Understanding the Bank of England

A LEARNING RESOURCE FOR UNDERGRADUATE STUDENTS IN POLITICAL SCIENCE AND ECONOMICS

MANCHESTER CENTRE FOR ECONOMIC POLICY

Manchester Metropolitan University

Rethinking Economics

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This project has been funded by the **Friends Provident Foundation**, an independent charity that makes grants and uses its endowment towards a fair and sustainable economic system that serves society. The Foundation connects, funds, invests and shares learning to shape an economy that works for all. The summits held as part of the project were undertaken in collaboration with **Rethinking Economics**, an international network of students, academics and professionals building a better economics in society and the classroom.

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1. Introducing the Bank

The Bank of England (hereafter: 'the Bank') is the UK's central bank. Virtually all countries have a central bank, with the institution playing an essential role in the management and facilitation of a capitalist economy. In narrow terms, central banks manage national currencies and serve as sovereign governments' bankers. These functions extend (usually in principle, always in practice) to managing the money supply and reserves, determining interest rates, overseeing payments systems, and increasingly regulating financial service industries (particularly commercial banks). As such, central banks generally speaking use their own balance sheets to 'intervene' in the economy in line with objectives set by (elected) governments, but also (increasingly) have formal policy powers and responsibilities. The Bank of England understands its own mission, as a central bank, as:

> promot[ing] the good of the people of the United Kingdom by maintaining monetary and financial stability.[1]

What the Bank means by monetary and financial stability – and how it seeks to bring stability about – will be discussed further below, where relevant. In contrast to finance ministries such as the Treasury, there is an enormous academic literature on central banks, and the Bank of England in particular. Some of this literature, and the policy issues and decisions to which it refers, will be discussed in this paper. However, the focus here will be on the institutional and organisational features of the Bank – which receive relatively limited attention in the economics, political science and political economy literatures – rather than the technical aspects of the Bank's operations. The figure below outlines the main features of the Bank as an economic policy institution in line with the generic characteristics introduced in the accompanying paper *Introducing Economic Policy Institutions*.

In short, the Bank of England's key responsibilities, as a central bank and economic policy institution more generally, can be broken down into three specific roles:

1. Facilitating the continuing operation of the (capitalist) economy by, for example, issuing currency, and supporting payment systems.
2. Ensuring the stability of the wider economic system by, for example, managing the currency's value, and mitigating risks to financial institutions.
3. Both underpinning and regulating the business models and conduct of financial institutions, principally commercial banks.

Crucially, these roles are not unchanging: the Bank of England's remit, and the nature of its interventions, have evolved (and expanded) considerably over several centuries, especially recently.

Furthermore, these roles overlap in practice. For example, one of the Bank's key forms of intervention, quantitative easing (QE) – which involves the Bank purchasing assets from private institutions, ostensibly to boost asset values – cannot be associated straightforwardly

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[1] See https://www.bankofengland.co.uk/markets/bank-of-england-market-operations-guide/our-objectives.

Economic function. The Bank of England supports the economy by ensuring monetary and financial stability, which involves managing the national currency, and supporting and regulating financial institutions, primarily commercial banks. Monetary policy may be used to stimulate as well as stabilise the economy.	**Relationships with other public bodies**. The Bank of England has an ambiguous status. It serves the public through its policy functions and market operations, but is not technically part of government. In general, however, the Treasury exercises significant authority over the structure, agenda and decisions of the Bank.
Founding or central ideas. The purpose of central banks is fluctuating and contested. But the Bank of England generally subscribes to the view that it upholds 'market neutrality' – it intervenes to underpin the economy, not shape it. In recent decades, controlling inflation has become a central objective.	**Leadership and personnel**. The Bank of England is led by a Governor, who is appointed by national government. Employees are recruited directly; they are technically not civil servants. The Bank essentially pays for its own operating costs from 'profits' arising from creating money, or levies on the banks it supervises.
Evidence and other inputs. Data on inflation is the main input into the Bank's monetary policy decisions, although in recent years a wider range of economic performance measures have become important. Independent experts sit on the Bank's policy committees, and the Bank uses regional 'agents' to examine economic conditions 'on the ground'. The Bank also has access to data on the performance and funding status of virtually all financial institutions in the UK.	**External scrutiny and accountability**. The Bank of England is owned by and accountable to the Treasury, and the remit of constituent parts such as the Monetary Policy Committee and regulatory bodies are established in statute. The Bank is ostensibly overseen by a court of directors with independent members. However, in practice, there is very little *scrutiny* of the Bank's policy and decisions, even if they often attract media *attention*, partly due to their highly technical nature.
Origins. The Bank of England was established in the seventeenth century – as a private bank, but to help the government fund the costs of war and conquest. It became more focused on supporting macroeconomic stability as the capitalist economy grew. The Bank was nationalised in 1946, before being granted some functional independence in 1997.	**Location**. The Bank of England has been located in the City of London for centuries, with a small number of regional offices. It is often seen as the City's voice in government – and the government's voice in the City. There are plans for the Bank to establish a larger presence outside London to broaden its analysis of economic conditions, but key policy functions will remain in London.

Fig 1. The Bank of England as an economic policy institution

with only one of these roles. Yet by seeking to provide liquidity, in the hope of stimulating the economy, the aim of QE arguably combines the first (facilitation) and second (stability) roles. It would be plausible to suggest, moreover, that recent actions by, and agendas within, the Bank have begun to further stretch its remit beyond that of a conventional central bank. It has been suggested, for instance, that the Bank now has a significant fiscal role, underpinning spending and borrowing by national government (QE can be understood in this way). And the Bank has

clearly begun to show an interest in the long-term health of the UK economy in general (and indeed global economy) – extending beyond a conventional concern with inflation, discussed below – although it does not necessarily have powers which allow it to act or intervene in this regard.

2. Public or private?

One of the curiosities of the Bank of England is that it, by and large, pays for itself. And because it operates on a pseudo-commercial basis, it is highly transparent about its income and expenditure. In 2020/21, the Bank spent just over £700 million (with its policy functions associated with monetary and financial stability costing close to £200 million), and generated an income of £775 million. What happens to the 'profit' depends on whether the Bank's capital buffer is at the target level agreed with the Treasury; the proportion not needed to reach the target is passed to the Treasury (the Bank claims this is normally around half).

The Bank has another source of 'profit': printing banknotes. It costs the Bank far, far less to produce the physical money circulating in the economy than it receives from the banks who buy the banknotes at 'face value'. The net revenue is invested by the Bank – often in government debt. But the profit derived from issuing banknotes (approximately £400 million per year) is passed over in entirety to the Treasury. The Bank's other main sources of income, over which it has greater control, are fees and levies paid by financial institutions to draw upon Bank services, or to access the Bank's regulatory regimes (both of which are financially and legally necessary for banks to operate), and returns on the Bank's financial assets.[2]

It is of course not unusual for publicly-owned companies, operating commercially, to generate income which funds their activities, even where these activities are undertaken on behalf of the public. It is slightly jarring, however, to contemplate that an economic policy institution so central to the basic functions of the (capitalist) economy is funded in this way. This picture might, however, be slightly misleading: while the Bank may operate commercially in some ways, its unique role in the monetary and financial system – from which income is generated – is only possible because of the powers granted to the Bank by the state. The Bank, quite obviously, has no competitors. One of the paradoxes of central banking, therefore, is that while institutions such as the Bank of England appear fundamental to economic life, in some ways they embody a rather illusory form of public accounting.

This does not mean the Bank's functions could or should be eradicated, but they could, in theory, be performed in other parts of the public sector without requiring an all-under-one-roof central bank acting as an independent financial entity. This helps us to understand why all the Bank's excess profits effectively 'belong' to the Treasury, and why none of the profit from issuing banknotes is retained by the Bank (since this profit only arises from the privilege of

[2] See https://www.bankofengland.co.uk/knowledgebank/who-pays-for-the-bank-of-england and https://www.bankofengland.co.uk/-/media/boe/files/annual-report/2021/boe-2021.pdf.

'seigniorage', that is, the power to print and ascribe value to money which all other actors in the economy are ultimately required to use).

The fact that central banks continue to exist as largely independent entities is a product of historical arrangements – not unique to the UK, but pioneered in the UK (or, more precisely, England). The Bank of England was established in 1694 in response to the destruction of England's navy by France in 1690. The English government was unable to raise the £1.2 million required to rebuild the navy, due to its poor creditworthiness among City of London financiers. A plan led by Whig politician Charles Montagu (not to be confused with Montagu Norman, the Bank's longest serving Governor) saw the Bank of England established to raise the funds, with the new company's shareholders given rights to issue banknotes, secured against government bonds, in return for loaning the required funds to the government. Montagu subsequently became Chancellor of the Exchequer at the Treasury.

As such, from its inception, the Bank was a public-private partnership. It owes its existence to the relative strength of private actors in the City of London in relation to the government – yet grew in importance as Parliament enacted laws to formalise its authority over private institutions. England's arrangements were imitated in other countries. The Bank's role in relation to national debt has actually diminished – although arguably QE has revived this role in novel ways – but the Bank of England grew significantly in size and significance as its role as 'the banker's bank' underpinned finance sector deepening. The City of London encompassed a powerful set of actors *before* the Bank of England was established, but the Bank undoubtedly helped it to grow in significance as capitalism developed in Britain – and this history is intertwined with that of imperial conquest, which the City helped to finance.[3]

It was not until the middle of the nineteenth century, however, that the Bank was given exclusive rights to issue banknotes (in England and Wales). The Bank Charter Act 1844 also established a ratio between gold reserves held by the Bank and the currency it could issue. 'Gold standard' arrangements will be discussed below, but it is worth noting here therefore that control of the money supply – in fear of inflation – has been central to the evolution of the Bank of England into a central bank as we would understand it today (although not necessarily at the behest of the Bank itself).

