Writing central bank history

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Introduction

I once wrote, "Commercial bank historiography may well be among the most difficult of all exercises in economic history." I would change only one word of that if writing it today. Instead of commercial I would write central.

A first question is, for whom and what purpose is the particular history being written? This may be more important when the history is being commissioned. In the case of the Bank of England there are such splendid previous commissioned histories that the answer perhaps lies implicitly in the fact that what is called for is an extension to previous work - to carry on what was begun by illustrious predecessors. But the next and possibly more difficult question is: what do central banks do? This is not always clear and in any case is likely to vary across different countries and over different periods according to changing ideas on what is required of the bank. For example, in the years immediately after the Second World War it was imagined that the central bank could be used to deliver on a number of economic fronts. To take one example, the Reserve Bank of New Zealand was set up in 1935 with the relatively straightforward duty: "to exercise control over monetary circulation in New Zealand to the end that the economic welfare of the Dominion may be maintained and promoted". By 1973 the revised Act required much more of the Bank. It was to ensure availability and conditions of credit; to advise government on monetary policy, banking, credit, and exchanges; to maintain and promote economic and social welfare having regard to the desirability of promoting the highest level of production and trade and full employment, and of maintaining a stable internal price level; to control money, rates of interest, and overseas exchange transactions, and more.[1] Currently, it is a good deal simpler and future historians should have an easier task when tackling the current period. Many, or even most, central banks are asked to deliver monetary stability, somehow defined, and financial stability even if the latter is much more difficult to define.

Central bank history is different from any other kind of economic history although it strays over many other kinds. It is partly, but only partly, business history. It is not straightforward monetary history although it certainly covers much of that territory. It is obviously institutional history but only up to a point. And it is partly administrative and policy history. It also has some similarities with biography. It needs to be set in its political and economic context and of a wide-ranging economics literature. Ideally, it will be comprehensive and authoritative.

Having decided upon the territory to be covered, the next questions are: how to do it, and who should do it? The main conceptual question on how to do it is whether it should be tackled chronologically or thematically. That depends in part on the length of period being addressed, and sometimes of the particular period itself, but in the end most such histories involve a blend of approaches. It might also be arranged in terms of leading figures – governors in the case of the Bank. As to who should write it there are often differences of view. The Bank has in the past commissioned academic monetary/economic historians on two occasions and one of its own executive directors on the third occasion. But it is unlikely that there will be any standard recipe for the writing of central bank history. It should go without saying that whoever

[1] See Geoffrey Wood, "A pioneer bank in a pioneer country" Central Bankiing 1994 Vol 5 No.1 pp 59-76.

is selected should have complete freedom to research and write as he sees fit.

Previous Bank of England historiography

The Bank of England has been well served in the previous histories it has had written. The first was by Sir John Clapham, Prof of Economic History at Cambridge, commissioned in the 1930s with a view to marking the 250th anniversary that was due in 1944. Anniversaries frequently provide the incentive for histories of businesses and institutions. Although there was some intention to bring the story up to date, banks in general are not noted for revealing too much about their recent past, and Clapham's volumes finished the story in 1914.[2] Clapham was highly qualified for the job having written extensively on the British economy over the two centuries and more that he covered. Richard Sayers, Prof of Monetary Economics at the London School of Economics, followed Clapham with a history that carried the dates 1891 -1944. So he went back some way before Clapham's end date of 1914. He argued that an interpretation of the period before the First War was necessary to the way in which the period thereafter was treated. The third was John Fforde who had joined the Bank in 1957 as an advisor from Oxford where he had been an economist. He had risen to become Chief Cashier and later Executive Director in the Bank. He had his own strong views not only on the subject matter but on the type of person to write it, "an experienced amateur from 'inside' or an experienced professional from 'outside'…

[2] He did in fact write another volume that was not published. He died rather suddenly before it was in a finished state but in any case it was a much more general monetary history of the period. A manuscript copy exists in the Bank archive.

perhaps there is some presumption in favour of the amateur" [3] He suffered some severe criticism from the professional historians. One reviewer although praising its thoroughness and impressive narrative nevertheless attacked it for its lack of professionalism: "there are no traceable specific references to the sources".[4] Another described it as, "… a magisterial primary source of great depth and detail" [5]

There are several other histories of the Bank for different periods or with slightly different focuses, several of which were either instigated by the Bank or given its blessing: see for example those by Acres, Giusseppe, and Hennessy. The last had in fact been commissioned by the Bank to supplement Fforde's volume since he had deliberately narrowed the focus of his account.

