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Ancient History of Capital Controls

By: Steve H. Hanke – April 9, 2013

Your editorial "When a Euro Isn't a Euro" (March 28) drives home an important point—that the Cypriot leadership is entering "risky territory" by imposing capital controls. While these capital controls might protect the fragile Cypriot banking sector from a bank run, they are ultimately required so that Europe's Troika can give Cypriot bank deposits a good haircut.

Open exchange and capital markets protect people from exactions because governments must reckon with the possibility of capital flight if they behave stupidly or greedily. Indeed, the temptation for governments to turn to exchange controls in time of crisis is hardly new.

The pedigree of capital controls can be traced back to Plato, the father of statism. Inspired by Lycurgus of Sparta, Plato embraced the idea of an inconvertible currency as a means to preserve the autonomy of the state from outside interference. Ironically, the modern pioneer of such controls was none other than a Russian, Tsar Nicholas II, who imposed a form of exchange controls in 1905-06 for many of the same reasons.

The latest episode in Cyprus simply affirms that capital controls are nothing more than a ring fence within which governments can expropriate their subjects' property. Plus ça change.

Prof. Steve H. Hanke

The Johns Hopkins University

Baltimore