Until 1946, despite its public functions, and its subservience to Parliament, the Bank of England remained in private ownership. It was nationalised by Clement Attlee's post-war Labour government, along with several industries which were strategically significant to the economy, or essential to societal welfare. The rationale for nationalisation was, in part, to protect the Bank of England, given how important its balance sheet had become to the national economy, and in part to allow the government to use monetary policy more strategically to manage demand within the economy, in line with Keynesian macroeconomic theory.[4] Central banks in other countries were nationalised at around the same time.

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[3] Shigeru Akita (2002) *Gentlemanly Capitalism, Imperialism and Global History* (Basingstoke: Palgrave).

[4] Austen Sanders (2021) 'Negotiating nationalisation', *Bank Underground*, 1 March, available at: https://bankunderground.co.uk/2021/03/01/negotiating-nationalisation/. It is worth saying here, in fairness, that the Bank of England generally rejects the notion that its pre-1946 ownership model prevented the Bank from acting in the national interest. Its own website stresses that, prior to nationalisation, the Bank was owned by a

3. Structure and governance

The Bank has around 4,500 employees. It is led by the Governor of the Bank of England (currently Andrew Bailey), who is appointed by the Chancellor of the Exchequer (invariably with the approval of the Prime Minister). The Governor is paid around £500,000 per year: significantly more than any senior civil servant, or indeed politicians such as the Chancellor or Prime Minister.[5] Governors are usually appointed from within the Bank – Bailey had been Chief Executive of the Financial Conduct Authority (FCA), a Bank agency – but Bailey's predecessor, Mark Carney, had been appointed from the equivalent role at the Bank of Canada, becoming the first non-UK citizen to serve as Governor.[6]

Governors are of course not politicians in any formal sense – but not are they civil servants, not least because, as discussed above, the Bank ostensibly pays for itself. Its remuneration and leadership arrangements are therefore quite unique. The Governor is supported by four Deputy Governors, for monetary policy, financial stability, markets and banking, and prudential regulation (who also leads the Prudential Regulation Authority, a Bank agency). There are around twenty executive directors of the Bank, the most high profile of which is usually the Chief Economist. The previous incumbent of this role, Andy Haldane, was seen as a critic of the British economic model in some ways – taking an interest in the UK's productivity problem and regional inequalities, and famously finding common ground with Occupy protestors after the 2008 financial crisis – but was a rather orthodox thinker in terms of the Bank's core mission of inflation targeting. At the time of writing, Haldane is employed by the Conservative government to work on its 'levelling up' agenda.

The Bank of England is based predominantly in London, at the heart of the City. This is by design: the Bank's location – and the background of many of its leaders – reflects its close relationship with private financial institutions. Critics would note the 'revolving door' between the Bank and the industries it regulates[7], but there should also be some recognition of the distinctive place of the finance sector in a capitalist economy – creating money and allocating capital – which, in turn, requires a different kind of relationship between governors and governed. The Bank also has twelve regional 'agencies' based throughout the UK, who report to the Bank on local economic conditions, largely through engagement with local businesses.[8]

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large number of people with very small shareholdings (see https://www.bankofengland.co.uk/knowledgebank/who-owns-the-bank-of-england).

[5] Generally speaking, the Bank is better resourced in terms of staff numbers than the Treasury (and its staff are paid more for equivalent responsibilities). This is sometimes a source of animosity between the two organisations.

[6] It is worth noting that Mark Carney's remuneration was also significantly higher than Bailey's. Carney was awarded an additional £250,000, ostensibly a housing allowance to reflect the higher cost of living in London compared to his native Canada. But the additional payment – sanctioned by then Chancellor, George Osborne – is generally seen as part of Osborne's efforts to persuade an initially reluctant Carney to accept the role. Carney remained in post longer than anticipated, and eventually became a UK citizen.

[7] Hannah Dewhirst (2020) 'The revolving door between government and finance must slam shut', *Positive Money*, available at: https://positivemoney.org/2020/08/the-revolving-door-between-government-finance-must-slam-shut/#comment-5039543151.

[8] See https://www.bankofengland.co.uk/-/media/boe/files/quarterly-bulletin/2003/the-banks-regional-agencies.pdf?la=en&hash=40303F8A61002606B473E973BF18A54DF4005CB3 for a discussion of the role of

At the time of writing, the Bank is planning to strengthen its presence outside London, including creating a new 'hub' in Leeds.[9]

Bank of England policies are generally determined via the work of three committees: the Monetary Policy Committee (MPC), the Financial Policy Committee (FPC), and the Prudential Regulation Committee (PRC). The MPC was established in 1997 as part of the Bank's monetary policy 'independence', whereas the FPC and PRC were established following the financial crisis as financial regulation returned to the Bank, albeit in a modified form. Generally speaking, the committee is composed of senior Bank executives (the Governor and most of the Deputy Governors sit on all of them, alongside other relevant executives). They are joined by external members – appointed from the finance sector, or academia – and non-voting representatives of the Treasury.

The contemporary Bank of England is seen as a quite transparent economic policy institution, in terms of documenting the rationale and underpinning analysis for its policy decisions. Its leaders regularly deliver (and publish) speeches which explain the Bank's general approach to key economic trends and policy issues.[10] Traditionally, however, the Bank has been accused of the opposite, that is, of being a rather opaque institution which generally neglected to explain itself. Of course, the granting of formal monetary policy powers in 1997 arguably required more transparency. Furthermore, while the Bank may now be more transparent, it is still relatively insulated from formal scrutiny. It is occasionally investigated by the Treasury Select Committee, but in general, parliamentary attention is rare. The Bank engages with the media around key announcements, but does not invite the kind of scrutiny that a typical Whitehall department would experience. It also largely escapes scrutiny by the National Audit Office, given its limited use of public money in a conventional sense.

It is worth noting finally that the Bank is technically overseen by a Court of Directors. Its five executive members are all senior Bank executives: the Governor and all the Deputy Governors. There are also up to nine non-executive directors (serving a four-year term), drawn essentially from the British political and business elite. The current chair of the Court is Bradley Fried, a leading figure in the UK finance sector, and its deputy chair is Dido Harding, a controversial

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the Bank's agencies. The Bank publishes a report which summarises reports from its agents each quarter (see https://www.bankofengland.co.uk/agents-summary/2021/2021-q3), as well as results from its quarterly discussions with the Decision Makers Panel (see https://www.bankofengland.co.uk/agents-summary/2021/2021-q3/latest-results-from-the-decision-maker-panel-survey-2021-q3), encompassing a small number of chief financial officers from UK companies. Since 2018, it has also organised a Citizens Panel, as well as other community and youth forums (see https://www.bankofengland.co.uk/news/2021/october/publication-of-findings-from-the-bank-of-englands-citizens-panels).

[9] See https://www.bankofengland.co.uk/news/2021/april/boe-announces-plans-for-a-new-northern-hub-as-part-of-a-review-of-its-presence-across-the-uk.

[10] The most telling example of the Bank's shift to a more transparent stance is its decision to create the 'Bank Underground' blog. The blog's posts are written by Bank staff, analysing and discussing economic issues without formal approval from senior Bank leaders. The Bank encourages its staff to contribute to the blog, so it can engage a wider community of economists and practitioners in the early stages of its analytical projects (see https://bankunderground.co.uk/). In 2019, a more formal 'Bank Overground' blog was launched, to provide short summaries of formal Bank analysis underpinning policy decisions (see https://www.bankofengland.co.uk/bank-overground)

figure with close links to the Conservative Party. Harding led the Test and Trace service during the COVID-19 pandemic until April 2021, and was previously chief executive of TalkTalk.

The Court meets at least seven times per year, and non-executive members are paid at least £15,000. While the committees discussed above are responsible for policy, the Court oversees the Bank as a corporation. This includes determining the Bank's overall strategy, and ensuring its resources are used efficiently.[11] There is no evidence that the Court plays a substantive role in Bank decision-making in any regard.

4. Money and monetary policy

This paper is not the place to discuss the nature of money, or money creation. Yet money is clearly central to what the Bank of England does, and the nature and purpose of monetary policy.

There are three forms of money. The most familiar is cash: the notes and coins we carry around (or store under the mattress!). The Bank creates the vast majority of this money. The Bank also creates electronic money in the form of reserves, when it loans money to its customers (that is, the government and commercial banks). Bank reserves are essential to government and finance sector liquidity (they are used for instance to settle interbank lending) – the interest rate applied by the MPC to these reserves is the key monetary policy tool of the Bank, insofar as it influences that interest rates applied by commercial banks to the money they create (as well as other asset prices which might be connected directly or indirectly to Bank rates).[12]

However, by for the most important form of money (usually around 95 per cent of all money used in the economy) is electronic money created by commercial banks in the form of deposits, arising from money individuals or companies choose to store in a bank, or which a bank has agreed to lend to individual or companies. Most banks in the UK (and some other financial institutions) have the right to create money denominated in sterling, the national currency.[13]

Traditionally, it has been assumed by economists that, while commercial bank money dwarfs base or central bank money, the creation of the former is dependent on a foundation of central bank money, either reserves or cash (both of which the Bank of England control). The Bank itself – in common with other central banks – now accepts that this is incorrect.[14] The Bank

[11] See https://www.bankofengland.co.uk/-/media/boe/files/about/legislation/matters-reserved-to-court.pdf?la=en&hash=2F9C60E0157D682145FD6EFB9014B4AEE745E15D.

[12] CORE (2017) *The Economy: Economics for a Changing World* (Oxford: Oxford University Press), pp. 673-676.

[13] Josh Ryan-Collins *et al.* (2011) *Where Does Money Come From? A Guide to the UK Monetary and Banking System* (London: NEF), pp. 14-18; CORE (2017) *The Economy*, pp. 430-437.