Problem of information

For historians of recent times, certainly that on the second half of the twentieth century and particularly work that has anything to do with government, there is often a problem of too much material. By some reckoning one government department (The Board of Trade) in 1940 generated more material than it had in all its previous history, back to the eighteenth century. We can be sure that since then it has become vastly more, although currently the question of electronic material is changing that again. And in recent times there has been an explosion of historical writing drawing on a range of sources such as diaries, memoirs, autobiographies, personal letters, and so on. Most often the problem is not too little information but too much and the question is what to do with it.

[3] Fforde, Comment on Johan de Vries in Fase et al.eds.
[4] Millward, Financial History Review 8/95
[5] Goodhart, Economica vol 60 5/93 pp 242-244

Yet for a variety of reasons there might be too little information. There does seem to be an important contrast between the British central bank and other financial institutions and the rest of the civil service in this respect. That could derive from the nature of the banking business and the natural secrecy attaching to it, and in the Bank of England's case from its own long history as a joint stock company and the habits of secrecy it developed. In the central bank most of the important decisions are about changing Bank Rate or tightening credit or supporting the exchange rate and of necessity they take place in confidential meetings with as few people as possible involved. Written records are often scarce. This might have been made worse for the 1960s and 1970s by the Bank Rate 'leak' of 1957 and the subsequent Tribunal. And even where the Bank had dealings with the Treasury this seems to have been true. Samuel Brittan wrote, "More of the real business is done in conversation and less is put down on paper than anywhere else in Whitehall."[6] This does not necessarily apply to all central banks. For example, the Federal Reserve has a policy-making committee and there are detailed records of their deliberations.

So there could be too little information in the Bank archives. While this may seem odd given the miles of files that are kept, it is still possible. In the public records generally in Britain it is only something like 2 per cent of all material collected that is preserved for the future/historian. Now of course, much of what builds up in government departments is of very little lasting value - very little value of any kind in many cases. But the main question that arises for the historian is: who decides what to keep and how much? e.gs. The more difficult question is: in 50 or 100 years from the present what kinds of questions will be of interest and so what kind of material should be kept? There

[6] see Samuel Brittan, The Treasury under the Tories, 1965 p. 60

have seldom if ever been historians employed in these institutions to make recommendations on what kind of material should be kept. Within institutions there are seldom any agreed archival principles on what should guide the preservation of material. It is probably safe to say there is seldom much discussion of any kind. Sometimes the best starting source might appear obvious – Minutes of the Court for example, the Court being the equivalent of the modern company's board of directors. But frequently that kind of source turns out to be a simple rubber-stamping exercise for mundane matters of daily business. So from the historian's point of view there may be too little of the kind of material that he would like.

There are many other possible sources of information on the working of the Bank. One that has been relied upon extensively has been the Bank of England Quarterly Bulletin (BEQB), designed originally to explain what the Bank did, and sometimes to say why, to a wider public. But one has to guard against how much the view presented in such a publication has been massaged for public consumption or might be subject to censorship from some body. It is worth looking more closely at the BEQB since the origin and evolution of the Bulletin is of interest in these respects. In the late 1950s The Bank was under some pressure to be more open and tell the public and the markets what it did and if possible why. It was after all a nationalised industry even if it did not see itself as such. Their approach was, as ever, careful, conservative, and thorough. First they carried out an analysis of an array of other commercial bank and central bank publications. The questions they posed were: at whom should the material be aimed; what should be the dates of the publication; what should the content be; should the Bank write all of the articles; what should the relationship be between this Bank publication and any other government publications; who should edit it; where should it be printed and to whom should it be distributed?[7] They also considered: frequency of publication; methods of distribution; number of articles; statistics; charts; any signed articles and any other information which would provide background against which publication might be undertaken.[8] The British clearing banks all published quarterly reviews and many central banks produced a variety of publications. All of these were examined. Circulation figures were gathered, statistical data considered, the content of articles examined and so on. By the end of November 1959 they had already decided on 'Quarterly Bulletin' as the title. By December 1959 Fforde wrote of the Bank's commitment to publish and noted that this had been endorsed by the Radcliffe Committee, the famous body established in the late 1950s to enquire into the working of the monetary system, thus encouraging the view that it was the Bank's initiative whereas in truth it was going to be obliged to do something like this.

