just the UK.

However, let us suppose that the government did want to engineer a weaker pound. It is, of course, important to distinguish between nominal and real exchange rates. If all the boost to competitiveness of a nominal devaluation is eroded by high inflation, leaving the real exchange rate unchanged, there will be no net benefit.

The first question then is how to get the nominal exchange rate down, and keep it down. In principle, this is straightforward. The UK could simply sell unlimited amounts of sterling on the currency markets to drive down its value (offsetting the impact on the domestic money supply, if desired, by 'sterilising' this intervention). This would be similar to the policy adopted by the Swiss National Bank in 2011 to cap the value of the franc; while that policy had to be dropped in 2015, it might be easier to keep the currency down in the case of a country running a large current account deficit rather than a large surplus.

In practice, though, this policy would be completely incompatible with agreements that the UK has signed as a member of the G7. (Switzerland, of course, is not in this group.) The latest statement from G7 Finance Ministers and Central Bank Governors leaves no doubt on this point:

> "We reaffirm our existing G7 exchange rate commitments to market determined exchange rates and to consult closely in regard to actions in foreign exchange markets. We reaffirm that our fiscal and monetary policies have been and will remain oriented towards meeting our respective domestic objectives using domestic instruments and we will not target exchange rates for competitive purposes. We underscore the importance of all countries refraining from competitive devaluation." (13th May 2017)

This surely rules out any formal policy of weakening the currency to gain a competitive advantage, unless the UK can persuade the rest of the G7 to change this longstanding position (but why would they?).

The UK will therefore have to fall back on policies that have the incidental effect of weakening the currency, without targeting it explicitly. There are a few options here. For example, interest rates could be kept lower for longer or quantitative easing extended (as the Bank of Japan did to weaken the yen in 2013). However, unless the inflation-targeting mandate of the Bank of England were changed, this would require some offsetting policy changes elsewhere. This might include additional fiscal tightening, or a new raft of prudential tools to control the price and availability of credit. Alternatively, steps could be taken to make the UK a less attractive place to invest, such as new restrictions on foreign ownership of UK assets, including companies and property. Needless to say, few of these options appeal from a free market perspective either.

But suppose that the UK can get the nominal exchange rate down, how can it be kept there? Other countries could simply respond by devaluing their own currencies. After all, if the UK is seen to benefit, why wouldn't other countries follow? A round of tit-for-tat devaluations would just leave everyone where they started.

Finally, suppose that the UK can keep the nominal exchange rate down. What guarantee is there that higher inflation would not raise the real exchange rate? There have been examples where a devaluation has had lasting real benefits, including sterling's departure from the Gold Standard in 1931 and the exit from the ERM in 1992. You could also point to Argentina in 2002 and Iceland in 2008. However, this depends crucially on the exchange rate being substantially overvalued to begin with, and there being large amounts of spare resources in the economy so that the inflationary response is muted. In contrast, sterling is already at long-term lows and the UK is now close to full employment.

Indeed, the more recent UK precedents are not encouraging. The sharp falls in the value of the pound in the wake of the financial crisis, and again after the Brexit vote, appear to have had little effect on the trade deficit. Of course, it might be argued that a bigger fall might have had a bigger effect on the trade numbers. However, it would presumably have had a bigger impact on inflation too, particularly over the last year.

In conclusion, I would be concerned that a policy of actively weakening the exchange rate, even if feasible, would actually worsen many of the problems that John identifies. It could renew the squeeze on real wages and exacerbate income inequality as inflation picks up again. It might also increase wealth and intergenerational inequality, as asset prices rise. And a weaker exchange rate could reduce the pressure on companies to raise their game.

Instead, free market solutions should be based on reductions in the role of the state – measures such as cuts in the taxes and regulations that stifle innovation and investment – rather than an extension of intervention into the manipulation of currencies.

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