[14] As Bank officials Michael McLeay, Amar Radia and Ryland Thomas argued in the Bank's quarterly bulletin in Q1 2014, 'Money creation in practice differs from some popular misconceptions – banks do not act simply as intermediaries, lending out deposits that savers place with them, and nor do they "multiply up" central bank money to create new loans and deposits' (see https://www.bankofengland.co.uk/quarterly-bulletin/2014/q1/money-creation-in-the-modern-economy). This explicit acknowledgement represented a hugely

may in theory have the legal power to control money creation, but it does not exercise this power. However, this does not mean that the Bank has no *influence* over commercial bank money creation, through its interest rate, or the strengthening of reserve requirements (discussed below). The Bank maintains therefore that money creation 'depends on the monetary policy of the central bank', while critics argue that money creation instead 'depends mainly on the confidence and incentives of the banks', and that, in practice, 'it is the banks that determine how much central bank reserves and cash the Bank of England must lend to them'.[15]

Monetary policy and currency exchange rates are closely intertwined. Other things being equal, lower interest rates will reduce demand for financial assets to denominated in a particular currency, which reduces demand for (and therefore the price of) this currency – which makes goods produced by the relevant national economy more attractive to internal and external customers.[16] From the mid-nineteenth century, Britain operated 'the gold standard' formalising a traditional practice whereby sterling banknotes were convertible to gold. We can associate this policy with the Bank's interest in controlling money creation, and therefore inflation, so that sterling retained value. It is also inherently associated with the British Empire's international hegemony, which helped to establish sterling as the world's reserve currency (because it was 'as good as gold'). In practice, the gold standard did not effectively counter monetary and financial instability, and arguably the interest rates required to attract gold deposits acted to depress the real economy (some therefore see the gold standard as a defensive and rather short-lived measure by Britain designed to mitigate a process of imperial decline which was ultimately irreversible).

The gold standard was abandoned in the early twentieth century, before being revived briefly, and unsuccessfully in the 1920s. A formal international system of fixed exchange rates was established after the Second World War – founded upon the US dollar's convertibility to gold, rather than an international currency as advocated by British economist John Maynard Keynes.[17] In this sense, when considering the role of central banks on the UK economy, in the post-war era, the US Federal Reserve is arguably as important as the Bank of England. The dollar-based gold standard was abandoned in the 1970s, and the exchange rate of sterling has 'floated' ever since, with the partial exception of the early 1990s when the UK joined the

important shift in the discourse of central banking. It is interesting, however, that it occurred at a time when the Bank itself was creating a large amount of money, through quantitative easing. A paper by Benjamin Braun argues that the abandonment of the 'folk theory' of money creation, while welcome, raises questions about how central banks will legitimise their existence and authority in its absence (see Benjamin Braun (2016) 'Speaking to the people: money, trust, and central bank legitimacy in the age of quantitative easing', *New Political Economy* 23(6): 1064-1092). It is surely not a coincidence that the Bank of England sought to recognise commercial banks as the main source of money creation at a time when the nature of its own monetary interventions were being transformed.

[15] Ryan-Collins *et al.* (2011) *Where Does Money Come From?* p. 21.

[16] CORE (2017) *The Economy*, pp. 670-680.

[17] It is worth noting that the Bank of England was sceptical of *both* a dollar-based international monetary system, *and* Keynes' more neutral approach – it wanted instead to reassert the international role of sterling after the Second World War. The Bank lost the argument, not least because the sterling exchange rate required would constrain public spending in support of post-war reconstruction, and indeed the receipt of aid in the form of US dollars. The episode helped to convince the incoming Labour government to formally nationalise the Bank (Scott Newton (2004) 'Keynesianism, sterling convertibility, and British reconstruction 1940-1952', in Ranald Michie and Philip Williamson (eds) *The British Government and the City of London in the Twentieth Century* (Cambridge: Cambridge University Press), p.261-262).

European Exchange Rate Mechanism (ERM), thus becoming largely dependent on monetary policy set by the German central bank, the Bundesbank.

It is worth noting, however, that such policies were largely determined by central government rather than the central bank – they occurred in the decades between nationalisation in 1946 and independence in 1997. The Bank of England remained committed to sterling's status as a reserve currency internationally throughout the post-war era, even if it lacked the power to enact its will.[18] Given the 1997 decision, it is debateable whether the Treasury could act in the same way now to affect UK monetary policy, even indirectly, without the Bank's approval. Of course, over the long term, Bank policies are shaped by the Treasury and its elected ministers, due to the latter's power of appointment. This is, however, largely a moot point: the UK now has very little autonomy in practice over the international value of sterling, irrespective of whether the Treasury or the Bank is in the driving seat.

This does not mean the Bank of England does not play a vital role in the UK economy – only that this role is no longer mainly one of setting interest rates to influence the value of sterling and commercial bank practices. The policy which best defines its new role is QE, which is discussed further below. Essentially, QE involves the creation of central bank reserves (as noted above, the second form of money), which is injected into the economy through the purchase of assets (principally government bonds), from the private sector (principally financial institutions). The MPC determines the volume of QE required, alongside decisions about the interest rate. As such, a diminished role for Bank policy in controlling the monetary system has arguably given way to an important – but more nebulous – role in stimulating the entire economy, as the UK suffers a sustained period of low productivity and output growth, and frequent economic (and political) crises.

It is also worth noting, finally, that the Bank is exploring the possibility of becoming more directly involved in creating electronic money used by individuals and non-financial companies. The so-called Central Bank Digital Currency (CBDC) would operate alongside electronic money created by commercial banks (as noted above, the third form of money). The intention is to provide a digital form of money as secure as banknotes, for widespread use, as the economy becomes increasingly 'cashless'. Unquestionably, the rise of cryptocurrencies has influenced the Bank's thinking in this regard.[19] The Bank argues that a CBDC would be consistent with its objectives to maintain monetary and financial stability – yet the development raises significant questions about how CBDC and commercial bank money would interact. CBDC could simply become part of reserve requirements upon money-creating private banks, but since part of the rationale for CBDC is to make digital payments more secure, there is also

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[18] Catherine Stock (2004) 'The new City and the state' in Ranald Michie and Philip Williamson (eds) *The British Government and the City of London in the Twentieth Century* (Cambridge: Cambridge University Press), p.327. For a critical account of the Bank's inability to manage the sterling exchange rate, see Ann Pettifor (2018) 'If I governed the Bank of England, here's what I do', *Red Pepper*, 31 October, available at: https://www.redpepper.org.uk/ann-pettifor-if-i-governed-the-bank-of-england-heres-what-i-do/.

[19] The Bank sees cryptocurrencies as an asset class, rather than money – yet nevertheless recognises the possibility that cryptocurrencies could become medium for exchanging goods and services, with unpredictable consequences for economic stability and the ability of public authorities to manage the economy. There is an excellent discussion of CBDC in the context of cryptocurrencies in Mark Carney's 2021 book *Value(s): Building a Better World for All* (London: William Collins), pp.110-119.

the more radical possibility that it could replace commercial bank money, at least to some extent.[20]

5. Freedom!

As noted above, in 1997 the newly elected Labour government granted independence to the Bank of England – it was a policy decision made immediately upon taking office, which had nevertheless not been part of the Labour manifesto (although it was in the Liberal Democrat manifesto). The immediate, political context was Labour's desire to be seen as 'credible' on the economy: by handing power to trusted technocrats, the new Chancellor, Gordon Brown, could signal his willingness to put the responsible stewardship of the national economy ahead of ideology-driven policy ambitions. David Lipsey's book on the Treasury reports that the then Governor of the Bank, Eddie George, was 'less gung-ho for independence than most', fearing the Bank would be blamed for poor economic performance. 'But', adds Lipsey, 'most people in the Bank were delighted. Central bank independence [was] the fashionable economic nostrum of the 1990s. They were thrilled that a government was at last putting it into effect'.[21]

Independence is not synonymous with privatisation – the government still owns the Bank of England. Yet the circumstances in which the Bank was nationalised in 1946 have been transformed. The postwar era saw the growing influence of a Keynesian economic policy paradigm: monetary policy was seen as crucial to managing demand – and securing full employment – through macroeconomic management, so greater national government control over an institution deemed too close to the City of London was required. Monetary policy now mattered to the economy as a whole. Ironically, this assumption was also central to the monetarist paradigm which largely replaced Keynesianism in the late 1970s. Monetarism preached controls on the money supply – which in many ways chimed with the Bank's longstanding preferences – and was influential upon the Conservative governments of the 1980s. But they did not reverse the Bank's nationalisation, because they too believed that monetary policy was too important to be left to technocrats. In fact, Margaret Thatcher, Prime Minister from 1979 to 1990, believed that the Bank had failed to support for monetarist agenda, because it was 'technically incompetent (it could not achieve the monetary target', or it was subversive (undermining monetarism').[22]

The 1997 decision was not of course intended to suggest that monetary policy no longer mattered. Instead, Labour sought to demonstrate, firstly, that its agenda was neither Keynesianism nor monetarist in a rigid sense, but rather more pragmatic. It was secondly, and

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[20] See https://www.bankofengland.co.uk/news/2021/april/bank-of-england-statement-on-central-bank-digital-currency and https://www.bankofengland.co.uk/paper/2020/central-bank-digital-currency-opportunities-challenges-and-design-discussion-paper.

[21] David Lipsey (2000) *The Secret Treasury* (London: Viking), p.60.