Although Radcliffe had called for the publication of more statistics and, 'envisaged the regular issue of a 'digest of financial and monetary statistics' it had not specified whether this should be done by the Bank or the Treasury.[9] Indeed the role of the Treasury was left rather vague. At the time of the first issue the Governor Cobbold had declared that the Treasury should not be involved, '… he did not consider that the Treasury's relationship to the proposed Bulletin was such that they should or need concern themselves with details.'[10] The Deputy Governor Mynors agreed, '… we must formally maintain more freedom for a Quarterly, although in practice being very ready to show particular passages to them. They cannot escape having to take some of this on trust: and it will pay

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[7] Mynors to Cobbold, 18 June 1958, EID 5/24.
[8] Mynors to Watson and Neatby, 7 September 1959, EID 5/24.
[9] Alec Cairncross 'One hundred issues of the Quarterly Bulletin' *Bank of England Quarterly Bulletin,* Volume 25, no 3, (September 1985), p.381.
[10] Extract from Deputy Governor's Memo dated 2 December 1960 on Governor's Conversation with Sir Thomas Padmore, 2 December 1960, EID5/24.

them to be able to deny any suggestion of censorship.'[11] Much of this hints at the kind of tension that existed between the Bank and the Treasury. In his retrospective on the Bulletin Prof. Cairncross, (an important member of the previously mentioned Radcliffe Committee and later the senior economic advisor at the Treasury) left some ambiguity on the matter. He wrote, '… the views of the monetary authorities do not in all circumstances coincide with those of the Bank. The Treasury is also involved and the Chancellor has the last word.'[12] Did this mean that the Treasury vetted every issue of the Bulletin? Perhaps that came a little later. During Lord Cromer's governorship (1961-66) there were increasing calls from the Bank for the control of public expenditure which spilled over into public statements and found their way into the commentary in the Bulletin. That seems to have been what led to the loss of Bank discretion on what went in. It was certainly the view of Jasper Hollom, Deputy Governor 1970-80, looking back from the 1990s who said, 'The Bulletins were always a matter of negotiation, they were drafted, the text went down the other end (that is to the Treasury) and came back with amendments required, they weren't really our Bulletins at all, by the time they had finished they were a compromise'. So care must be taken in using a source such as the Quarterly Bulletin. It presented a view of the Bank and its activities that was carefully controlled and for most of the period it was one that had also been vetted by the Treasury.

Apart from the institution's own archives there are many other archives that it is imperative to consult to ensure that the story is not told from only one perspective. These include other domestic archives both in and outside government, private archives such as the private papers of leading

[11] Mynors note on Mr Fforde's note of 15 December on Publications, 18 December 1959, EID 5/24.
[12] Alec Cairncross 'One hundred issues of the Quarterly Bulletin' *Bank of England Quarterly Bulletin,* Volume 25, no 3, (September 1985), p.382.

figures in the events, foreign archives, and those of international institutions. In addition of course there are biographies, autobiographies, diaries and other possibilities.

Oral history

Any history of the relatively recent past has the further option of questioning some of the participants in the events. The field of 'oral history' has developed hugely in the last quarter century. Of course it is not without its own particular dangers. Memory is a funny thing. One beneficial aspect however, is that for older people, the distant past is often much clearer and more reliable than the recent past. But it matters who is asking what questions and for what purpose – e.g. This kind of investigation needs to be done with care and forethought and sensitivity. The practicalities include such questions as whether to tape interviews or not. Will the tape inhibit the interviewee? Might some indiscretions flow without the tape? But then could they be used? The natural caution and discretion of the central banker need to be allowed for too. But then in the absence of the tape how accurate a recollection of the interview can be made? To some extent the answers on how to proceed depend on the weight to be put on the account. Is it going to be used as an authoritative account of what took place? Or is it simply a useful way of picking up a feel for the period and trying to understand better the individuals involved and how particular individuals acted? Other dangers arise when individuals, perfectly understandably and probably unconsciously, present themselves in the best possible light and in the process do a bit of re-writing of history. There is a further danger but on the other side. The interviewer may grow to like the interviewee in person having previously formed a harsh judgement of his actions in the

