

We need capital controls now

Published: January 13, 2026, 3:51 am

On [Monday the Bank of England argued](#):

Imperfect information among investors is often at the root of financial instability. In the presence of imperfect information, poorly-informed investors' optimum strategy may be to mimic the actions of others, which may amplify movements in exchange rates and capital flows. Individual countries can take a number of actions to reduce the impact of imperfect information, including by improving financial regulation; better disclosure rules; implementing counter-cyclical macroprudential policies; and improving their capacity to identify - and consequently, mitigate - vulnerabilities on their national balance sheets.

These reforms, however, will largely deal with the financial sector only. And there is a risk that much tougher domestic banking regulation will lead to higher non-bank, cross-border and foreign-branch lending. In these instances, there may be a case for prudential capital controls, such as taxes on foreign borrowing. These could increase the effectiveness of financial sector regulation and level the playing field between domestic and foreign lenders. The 2011 coherent conclusions on capital controls agreed by the G20 are welcome, as a means to promote a common understanding of the appropriate use of capital controls. But capital controls may not be very effective in countries with highly developed financial systems; they may also introduce unwanted distortions.

It is striking that there is very limited surveillance of the risks associated with the structure of a country's national balance sheet. In the event of a negative shock, investors can be very uncertain about the vulnerability of individual countries, increasing their susceptibility to sudden capital flow withdrawals induced by herding behaviour. This would suggest that a better understanding is required of what shock, or combination of shocks, might cause the nation as a whole to become credit constrained. Countries should seek to achieve this, in conjunction with the IMF and BIS (see Section 5.2).

Today we know that unemployment is rising, without reason, and solely to meet the

demand of bond markets.

And we know that attempts to appease those markets in the context of the Euro are failing.

We have three ways out of the current mess.

One is war. I don't like it.

One is inflation. I accept it. The Germans don't. It won't happen.

The third is Jubilee- the waiver of debt claims. This has to happen if the first two can't. There is no other way to restore sound money.

But that can't happen when bond and other markets function as at present - fuelling misinformation and ceasing to be independent variables in the equation which they supposedly are meant to be.

Capital controls will have distortionary effects. Of course they will. But everything is going to have distortionary effect right now and if markets behave as at present they're delivering the worst outcome. Capital controls - and heavy market regulation - will produce vastly better results.

When will we learn that?