[22] Stephen Fay (1988) *Portrait of an Old Lady: Turmoil at the Bank of England* (London: Penguin), p.117. It is clear that the Bank's leaders were never intellectually convinced by monetarism – but not were senior officials at the Treasury (Wyn Grant (2002) *Economic Policy in Britain* (Basingstoke: Palgrave), p.97).

above all, a decision that signalled the government's view that technical decisions – and few policy areas are more technical than the monetary system – should be made by experts rather than politicians at the mercy of media scrutiny and adversarial politics. As such, Bank of England independence is generally seen as a textbook example of 'depoliticisation', that is, placing policy decisions at arms length from elected ministers. Of course, any process of depoliticisation is itself highly political in nature – it may mean that some policy areas are shielded from day-to-day politics, but we should not assume that there are not political interests at stake regarding how and when policy functions should be depoliticised.[23]

Independence is often seen as a loss of power by the Treasury, at the expense of the Bank of England. This is too simplistic. Firstly, at the same time, the Treasury gained responsibilities at the expense of the Bank, that is, finance sector regulation (since returned to the Bank) and the management of public debt (following the establishment of the Debt Management Office, in the Treasury orbit). Secondly, the notion of independence encompasses a complex policy-making process. Power to determine monetary policy – primarily the Bank's interest rate – was transferred to the MPC, a newly created body *within* the Bank. The MPC is chaired by the Governor of the Bank – but the Governor is appointed by the Treasury. Most of the MPC's members are external – and they are appointed to the committee by the Treasury, which also has a non-voting representative on the committee.[24] This is not to suggest that the MPC's creation masks ongoing Treasury control, but rather to suggest that the power dynamics between the Treasury and the Bank are inherently complex. It is also worth noting that the MPC is not radically different from its predecessor body for determining interest rates – this technically sat within the Treasury, but included leading Bank officials.

Thirdly, and most importantly, the MPC's objectives are determined by the Treasury (and indeed Parliament, since they are established in primary legislation). The MPC is required to design monetary policy to achieve a price inflation rate of 2 per cent, measured by the Consumer Prices Index (it was originally 2.5 per cent, measured by the Retail Prices Index). This is a stricter target than the Treasury set itself in 1993, after the UK left the ERM. Crucially, most central banks in similar countries have the autonomy to establish their own inflation target, as well as operational independence in terms of meeting the target. Inflation targeting will be discussed further in section 9; it is worth considering here, however, whether the inflation mandate should necessarily be seen as a constraint upon the Bank. A longer, historical perspective would suggest that such an agenda has always shared among the 'nexus' of the Bank of England, the Treasury and the City of London – and that the Treasury, not the Bank,

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[23] Craig Berry and Scott Lavery (2017) 'Towards a political economy of depoliticisation: Help to Buy, the Office for Budget Responsibility, and the UK growth model', in Paul Fawcett *et al.* (eds) *Anti-Politics, Depoliticization, and Governance* (Oxford: Oxford University Press); Peter Burnham (2001) 'New Labour and the politics of depoliticisation', *British Journal of Politics and International Relations* 3(2), 127-149

[24] Lipsey (2000) *The Secret Treasury*, p.100-101. Gus O'Donnell – the Treasury's head of monetary policy at the time of independence, who would later become one of the most powerful civil servants in British history – reported that his role on the MPC was simply to ensure co-ordination between fiscal and monetary policy. O'Donnell says 'we try to resist' intervening in debates, although adding that 'sometimes we fail'. It is clear that the early days of Treasury-Bank co-operation on the MPC were difficult, largely because the Bank's representatives were generally 'hawkish', recommending interest rate rises, while the Labour government was more 'doveish'. This divide had largely abated by the end of the 1990s.

has traditionally been the junior partner in this regard.[25] The Treasury's formal power to tell the Bank what to do – or what to care about – does not mean that, as an institution, the Bank does not represent, or even encompass, powerful interests which influence Treasury decisions.[26]

The Bank of England produces an inflation report (known as the monetary policy report since 2020) each quarter. These reports embody the Bank's conversion to transparency (they have actually been produced since 1993, when the Bank was merely advising the Treasury rather than making policy). The reports document the analysis underpinning MPC decisions. Arguably, the reports represent more than a public body explaining itself, but rather serve as a policy tool in their own right, given the belief among central banks that inflation *expectations* actually serve to determine, in part, actual inflation. As such, the inflation reports seek to set the tone for public discourse on the future path of inflation, therefore influencing inflation in the present. This theoretical proposition – and thus the basis of central banks seeking to influence inflation expectations – is now contested, among central banks themselves.[27]

6. Foundational ideas

At the summit with former and current Bank officials, and other experts on the Bank of England, two ideas which underpin – either historically, or today – Bank policy were identified by several participants: the natural rate of interest, and market neutrality. The Bank's subscription to these ideas reinforces a sense that the institution is inherently technocratic or apolitical, and indeed interested only in stability in a general sense rather than in upholding any particular type of economic regime. But both ideas warrant critical attention.

The notion of the natural rate of interest suggests there is, in different economic circumstances, a rate of interest at which economic output is maximised, while inflation remains low or stable. As such, the 'natural' rate is of course not a product of nature in any meaningful sense, but rather a depiction of macroeconomic equilibrium. The natural rate cannot be observed directly, but economists – including those employed by the Bank of England – use models to estimate

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[25] Geoffrey Ingham (1984) *Capitalism Divided? The City and Industry in British Social Development* (Basingstoke: Palgrave)

[26] Invariably, central bankers themselves present monetary policy independence as a triumph of democracy. Mark Carney, for example, writes: 'At last, the spirit of Magna Carta has made it to monetary policy'. The view is based on the fact that the MPC's remit is technically determined by Parliament, and is therefore directly accountable to 'the people' (Mark Carney (2021) *Value(s): Building a Better World for All* (London: William Collins), p.93). Yet it is difficult to see the removal of powers from an elected government that commands a majority in the House of Commons is an exercise in democratisation. Perhaps the UK's model of highly constrained independence from the government for the Bank is the ideal democratic compromise, albeit an unintentional one.

[27] Jeremy B. Rudd (2021) 'Why do we think that inflation expectations matter for inflation? (And should we?)', *Federal Reserve Finance and Economics Discussion Series 2021-062*, available at https://www.federalreserve.gov/econres/feds/files/2021062pap.pdf.

it.[28] An estimation of the natural rate of interest drives monetary policy, and is associated with inflation targeting – with central banks seeking to align their own interest rates with the natural rate of interest. The idea that a natural rate of interest exists – and that central banks should strive to pursue it – presents capital accumulation in rather abstract terms, with macroeconomic fundamentals fixed. Its existence drives, but also constrains, economic policy making. It is of course understood that the natural rate of interest changes over time, but in relation to shocks which disturb equilibrium – the purpose of monetary policy itself does not change.

'Market neutrality' is often seen as one of the founding myths of central banks. Modern central Banks, so the conventional wisdom goes, exist to provide stability to market economies – not to 'pick winners' among different sectors or asset classes, and certainly not to occasion structural change within the economy. There are two main ways of critiquing this position. First, even judged on its own terms, it is too simplistic. When intervening in the economy – through, for instance, the purchase of certain financial assets via QE – central banks make a large number of choices which challenge strict neutrality. Some may be perfectly defensible – such as not purchasing the bonds of finance companies – but nevertheless this means that neutrality has been forgone. Some are rather less defensible, such as the choice of transmission channels for economic interventions, which typically exclude smaller firms who do not issue bonds. On these issues, different central banks make different choices: the Bank of England, for instance, does not invest in asset-backed securities, in contrast to many other central banks.[29]

Second, even if we assume market neutrality is a guiding principle rather than something which is strictly applied, many argue it is the wrong principle. Central banks may strive to treat all parts of the economy equitably, but in doing so they may act to sustain an unequal socio-economic order. Jeremy Green and Scott Lavery argue that QE following the 2008 financial crisis, for instance, represented a form of 'regressive redistribution' in the UK: many asset-holders who would otherwise have made significant losses during the crisis were at least partially reimbursed by the Bank of England.[30] There may have been a macroeconomic rationale for QE, but this does not mean its short-term benefits were not experienced very unequally (and arguably the long-term benefits are yet to materialise).

The Bank has begun to recognise effects of this nature, albeit primarily in relation to climate change, rather than inequality. For example, the Bank's Executive Director for Markets, Andrew Hauser, said in a speech last year that the Bank's programme for purchasing corporate bonds – in striving to be neutral by dividing purchases across sectors based on the proportion of total debt outstanding the sector is responsible for – was far from neutral on the question of climate change, because it led to investment in many fossil fuel companies. Hauser's solution, however, is essentially one which is consistent with the notion of climate neutrality: the Bank

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[28] See https://bankunderground.co.uk/2015/08/11/an-estimate-of-the-uks-natural-rate-of-interest/.

[29] Chiara Colesanti Senni and Pierre Monnin (2020) Central bank market neutrality is a myth', Council on Economic Policies Blog, 20 October, available at https://www.cepweb.org/central-bank-market-neutrality-is-a-myth/.

[30] Jeremy Green and Scott Lavery (2015) 'The regressive recovery: distribution, inequality and state power in Britain's post-crisis political economy', *New Political Economy* 20(6): 894-92; see also John Evemy, Edward Yates and Andrew Eggleston (2021) 'Monetary policy as usual? The Bank of England's extraordinary monetary policies and the disciplining of labour', *New Political Economy* 26(5): 832-850.

should adjust the proportion of investment received by each sector by taking into account the likely impact of climate change on the economy as a whole.[31]

It is also worth noting a third set of ideas here: the notion that financial institutions such as banks are merely 'intermediaries', and that some therefore may be so important in facilitating real economic activity, they are 'too big to fail'.[32] The Bank has certainly begun to discard the notion that banks are merely intermediaries in relation to money creation.[33] Yet the entire enterprise of the Bank of England, as a central bank, remains founded upon the idea that banks warrant the support of a sovereign monetary authority, and that the economy would face severe instability if this support were removed. The notion of banks as wealth extractors, rather than simply capital allocators, is marginal, at best, within the Bank of England. Even if poor investment decisions and excessive profit seeking undermines a private bank's balance sheet, some banks may nevertheless need to be rescued. The function of the Bank as so-called 'lender of last resort' (LOLR) to private banks was first outlined by journalist and constitutional theorist Walter Bagheot's landmark study of money and banking in the mid-nineteenth century[34] – although arguably Bagehot was *advocating* rather than simply *identifying* this function. (Nevertheless, the Bank's leaders agreed with him.)