period. Will this lead to a softening of the view expressed in print for fear of hurting the person's feelings when the book appears?
As lawyers have found their way increasingly into all aspects of our lives there has developed a number of questions surrounding the copyright of the views expressed. And in Britain and many other countries this has sometimes been complicated further by 'Freedom of information' legislation. Several countries have implemented freedom of information legislation in order to at least appear to make government more transparent and there are implications for historians. It should not be a serious problem for the historian since he usually insists on some distance from events to allow a proper perspective. Although some enquiries can be on sensitive questions the answers to which require access to material that would not normally be open under '30 year rules'. Nevertheless, it is almost always going to be the case that more information is better than less. In theory under FOI anyone can ask to see any document relating to specific events for any period. Each request must show a public interest element. While there are undoubted advantages attaching to such openness there are also potentially deleterious effects. For example, immediately prior to the legislation in Britain becoming effective rumours spread that government departments were shredding documents on a scale not seen before.

There are clearly some areas of government that require some degree of confidentiality for at least some time and so a number of exemptions are usually listed. In Britain monetary policy is one of these. Since it could be argued that that is what the Bank does, it might be thought that it should be free of FOI requests. But it is seldom that simple. There are other things that the Bank does, or at least once did. For example, however misguidedly, it has been involved in the rescue of individual non-banking firms. (Sometimes that could be rationalised in terms of monetary policy.) And there is also a desire on the part of the Bank to be more open. Furthermore, it is often the case that the information could be available from another government department. There are other advantages and disadvantages for researchers. When a document is released the Bank is obliged to publicise this fact and to make the document available to any other enquirer. This makes it easier for other researchers to pick up on what is useful without doing any hard work.

How to assess

Analytical framework

Any assessment of the central bank's performance in relation to its principal macroeconomic objectives, however these are described, surely needs some kind of analytical framework. Otherwise from where do the questions that are the prerequisite for the research come? The framework need not be made explicit but there is quite a good case for making it so. So, for example, in the case of Britain there is likely to be some simple open economy macro-economic framework lying behind the exercise. This should be simple and should not be contentious. It should contain the basic propositions that would find widespread support in the profession. If it is to be guided or informed by something other than widely accepted principles there is an even stronger case for making it explicit. It should suggest the kinds of questions that need to be posed, even if, as is likely, they cannot all be answered. It should be able to suggest what was possible given the different kinds of constraints operating at the particular time. It should also help to indicate how appropriate or wrong-headed were the policy actions being taken. All this must avoid being ahistorical, using concepts that were not in use at the time. For example, in examining inflation in Britain in the 1950s and 1960s there would be little point in employing the Phillips Curve analysis if policymakers were either ignorant of it or rejected it, as indeed seems to have been the case.

At a narrower level there should be some framework that sets out the money supply process since that lies at the centre of the Bank's work and hence the investigation. Some would want to argue that all that was needed was set out in Henry Thornton more than two hundred years ago. But something more can be done within a framework such as the money multiplier. Central banks do not seem to like this approach, perhaps because it appears too mechanistic. But it provides a useful way of examining the determinants of the money stock, and of tracking at least in an accounting way the behaviour of the public, the banks, and the monetary authorities. In Britain an alternative approach has been favoured by the authorities, that of the 'credit counterparts'. It is designed to link the government's budgetary position with monetary growth. There is no reason why both should not be used for different purposes.

Whether some other approaches to the analysis of some recent events or some more distant ones can be used, will depend to some extent on the particular bank and time period. For example, Thomas Mayer rejected time inconsistency, public choice, and reaction functions as approaches that could be useful in an analysis of the Fed's policy making for the

1970s through the 1990s.[13] (Alan Meltzer's second volume on the Fed, in preparation, has no explicit theory set out.[14])

If the assessment were being made today it would be comparatively easy since the macroeconomic objectives are clear and explicit. If asked to produce x per cent inflation, success or failure can be judged fairly readily. But how efficiently was the objective achieved? How many people at what cost did it take and might it have been done by fewer people at a fraction of that cost? Clearly, the assessment is not comparable with any other institution. The central bank is a monopoly and in normal circumstances we could be certain they would be earning monopoly profits. But they are not normal monopolies and can not be compared either with other monopolies or with commercial banking. What would a calculation of the rate of return on capital mean?