Some financial institutions have of course been allowed to fail, historically and recently – perhaps because they are not quite 'big' enough – and the logic of macroprudential regulation (discussed below) is such that even the biggest banks must take action to ensure that the risk of failure is minimised. Nevertheless, the Bank of England remains wedded to the notion that the banking sector as a whole is a necessary and useful component of a well-functioning market economy. As former Bank Governor, Mervyn King, argues:

> In essence, the role of a central bank is extremely simple: to ensure that the right amount of money is created in both good times and bad. This role is considered monetary policy in good times and financial policy in bad times – the provision of liquidity to banks when there is a loss of confidence in the financial system.[35]

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[31] See https://www.bankofengland.co.uk/-/media/boe/files/speech/2021/may/its-not-easy-being-green-but-that-shouldnt-stop-us-speech-by-andrew-hauser.pdf.

[32] Philip Williamson (2004) 'The City of London and government in modern Britain: debates and politics', in Ranald Michie and Philip Williamson (eds) *The British Government and the City of London in the Twentieth Century* (Cambridge: Cambridge University Press), p.14. Williamson's work offers a valuable discussion of the relationship between the Bank, the Treasury and the City of London, generally depicting the Bank as standing between government and the finance sector. The Bank is often seen as the City's voice within government, but also seen after nationalisation as an instrument of government control of private banks, with then Governor Leslie O'Brien acknowledging in 1970 that 'the Bank is an arm of Government in the City' – although arguably this was transformed by financial liberalisation in the 1980s.

[33] Ryan Collins *et al.* (2011) *Where Does Money Come From?* p. 17.

[34] Walter Bagehot (1873) *Lombard Street: A Description of the Money Market* (London: Henry S. King & Co). Bagehot's ideas remains influential among central bankers, but his main legacy relates to the principles of constitutional monarchy and the functions of Parliament.

[35] Mervyn King (2017) *The End of Alchemy: Money, Banking and the Future of the Global Economy* (London: Abacus), pp. *xxi – xxii*.

King has become rather critical of central bank practice since stepping down in 2013. But the notion that the nature of financial system might have contributed to 'the bad times' – as argued by political economists assessing the UK's 'finance curse'[36] – is not contemplated.[37]

7. A bigger Bank?

> Our job is to create a background of stability which enables other people to do interesting things. They will be interesting: we will not be and we will be faceless… but that outcome is really very important, that we will not be interesting or new or newsworthy and that will be a sign of our success.
>
> *Mervyn King, 2004*[38]

Before the 2008 financial crisis, then Governor, Mervyn King, believed the Bank could and should stay out of the economic policy limelight. The crisis may not have led the Bank to reconsider its core, foundational ideas about the purpose and functions of a central bank, but it certainly led to institutional changes, and indeed expansion – and marked the end of the Bank's commitment to dullness. Having lost some powers and personnel after 1997, the Bank's headcount doubled from around 2,000 to around 4,000 between 2012 and 2016. The two most obvious examples of institutional change, discussed further below, are the incorporation of QE into the MPC's remit, and the development of macroprudential regulation. The use of QE encompassed an informal rather than formal institutional restructure – it had been used by the

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[36] Andrew Baker *et al.* (2018) *The UK's Finance Curse: Costs and Processes* (Sheffield: SPERI), available at http://speri.dept.shef.ac.uk/wp-content/uploads/2019/01/SPERI-The-UKs-Finance-Curse-Costs-and-Processes.pdf. While King largely exonerates private banks in terms of causing the crisis, Adair Turner – who had just been appointed as head of the Financial Services Authority at the time of the crash – does not. In his 2016 book *Between Debt and the Devil: Money, Credit and Fixing Global Finance* (Princeton: Princeton University Press), Turner is highly critical of the lending practices of UK banks (as well as failures of regulators such as central banks to challenge them). He uses the term 'financialisation' – in common with many critical political economists – in order to criticise a private debt-led model of economic growth, which is based on the interests of lenders themselves rather than the real economy. It is worth noting here that the Bank itself has considered the 'finance curse' argument, concluding that the banking sector's resilience matters more than its size *per se* (see https://www.bankofengland.co.uk/-/media/boe/files/quarterly-bulletin/2014/why-is-the-uk-banking-system-so-big-and-is-that-a-problem.pdf).

[37] Indeed, King's argument in *The End of Alchemy* is not dissimilar to that of Steve Bannon – the far-right activist associated with Donald Trump – in his 2010 documentary *Generation Zero*. Bannon blames the behaviour of banks in the run-up to the 2008 financial crisis on the dissemination of socially liberal values from the 1960s onwards. Similarly, King – although he is generally seen as a left-leaning figure – attributes little blame to private bankers themselves, but rather the regime of permissibility established by central bankers and policy-makers. Unlike Bannon, King makes recommendations that would curb excessive profits in the banking sector, but nevertheless both accounts serve to steer a populist backlash to the financial crisis in the direction of the public sector rather than private sector. It is worth noting here that Mervyn King became an advocate of Brexit, and in fact advocated the UK leaving the EU without a withdrawal agreement or new trade deal (see https://www.theguardian.com/politics/2019/mar/29/uk-should-leave-eu-with-no-deal-says-former-bank-of-england-governor).

[38] Cited in John Hogan Morris (2018) *Securing Finance, Mobilizing Risk: Money Cultures at the Bank of England* (London: Routledge), p.1.

Bank before, on a smaller scale – but nevertheless represents a major shift and extension of the Bank's role. The macrorprudential agenda, in contrast, encompassed the creation of the Prudential Regulatory Authority (PRA) as well as associated policy committees, the PRC and FPC.

The expansion of the Bank's policy remit encouraged Mark Carney to launch the 'One Bank' agenda in 2014. As Carney explained:

> In the wake of the crisis, the Bank of England would be promised enormous new powers and responsibilities. In the past year those promises have become realities ... The question now is how we use our powers to fulfil our responsibilities. In response, the Bank of England is today launching a transformative strategic plan to fulfil its broader mission. We have a new leadership team. We are setting out fifteen initiatives to reshape the institution. Behind that plan is a vision for the Bank that I want to set out this evening. It is: a Bank with many and varied responsibilities, but a single timeless mission.

Carney's objective, ostensibly, was to enable 'complementarities, synergies and economies of scope' between what he described as the Bank's core functions of monetary policy, markets, and macroprudentual and microprudential regulation. As such, Carney was obviously correct to argue that:

> there are strong interactions in the way the policies have their effect, or when one policy affects another. It then makes more sense to have them operated by one institution so that shared analysis and information leads to consistency of decision making and so that trade-offs between objectives can be managed effectively, and in a timely manner, to achieve better outcomes.[39]

At the same time, however, we should not discount Carney's role as a political actor at this juncture. We could argue that the government quite deliberately established the MPC, FPC and PRC as separate entities. Under the One Bank banner, Carney is asserting here that the Bank's Governor is the key member on each committee, and that their respective decisions should be be consistent with the Bank's general approach to economic management defined and upheld by the Governor.[40] It is obviously too early to say whether Andrew Bailey intends to govern in the same way – his track record in more junior roles suggest not, although it is not unusual even for internal appointments to assume a commanding, top-down leadership style at the Bank. The wider political environment is of course relevant too: the Chancellor of the Exchequer who appointed Carney, George Osborne, was himself a dominant political figure, seemingly

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[39] See https://www.bankofengland.co.uk/-/media/boe/files/speech/2014/one-mission-one-bank-promoting-the-good-of-the-people-of-the-uk.pdf?la=en&hash=C4B57B854B6EE2903EAEADB091258F2C972D1CEE; see also National Audit Office (2017) *Progress Delivering the 'One Bank, One Mission' Strategy*, available at: https://www.nao.org.uk/wp-content/uploads/2017/06/Progress-delivering-the-One-Mission-One-Bank-strategy.pdf.

[40] The Treasury Select Committee raised concerns in this regard – not about Carney *per se*, but rather the implications of any individual being granted this much power within such an important institution. As the chair of the committee, Andrew Tyrie, argued: 'The risk in any institution with a powerful figure chairing all the Bank's key policy committees is that you end up with groupthink. Groupthink is a considerable risk in any organisation at the best of times. I can't think of a financial crisis that has not had groupthink as a major contributory cause' (see https://www.theguardian.com/business/2015/nov/10/inside-bank-of-england).

unafraid to accommodate a powerful presence at the top of the Bank. This does not apply to the Chancellor who appointed Bailey, Sajid Javid.[41]

One aspect of the contemporary macroprudential regime which predates the new institutional architecture, and is worth discussing in its own right, is 'stress testing'. As discussed below, before 1997, the Bank's regulation of the banking sector was largely informal – and after 1997, the Treasury's regulatory regime did not focus on systemic issues. The financial crisis led to banks being asked to test their ability to remain solvent in various circumstances. What started as an *ad hoc* initiative in 2008 has become increasingly sophisticated, with Bank powers founded in primary legislation. There are different stress testing regimes for insurers and banks, and there has been speculation it will also be applied in future to other financial institutions such as asset managers.[42] Furthermore, the Bank has also expanded its definition of 'stress' to establish stress testing regimes for both climate risks and cyber-attacks.[43] The development of CBDC, discussed above, can also be seen as a product of the Bank's more muscular approach to financial stability.

An even clearer example of 'mission creep' is the Bank's recent interest, noted above, in productivity, specifically the UK's poor productivity performance in recent years. Andy Haldane helped to popularise the notion of a 'productivity puzzle' in a series of speeches on the topic.[44] It could be argued of course that understanding productivity performance is a part of the Bank's interest in charting the course of inflation over the medium and long term. However, Haldane unquestionably strayed into the territory of *addressing* the UK's productivity problems, and was appointed chair of the (short-lived) Industrial Strategy Council established by the Department for Business, Energy and Industrial Strategy in combination

[41] Javid resigned as Chancellor less than two months later, after failing to prevent the Prime Minister Boris Johnson's advisers from exercising authority over Javid's officials at the Treasury. He later returned to the Johnson government as Health Secretary.

[42] See https://www.bankofengland.co.uk/-/media/boe/files/speech/2014/the-age-of-asset-management.pdf?la=en&hash=673A53E92A9EB43E5689ED7BE33628F62C4871F1. This issue leads to another set of questions – not yet substantively asked by the Bank, let alone answered – around the wider set of financial institutions involved in (shadow) money creation (see Joscha Wullweber (2021) 'The politics of shadow money: security structures, money creation and unconventional central banking, *New Political Economy* 26(1): 69-85 for further discussion).

[43] For a discussion of the Bank of England and other central banks' response to climate change, see Paul Langley and John Hogan Morris (2020) 'Central banks: climate governors of last resort' , *Environment and Planning A* 52(8): 1471-1479.

[44] See https://www.bankofengland.co.uk/speech/2017/productivity-puzzles. It is worth noting that Haldane's account was challenged by other analysts at the Bank. See for example Patrick Schneider (2018) 'Decomposing differences in productivity distributions', Bank of England Staff Working Paper No.240, available at: https://www.bankofengland.co.uk/-/media/boe/files/working-paper/2018/decomposing-differences-in-productivity-distributions.pdf?la=en&hash=3875660487AD8ADF2D1A9855316994054116CF65.

with his primary role at the Bank.[45] Haldane has now left his role at the Bank, and is seconded from the RSA to a role focused on regional inequalities[46] at the Cabinet Office.

When the British economist, Charles Goodhart, first joined the Bank in 1968 – he would later return as a member of the MPC – it was explained that 'the Bank is a bank not a study group', that is, 'the heart of the Bank then lay in its operational links with financial markets and institutions, and not in its contribution to macroeconomic analysis and policy'. In 2004, he wrote that, as a result of the shift in its responsibilities towards monitoring inflation (and the internationalisation of the City of London), 'the Bank has become an economic "study group" rather than an operational bank'.[47] This was a year after King's appointment as Governor: the first time that a professional economist, rather than someone with a background in banking, had led the Bank. Haldane's tenure as chief economist arguably amplifies this change in the Bank's institutional character. It seems unlikely that his successor as Chief Economist, Huw Pill, will maintain such a broad range of interests, but Pill's preoccupation with short-term inflation means the shift underpinning Goodhart's observation remains relevant.[48] Moreover, while Pill may be more focused than Pill on the core mission of price stability, the fact that the Bank – and indeed the UK more generally – has relatively few levers over the actual causes of inflation in the contemporary economy means that Haldane's concern with strengthening rather than simply stabilising the UK economy may yet return to the heart of the Bank's long-term agenda.

Although the Bank is now bigger and less 'boring' than before the financial crisis, there are experts in central banking and monetary policy who would like the Bank to take on greater powers and responsibilities – yet such debates are rarely aired in mainstream media coverage of economic policy. The economist Ann Pettifor, for example, recommends that the Bank:

- Uses its powers to influence interest rates across the spectrum of lending by private banks – not simply lending from the central bank.
- Be granted powers to curb cross-border capital flows, which would make management of interest and exchange rates more effective.
- Places stronger limits on speculative activity by private banks.

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[45] There is no evidence that UK monetary policy has a significant impact on productivity – in fact, it is more likely that recent monetary policy decisions have had a negative impact, by encouraging firms to invest in 'expanding' rather than 'enhancing' their productivity. This was explored in research by Craig Berry, John Evemy and Edward Yates, a summary of which was actually published by the Industrial Strategy Council under Haldane's leadership (see https://industrialstrategycouncil.org/low-interest-rates-investment-strategies-and-productivity-puzzle).

[46] Local economic development was another of Haldane's interests in his role at the Bank (see https://www.bankofengland.co.uk/speech/2019/andy-haldane-sheffield-political-economy-research-institute-annual-lecture-2019)

[47] Charles Goodhart (2004) 'The Bank of England 1970-2000' in Ranald Michie and Philip Williamson (eds) *The British Government and the City of London in the Twentieth Century* (Cambridge: Cambridge University Press), p.240. Goodhart is of course associated with 'Goodhart's Law', which highlights the observation effect which occurs when a statistical *measure* becomes a *target*. Goodhart's original reference was to the Thatcher government's use of the Bank's money supply measures to seel to constrain the amount of money in the economy.

[48] Chris Giles (2021) 'BoE chief economists warns UK inflation likely to hit 5%', *Financial Times*, 21 October, available at: https://www.ft.com/content/bce7b1c5-0272-480f-8630-85c477e7d69c.

- Restrict investment in government bonds corporations with meet their UK tax liabilities in full.
- Formally broadens the remit of the MPC to include employment as well as inflation targets.[49]

Other commentators argue that the Bank should be given a specific mandate to address climate change.[50] Of course, any further extension of the Bank's powers would raise significant questions around the Bank's accountability to the electorate, and openness to scrutiny more generally.

8. The international context

It is probably fair to conclude that, compared to other economic policy institutions such as finance ministries, central banks in different countries are more similar to each other. However, this does not mean they are all identical in form – and while many central banks have pursued similar monetary and regulatory policies since the financial crisis, some of the organisational differences have been amplified over this period.

In the US, the Federal Reserve is a central banking system set up fairly recently as part of the federal government's longstanding agenda to centralise control of the monetary system. The institution known colloquially as 'the Fed' is technically an umbrella body for regional reserve banks, which are independent legal entities, but are largely used only to implement decisions taken at the centre. The Federal Reserve's mandate – as established in law by the US Congress – includes maximising employment as well as stabilising inflation.

Like the Bank of England, the Federal Reserve has taken on more powers over financial regulation since the financial crisis. The same applies to the Japanese central bank, and it has been a firm part of the Chinese central bank's remit for decades. But such arrangements are not necessarily typical in central banking, and even where new powers have been granted recently, the kind wholesale shift from government to central bank witnessed in the UK is rare. The European Central Bank (ECB) does not have regulatory powers over the finance sector, but

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[49] Pettifor (2018), 'If I governed…'; see also Jo Michell and Jan Toporowski (2019) 'Can the Bank of England do it? The scope and operations of the Bank of England's monetary policy', Progressive Economy Forum, available at: https://progressiveeconomyforum.com/wp-content/uploads/2019/11/Can-the-Bank-of-England-Do-It-Michell-Toporowski.pdf.

[50] Craig Berry, Daniel Bailey and Katy Jones (2020) 'A beta bailout: the near future of state intervention', in *Soundings* 75: 37-54, available at: https://journals.lwbooks.co.uk/soundings/vol-2020-issue-75/article-7649/; Daniela Gabor (2021) 'Private finance won't decarbonise our economies – but the big green state can', *The Guardian*, 4 June, available at: https://www.theguardian.com/commentisfree/2021/jun/04/private-finance-decarbonise-economies-green-state; The Labour Party (2019) *Finance and Climate Change: A Progressive Green Finance Strategy for the UK*, available at: https://labour.org.uk/wp-content/uploads/2019/11/12851_19-Finance-and-Climate-Change-Report.pdf; Langley and Morris (2020) 'Central banks…'. It should be noted that the current Chancellor, Rishi Sunak, has agreed that the MPC can explicitly use QE to support the government's net zero strategy (see https://www.ft.com/content/f436d69b-2bf0-48cd-bb34-644856fba17f).

nor do the French and German domestic central banks, or indeed the Danish central bank (Denmark is an EU member but outside the Eurozone).

Inflation targeting is a major concern for most central banks, especially the ECB – arguably more so than the Bank of England. China is perhaps the best example of a major economy's central bank which actively favours the pursuit of output growth ahead of controlling inflation, but nevertheless monetary and financial stability are seen as important in sustaining growth. Most central banks among the largest economies have utilised QE extensively since the financial crisis. However, there is some variation: it has been used by the Bank of Japan over a much longer period, and the ECB was comparatively slow in adopting QE. Most central banks have purchased a wider range of assets than the Bank of England as part of QE (such as corporate bonds and, especially in the US, mortgage-backed securities).

It is necessary to establish here that central banks do not exist in isolation from each other. The central banks of the US, Eurozone and, increasingly, China, have an enormous influence on the international monetary system and world economy more generally. The Federal Reserve acted recently to prevent financial collapse in the wake of COVID-19 by establishing an unprecedented system of 'swap lines' to allow foreign central banks to exchange national currencies for dollars, to support liquidity.[51]

While the co-ordinated response to COVID-19 was enacted in emergency conditions, co-operation between the central banks of the world's largest economies was strengthened following the 2008 crisis, when the G20 was established to enable common approaches to major challenges such as climate change, as well as financial instability. Gordon Brown, then UK Prime Minister, the Treasury and the Bank of England were instrumental in its formation. Member states are formally represented by *both* their lead finance or economy ministers *and* their central bank governors.