Financial assessment

Nevertheless, there is another sense in which the performance of central banks might be assessed, and that is in terms of its finances. Something can be said about how central banks are financed and some comparisons might be made. There are three principal possibilities for the financing of central banks. One is it could be financed straightforwardly out of taxation. Another is it could be allowed to retain seignorage. And a third is it could place a levy on the financial institutions. The Bank of England had arrived at the last mentioned via a long natural evolution. There are some problems with the first two in terms of incentives and independence. The third raises fewer objections. At the beginning of the

[13] Mayer, Monetary policy.
[14] Meltzer, forthcoming

twenty-first century, with greater transparency in business and government, the Bank's finances are fairly easily discovered. Under the 'Cash Ratio Deposit Scheme', the principal financial institutions have been obliged to hold non-interest bearing deposits at the Bank. These deposits are invested by the Bank and the income earned covers the costs of the Bank's monetary policy and financial stability operations. In addition, the Bank charges for specific services it provides to various parties.

The present financing arrangements of the Bank evolved over a long time. The scheme has its roots in the nineteenth century. In the early years, the commercial banks had a certain amount of understandable antipathy towards the Bank, largely because of its privileged joint stock position. But that faded in the course of the first half of the century as attitudes gradually changed following the allowing of joint-stock banking. Then after the Bank had been given a monopoly of the note issue in the legislation of 1844, and it became the ultimate source of cash, conditions were in place for it being the lender of last resort. That last role was one the Bank played imperfectly in the middle years of the century, but then more or less ideally from the 1870s onwards. Private note issues were in decline after 1844 and by the 1870s were relatively trivial in the totals. The Bank, by virtue of its position, could therefore provide emergency liquidity to the banking system and effectively without limit. It was sensible therefore for banks to place their reserves with the central institution and facilitate, at reduced cost, the settlement of claims on each other.

The arrangements were also in the interests of the Bank of England in its emerging position as the central bank. When any panic blew up, the banks would seek assistance from the central issuer. Ultimately, this could result in holders of central bank claims demanding gold from the Bank, but if confidence could be preserved in the banks, that also ensured the safety of the Bank. So it was that around the beginning of the second half of the nineteenth century, bankers' balances started to become a significant part of banks' liquid assets. We now know what the figures were, but total secrecy surrounded them from this period until late in the twentieth century. The secrecy was for a long time justified on the grounds that the Bank might, on occasions, provide support for a particular institution and it was better for the system if details of an operation were not known.

Bankers' balances stood at about £1.5 million in 1850, had grown to around £10 million in the 1870s and, according to Sayers, by the First World War the normal order was about £60 million. (These must be true of the real figures as well because the price level in 1914 was more or less the same as it had been in 1870.) The Bank had called for increased balances following the Baring Crisis of 1891; and they were something that the Governors watched very closely. The balances were also becoming important for another reason. By the late nineteenth century, there was an acceptance at the Bank that its public role took precedence over its private role, and as a consequence it would have to forego some profitable commercial activity. Thus, its income was now derived in large part from bankers, and also government, balances.

In the nineteenth century the balances had been interest bearing, and this continued in the interwar years. In the late 1920s the balances were still in the range of £55-63 million. But a change came following the Second World War. It was agreed, in 1946, that the banks would operate with a cash reserve/deposit ratio of 8 per cent. The cash was to be made up of till money and balances held at the Bank, though it did not matter what the split was. In the 1950s, and into the 1960s, bankers' balances were of the order of £300 million. However, after 1951 and the reactivation of monetary policy, interest rates were much higher than they had been for more than twenty years and so interest earnings rose. An interest rate of say 4 per cent would thus have yielded an income of £12 million in 1955.

In the financial year 1950/1, total Bank income was £8.9 million of which interest earned was less than half at £4.1 million. However, for the reasons just noted, interest earned rose steadily across the next two decades so that by 1969/70 while total income was £31.9 million, interest earned was more than 80 per cent of the total at £25.8 million. (That would be roughly £250 million in today's terms (2006), while the costs of the Bank's monetary and financial stability operations are currently approximately £100 million per annum

The size of this income was undoubtedly a concern to the Bank. In a note on the subject written in September 1960, Mynors warned that, 'it may become increasingly difficult to justify the need for profits on this scale'.[15] By the end of the 1960s, Chief Cashier Hollom, was writing to Governor O'Brien that, 'the combined effects of inflation in building up the bankers' balances which are our main source of income, and high interest rates on our earning assets, our surpluses have tended towards embarrassing levels'.[16] These worries were linked to an ongoing debate concerning the relationships between the Bank's profits, the contribution to the Treasury, and the remuneration for agency work for the Government.

The explanation then is fairly straightforward. In the nineteenth century the balances had been interest earning and this continued into the interwar years. After 1931, the era of 'cheap money' when Bank Rate

[15] Mynors, notes 'The Bank's profits', 19 September 1960, G15/11.
[16] Hollom-O'Brien, 1 January 1969, G15/12.

was held at 2 per cent there was less cause for concern for the Bank or the banks. In the changed arrangements following the Second World War the balances became non-interest bearing and the era of cheap money continued. However, after 1951 with interest rates rising, the Bank's earnings increased hugely, and the opportunity costs of the funds to the banks rose correspondingly.[17] Following the introduction of Competition and Credit Control in 1971, the practice was formalised. At this point the banks agreed to hold 1.5 per cent of their eligible liabilities as non-interest bearing balances. The ratio of balances to eligible liabilities was to fall several times in the next three decades: to 0.5 per cent in 1981, then to 0.45 per cent in 1986, and further still in the 1990s.

For an interested observer in the 1950s, it was almost impossible to deduce much about the finances of the Bank. In the prevailing culture of secrecy the Bank published very little financial data about itself, and as already stated, the Annual Report was extremely uninformative. The Bank was not alone in this lack of disclosure, it being a similar story for the commercial banks.[18] One document that was publicly available was the statutory Bank Return. A requirement of the 1844 Act, it was calculated every week and published in the *London Gazette*, as well as being displayed at the Bank.[19] Thus while it is not possible to carry out any very meaningful return-on-capital calculations it should at least be possible to show what the Bank cost to run and to make some comparisons across time and perhaps even countries.[20]

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[17] See Griffiths, Competition in banking ,(1970); Capie 'The evolving regulatory framework in British banking in the twentieth century', in Chick (ed.), *Governments, industries and markets*, (1990).
[18] Billings and Capie, 'Financial reporting in UK banking 1920-70: disclosure, transparency and stability', *Accounting and business research* (#).
[19] Hennessy, *Domestic history*, pp.193-4.
[20] Some recent calculations show that the ECB staff costs work out at $14.57 per capita – in the euro area. The Fed is $5.47, and the Bank of England $3.34. Some smaller central banks are very expensive. Iceland costs $25. But this needn't be the case. Poland, New Zealand, Canada and the Czech Republic all cost less than $3 per capita. Newsmakers, Central Banking Newsletter, 31 August 2005 newsmakers@centralbanking.co.uk

Independence

An assessment of how well a central bank has performed needs consideration of another factor and that is how independent it was at the time. What the central bank does or sets out to do can be achieved only if it has the freedom to operate as it would choose. In other words it must be independent of political or any other kind of interference. But the question of independence is a difficult one bearing in mind that the central bank is likely to be responsible for monetary policy and that we are talking mostly of democratic countries. Independence needs to be defined in a narrower way than complete freedom. What has generally been arrived at is that the concept should be interpreted in similar terms to that of the judiciary. That is, parliament makes the laws and the judiciary carry out the monitoring and enforcement of these laws. In the case of monetary policy parliament decides on a particular objective such as price stability and the central bank is then charged with delivering that objective.[21] In other words it has operational independence rather than goal independence. If that is the case then having been given its task it cannot be instructed by government to do something else. Transparency in what it does and accountability to a government might be seen as substitutes for independence or as useful additional features.

All that said, it is still not straightforward to identify let alone measure the degree of independence with which any central bank operates. In a long list of studies on independence that appeared in the 1980s and 1990s the statutes were usually taken to provide the best clue. Sometimes the

[21] This was a useful analogy drawn by Friedman (1962) but strangely not explored much by other researchers.

means by which the board was appointed would be used in support. And there were several other possibilities. But the origins and history of the institutions also matter and perhaps there is no better demonstration of this than in the Bank of England. The Bank is relatively unusual in its history. It was established in 1694 as a private joint stock company responsible to its shareholders and that is how it remained for a very long time. But there did come a point, probably in the 1870s, when it accepted that its public responsibilities took precedence over its duties to its shareholders. Even when war broke out in 1914 and the governor was summoned to Downing Street to be told what government wanted he put up a spirited fight in defence of the Bank's independent position. There was a great deal of hostility to the Bank particularly from the political left and some of it goes back to the First World War when according to Pollard, the Governor Cockayne, "… defied the government with impunity over a Bank Rate decision while the nation was still at war."[22] And when the war was over it was assumed that reversion to pre-1914 conditions prevailed. Indeed the Bank went on to preach the gospel of independence at the Brussels Conference of 1920 and throughout the rest of the decade as new central banks were established.