The Bank for International Settlements (BIS) long predates the G20. The international organisation was established in the 1920s to offer a neutral vehicle for the payment of Germany's First World War reparations. The role of BIS expanded to become, in essence, the central bank's central bank; that is, an institution in which central banks could hold deposits. BIS is generally owned collectively by central banks (but did in the past have private owners when some central bank owners sold their shares). BIS still engages in some commercial activities, which fund its operations. Controversially, BIS continued co-operating with Germany after the establishment of the Nazi regime – circumstances which almost led to BIS being abolished at the 1944 Bretton Woods conference (Keynes argued successfully that it should be retained). Its role has evolved further – along a similar path to many domestic central banks – as it has taken a leading role in advocating for and co-ordinating macroprudential regulatory standards.[52]

The Bank of England remains an influential member of BIS. This is one of the ways in which, although the Bank is formally subservient to the Treasury at the domestic level, the Bank can

[51] BBC News (2020) 'The Fed's four radical moves to save the economy', 29 April, available at https://www.bbc.co.uk/news/business-52390840; Adam Tooze (2021) *Shutdown: How Covid Shook the World's Economy* (London: Penguin).
[52] See https://www.bis.org/bcbs/.

exercise authority within UK economic policy, by helping to set international standards which the UK is effectively compelled to abide by.

9. Examples of recent Bank of England policies

Inflation targeting

Inflation targeting is technically not a Bank of England policy: it is the mandate set by government for the Bank's Monetary Policy Committee. However, controlling inflation is arguably in the DNA of central banking, and the Bank of England has led the international consensus on inflation targeting – as the key objective of monetary policy – for decades. A target was adopted five years before independence in 1997. The current target is 2 per cent[53]; if inflation falls below 1 per cent or rises above 3 per cent, the Governor of the Bank of England must write to the Chancellor the Exchequer to explain the failure, and how the MPC intends to rectify it.[54] Essentially, the expectation is that, if inflation begins to rise, monetary policy will be used to restrict credit, therefore aggregate demand, and ultimately wages (with wage rises conventionally considered to be the main source of inflation). Crucially, in this account, the policy of inflation targeting, necessitates central bank independence – because elected governments cannot be expected to intervene to inhibit wage rises. There is evidence of a correlation between the degree of central bank independence and a low inflation rate.[55]

It would be wrong to assume that inflation targeting – or more precisely, its application – was a product of a Friedmanite monetarist paradigm, which sees inflation as primarily an over-supply of money. In practice, the Bank, certainly under Mervyn King, was an adherent of 'the Taylor rule' (based on insights from both monetarism and Keynesianism) which both described and prescribed monetary policy decisions which took into account output as well as inflation. This is demonstrated in a 2020 paper by Ben Clift, which also emphasises the role of complex policy making environments – such as the Bank of England – in constraining any straightforward shifts in the ideational foundations of institutional practice.[56] The Bank was therefore closer to the Federal Reserve's approach, discussed above, than any strict reading of its inflation target would suggest.

Insofar as inflation targeting was based on the assumption that high interest rates might be necessary to reduce inflation, this was of limited relevance for most of the decade preceding the 2008 financial crisis – as inflation remained low despite low interest rates. This relationship allowed a growth model christened 'privatised Keynesianism' by Colin Crouch – consumption

[53] Inflation is measured using the Consumer Prices Index (CPI) – the measure has previously been the Retail Prices Index, with a target of 2.5 per cent. CPI is a controversial measure because it excludes owner-occupier housing costs, including mortgage interest payments.
[54] See https://www.bankofengland.co.uk/letter/2021/september/cpi-inflation-september-2021.
[55] CORE (2017) *The Economy*, pp. 684-687.
[56] Ben Clift (2020) 'The hollowing out of monetarism: the rise of rules-based monetary policy-making in the UK and USA and problems with the paradigm change framework', *Comparative European Politics* 18: 281-308.

funded by private debt and housing wealth – to be maintained.[57] In hindsight, it was a clear sign that the relation between monetary policy and the causes of inflation had loosened.

After the 2008 financial crisis, the Bank of England – in combination with other G20 central banks – implemented very low interest rates, again without a significant impact on inflation. There were fears among policy makers that the repeated use of QE would eventually cause inflation – and so the inflation target was effectively abandoned in 2013, alongside the appointment of Mark Carney, as the Treasury and the Bank formally required the MPC to consider the impact of monetary policy on output alongside inflation. The MPC is required to chart a course back to the 2 per cent target, albeit along a smooth path with due consideration to output, employment and financial stability too. Carney argues in his book *Value(s)* that price stability had become a 'destructive distraction' for central banks.[58]

Nevertheless, the feared, QE-induced inflation never arrived. At the time of writing, inflation in the UK is beginning to rise sharply, but due to supply shocks related to COVID-19 and Brexit, rather than the impact of monetary policy on demand. There is essentially no longer any settled view among central bankers or the economics profession about what causes inflation – but we know it is not significantly affected by interest rates (and in the UK case, the country imports far too much of what it consumes for the central bank to have a significant influence).[59]

It is, nonetheless, widely expected that inflation will decrease throughout 2022. However, after a decade of bucking Friedmanite orthodoxy, Andrew Bailey seems eager to return to old habits. A recent speech raised the prospect of interest rate rises, and cited Milton Friedman approvingly.[60] The new Chief Economist, Huw Pill, is clearly cut from similar cloth. In an interview with *The Financial Times* soon after his appointment, he remarked:

> I looked at this institution from the outside and I was always pretty convinced it is in the price stability business… I've come inside, as is the nature of entering institutions, you're surprised by some things while others confirm you've expected. One thing that is totally confirmed is that [the Bank] is an institution that's in the price stability business.[61]

The Bank is in the price stability business, but nobody who has been paying attention since 2008 could genuinely believe that it is any longer the Bank's primary objective. But the Bank of England, like any economic policy institution, has changed before, and could change again (although the influence of the Chief Economist role on Bank policy should not be exaggerated).

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[57] Colin Crouch (2009) 'Privatised Keynesianism: an unacknowledged policy regime', in *British Journal of Politics and International Relations* 11(3), pp. 382-399.
[58] Carney (2021) *Value(s)*, pp. 93-94.
[59] Adam Tooze (2021) 'The great inflation debate', *Chartbook*, 5 October, available at: https://adamtooze.substack.com/p/chartbook-42-the-great-inflation; Duncan Weldon (2021) 'We have no theory of inflation', *Value Added*, 4 October, available at https://duncanweldon.substack.com/p/we-have-no-theory-of-inflation.
[60] See https://www.bankofengland.co.uk/speech/2021/september/andrew-bailey-guest-speaker-at-the-society-of-professional-economists-annual-dinner-2021.
[61] Cited in Chris Giles (2021) 'BoE chief economists warns UK inflation likely to hit 5%', *Financial Times*, 21 October, available at: https://www.ft.com/content/bce7b1c5-0272-480f-8630-85c477e7d69c.

Macroprudential regulation

As discussed throughout, macroprudential regulation is a form of financial regulation focused on systemic risks. Individuals financial institutions – primarily banks – are expected to include safeguards against insolvency in their business model, and limit procyclical behaviour. Requirements generally include higher capital requirements, or limits on loan-to-value ratios. The underlying principle is that decisions made by individual banks (and even if they are ostensibly conservative decisions to protect their own balance sheet) must consider the implications for system-wide financial stability. This is the purpose of stress testing (discussed above), the results of which may mean the Bank of England instructs commercial banks to increase safeguards or curb certain activities.[62]

Mark Carney is a fierce advocate of macroprudential regulation – the corollary of his view that inflation must not be the exclusive focus of central banks. In 2014 he argued:

> the reductionist vision of a central bank's role that was adopted around the world [in the 1990s] was fatally flawed. In particular, it failed to recognise that financial stability is as important an objective of macroeconomic policy as price stability, and it downplayed the interrelationships between the two. And it failed to recognise that central banks have a vital role to play in maintaining financial stability because of the deep underlying connection between it and monetary stability. Both are fundamentally about maintaining the public trust and confidence in money and financial intermediation that are essential for them to oil the wheels of commerce. That trust and confidence can be undermined through a loss of certainty about the future value of money, a loss of confidence in financial intermediaries, or ultimately a loss of faith in the financial system.[63]

Macroprudential regulation is oriented towards prevented the *next* financial crisis. But the Bank of England has also considered whether it would have been effective in preventing the 2008 crisis – and its conclusions are not particularly reassuring! David Aikman *et al.* conclude that the Bank's current macroprudential regime 'has the necessary mandate and powers. But spotting the extent of the build-up in vulnerabilities would be challenging. And given the role played by loosely-regulated non-bank financial institutions prior to the crisis, to be successful, an FPC-type regime would require political backing to widen the perimeter of regulation to capture such institutions. More generally, such a regulator would have to be fairly aggressive in using its powers—given the novelty of these powers, we have some doubts over whether such forceful interventions would have been feasible'.[64] In short, the Bank may have known what to do, and technically have the power to do it, but in practice the wider political environment may have prevented its authority being exercised. There is an important lesson

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[62] For a useful discussion of macroprudential tools, see Kadika Yilla and Nellie Liang (2020) 'What are macroprudential tools?' The Brookings Institute, available at: https://www.brookings.edu/blog/up-front/2020/02/11/what-are-macroprudential-tools/.
[63] See https://www.bankofengland.co.uk/-/media/boe/files/speech/2014/one-mission-one-bank-promoting-the-good-of-the-people-of-the-uk.pdf; see also https://www.bankofengland.co.uk/-/media/boe/files/speech/2020/the-grand-unifying-theory-and-practice-of-macroprudential-policy-speech-by-mark-carney.pdf.
[64] David Aikman *et al*. (2018) 'Would macroprudential regulation have prevented the last crisis?', *Bank of England Staff Working Paper No. 747*, available at: https://www.bankofengland.co.uk/-/media/boe/files/working-paper/2018/would-macroprudential-regulation-have-prevented-the-last-crisis.pdf.

here about the quintessentially political nature of even the most technical areas of economic policy.