But then unsurprisingly given the huge consensus on socialism at the time, the Bank was nationalised by the socialist government of 1946. It might be thought that thereafter the Bank would have been clearly subordinate to the Treasury. And that being the case that it could reasonably lay the blame for any perceived failure at the door of the Treasury. But the Act that nationalised the bank had in fact very little to say about changed procedure and the view of most was that the Bank carried on much as it had done before nationalisation. Indeed that was

[22] Pollard

one of the reasons behind the Radcliffe committee of enquiry – the performance of monetary policy and Bank/Treasury relations.
In the immediate aftermath of the publication of Radcliffe in August 1959 the press reaction was mainly of the view that the Bank had now been put in its place and would follow the Treasury's instructions. But that was soon changed, and before long The Times reported that there would be, "…no change of substance in the way in which things are really done." [23]
In fact, as might have been expected, the degree of independence shifted around according to the strength of personality of the Governor as against the Chancellor and depending on whether or not the Bank thought it worth fighting a particular issue. The Bank in the 1950s/1960s was outgunned intellectually by the Treasury but would argue that its expertise lay in market nous. So it would argue that Bank Rate was a rate for which it had a special expertise, knowing where it should be and when it should be changed. Through most of the 1960s it seems to have been successful in defending this position. So that while following Radcliffe, the presentation of changes in Bank Rate were different the decisions were still taken by the Bank and rubber stamped by the Treasury. The Bank would decide that say a rise in the rate was desirable and would perhaps indicate this to the Chancellor in a meeting with the governor. The Governor would then write to the Chancellor making the recommendation and the Chancellor would reply, " I approve the proposal …". Thus it is difficult to attribute blame or praise for any outcome without a knowledge of the decision-making process for each action. This then is obviously one important area where detailed historical enquiry is of the utmost importance. Only by careful examination of the archives can a proper picture of the Bank's role and behaviour be established – always assuming the material exists.

[23] The Times 19/8/59

Currently, as was said at the outset, it would be easy to say what the central bank should be doing and not doing. But in the period after the Second World War and for at least thirty years it was far from clear. Or at least there was a long list of possible tasks. And it is also important to remember that the primary requirement of all government policy was the maintenance of full employment and that was a major constraint on a range of policies for any action had to take that into consideration. The Bank was first of all the government's bank doing huge business on behalf of government which was of course by this time bigger than it had ever been. And it was the agent of government for a number of operations. It operated the Exchange Equalisation Account that pegged the exchange rate of the pound to the dollar. Related to this was the running of the exchange controls that had been put in place in wartime and formalised in 1947. This in itself was a huge operation employing around 700 people in the Bank by the late 1970s. It also intervened in the London gold market, the most important market of its kind in the world, in order to maintain orderly markets and help support the prevailing exchange-rate regime. It managed the government debt and facilitated government borrowing by open market operations which were often directed at maintaining orderly markets in gilts. It acted as the representative of the financial sector in dealings with the government. It also felt its duty was to preserve London's status as a leading international financial centre. The question of central bank co-operation is also one that needs to be pursued as the recent work by Prof. Toniolo has shown.[24] Although, prior to 1979, there were almost no statutory regulatory requirements the Bank acted as implicit supervisor of the banking system. Its key role, some would say its defining feature, was to

[24] see Toniolo, 2005

act as lender of last resort to the banking system. How much any of this was feasible is a major question for investigation.

Conclusion

Having focussed primarily on the Bank of England in a particular period I have consciously left aside some questions that would arise for central banks in other countries and at other times. But the omissions are less serious than might at first appear since central banking is essentially a twentieth century business. Insofar as it existed in the nineteenth century its business was usually simpler, that of adhering to the metallic standard of choice. But there is a great deal of work going on at the present time in many countries and across long time periods. Currently, being written are histories of the Federal Reserve System, the National Bank of Belgium, the Swiss National Bank (another anniversary), the Bank of Finland (another anniversary), the Reserve Bank of New Zealand. Last year the Bank of Canada celebrated its 70th anniversary, and that has produced some reflections on its past. Work is going on in other central banks on specific historical episodes and in some cases on other institutions which it might be argued behaved like central banks – for example the Bank of Amsterdam (again another big anniversary approaches, 400 years).

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