The PRA (overseen by the PRC) is the key institutional structure within the Bank for the application of the macroprudential regime, although some aspects of macroprudential regulation are operated directly by the FPC. It is also worth noting that the FCA was created at the same time, reinforcing the *micro*prudential regime (focused on whether financial institutions are treating customers fairly) previously operated by the FSA. This matters for the development of macroprudential regulation, because prior to 1997, the Bank of England had previously been responsible, without any formal arrangements, for both macroprudential and microprudential regulation. The creation of the FSA, outside the Bank, established the Treasury's authority in financial regulation, and at the same time effectively marginalised macroprudential ideas within UK economic policy. Previously, the Bank's role as LOLR had afforded it an informal authority of banks, which could be exercised from either a macroprudential or microprudential perspective (but rarely was). The Bank had actually resisted being granted formal regulatory powers when nationalised in 1946, in the belief that any such reform would reduce the Bank's ability to utilise its 'soft power' over the finance sector.[65]

This does not mean that the Bank was content for the Treasury to claim formal regulatory powers. The decision in 1997 to establish the FSA (and the new Debt Management Office, to manage public debt in place of the Bank) came only weeks after the granting of monetary policy independence to the Bank. The then Governor, Eddie George, believed he had been misled by Gordon Brown, and considered resigning: as David Lipsey explains, '"Steady Eddie", Mr George's sobriquet, is not well earned. Though good in a crisis, he also has a notoriously short fuse. On this occasion, it comprehensively blew. And his staff egged him on'. Part of the rationale for the Treasury's decision was a view that the Bank was 'subservient' to the finance sector.[66]

While rarely applied, it is worth reiterating that macroprudential ideas had been part of the Bank's thinking since the 1970s.[67] (and they have been applied more substantively in emerging economies). It was around this time that the limits of the Bank's LOLR function was being exposed. Yet the key institutions were inert: the Bank preferred its informal regulatory approach, and the Treasury did not want to assume the LOLR role. By the 1990s, the view that stronger macroprudential regulation was required had largely disappeared anyway, as key actors subscribed instead to the flawed view that innovations in risk management had eliminated systemic risks.[68] This proved to be illusory: in 2008, the Treasury assumed the

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[65] See https://bankunderground.co.uk/2021/03/01/negotiating-nationalisation/.
[66] Lipsey (2000) *The Secret Treasury*, p.61.
[67] Andrew Baker (2013) 'The new political economy of the macroprudential ideational shift', in *New Political Economy* 18(1): 112-139.
[68] Charles Goodhart (2004) 'The Bank of England 1970-2000' in Ranald Michie and Philip Williamson (eds) *The British Government and the City of London in the Twentieth Century* (Cambridge: Cambridge University Press); Cited in John Hogan Morris (2018) *Securing Finance, Mobilizing Risk: Money Cultures at the Bank of England* (London: Routledge).

LOLR role by necessity – and sought to formalise macroprudential regulation within the Bank so that it was less likely to be required to do so in the future.

Mervyn King now advocates the Bank becoming a 'pawnbroker for all seasons' (PFAS) rather than LOLR. The 'pawnbroker' metaphor is not particularly helpful. While the mechanism would resemble pawnbroking in practice – banks would deposits assets with the central bank, which could be reacquired in the future, for a fee, if their solvency were threatened – a PFAS regime is closer in principle to a 'rainy day' insurance scheme. We can think of this as an extreme version of macroprudential regulation, albeit drawing more systematically upon the Bank's own balance sheet to underpin it (the Bank has arguably already begun to move in this direction, in the discretionary application of the FPC's macroprudential powers).[69] At the same time, a PFAS regime is fundamentally underpinned by the notion that many banks – or all banks – are 'too big to fail', and that it is ultimately the central bank's responsibility to ensure that failure does not occur. Macroprudential regulation currently places the emphasis on banks' own responsibility for their solvency.

Quantitative easing

QE has been discussed throughout this paper. With interest rates reaching 'the zero lower bound' – meaning any further reduction requires banks to be paid a fee to hold a reserve at the central bank – the Bank of England turned instead to the creation of base money, which is then exchanged for privately held assets. The Bank of England created a new agency to handle asset purchases as part of QE, that is, the Asset Purchase Facility (APF) – technically the Bank makes a loan to the APF, which it uses to purchase assets from the non-bank investment sector (such as pension funds), increasing the seller's commercial bank deposits (until the proceeds are reallocated).

Assets worth £895 billion had been purchased up to November 2020 by the Bank of England. The chart below demonstrates that, as a result, the Bank's balance sheet is now equivalent to more than 40 per cent of UK GDP – substantially higher than at any time in the Bank's history. The Bank of England is of course not alone in having adopted QE since the 2008 financial crisis – the central bank of every major economy has done so, and it was implemented in Japan in the early 2000s. In fact, versions of QE had been used in the UK, and elsewhere, in the 1980s (although the term 'quantitative easing' had yet to be coined) but were abandoned due to a limited impact.[70] The use of QE since the 2008 crisis epitomises what former Chancellor, George Osborne, styles as 'monetary activism and fiscal conservatism'[71], as (extraordinary) monetary policy was favoured over public spending as a form of economic stimulus. Of course, Osborne's 'austerity' agenda failed to generate economic recovery over the expected timescale, and led to a huge increase in public debt – requiring evermore monetary activism in the form

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[69] King (2017) *The End of Alchemy*.
[70] Rylan-Collins *et al.* (2011) *Where Does Money Come From?* pp. 80-81.
[71] Simon Nixon (2015) 'George Osborne lives up to only half of his promises', *Wall Street Journal*, 18 March, available at: https://www.wsj.com/articles/u-k-s-osborne-the-very-height-of-monetary-activism-1426713136.

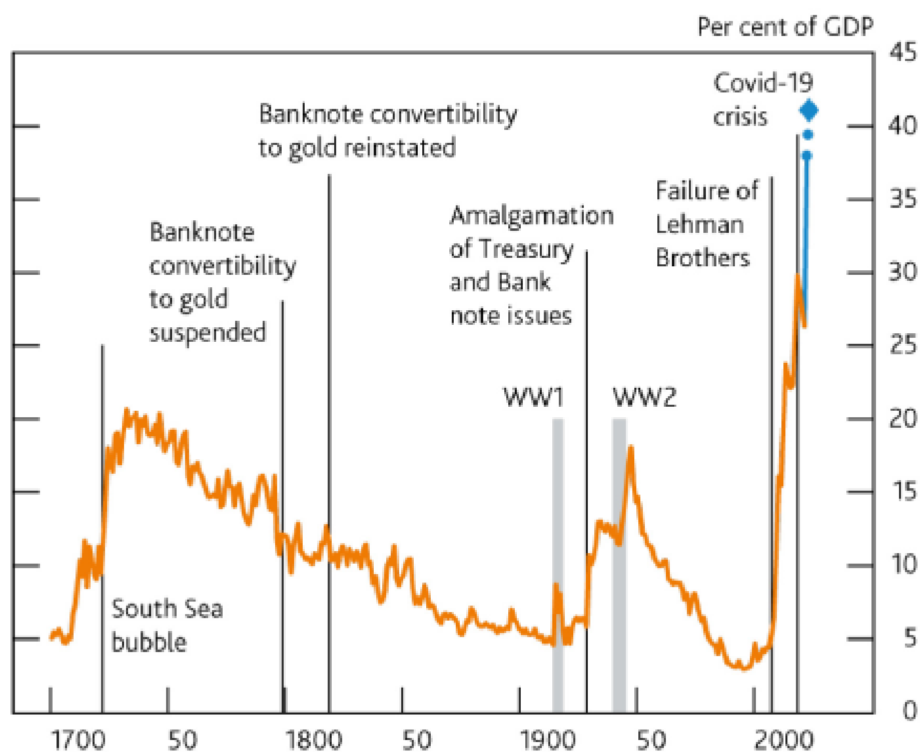

Fig 2. The Bank of England's balance sheet over time[72]

of QE.[73] The economic impact of the Brexit vote in 2016 and the COVID-19 pandemic has underlined the apparent necessity of QE.

Does it actually work? Mervyn King, who oversaw its introduction after the financial crisis, thinks not: he has subsequently accused central banks of over-promising and under-delivering.[74] The New Economics Foundation largely agrees.[75] It is impossible for this paper to adjudicate definitively. Yet most experts agree that QE has been relatively successful at stabilising the financial system, without any direct impact on the real economy (and no evidence of a 'trickle down' boost to demand from inflated asset values.[76] The transmission of new money from Bank to lending and investment might have been more successful if a wider range of assets had been purchased, as in other countries – the Bank has focused almost exclusively on UK gilts – but this would have created the moral hazard of relieving financial institutions of the consequences of making poor investment decisions.

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[72] See https://www.bankofengland.co.uk/-/media/boe/files/paper/2020/the-central-bank-balance-sheet-as-a-policy-tool-past-present-and-future.pdf.
[73] Craig Berry (2016) *Austerity Politics and UK Economic Policy* (London: Palgrave).
[74] King (2017) *The End of Alchemy*.
[75] Rylan-Collins (2011) *Where Does Money Come From?* pp. 22-23.
[76] See for example: House of Lords Economic Affairs Committee (2021) *Quantitative Easing: A Dangerous Addiction?* First Report of Session 2021-22, available at: https://publications.parliament.uk/pa/ld5802/ldselect/ldeconaf/42/42.pdf.

Many commentators would argue that QE has been highly successful in allowing the Treasury to manage public debt (which would help to further explain the focus on gilts). This may not have been a key factor in the initial implementation of QE, but the relationship should be acknowledged: in 2020, the QE funds issued by the Bank were almost identical to the government's borrowing requirements on a month-to-month basis.[77] The Bank's hunger for gilts has helped to keep yields low, and moreover, the Treasury is not required to pay the interest due on debt held by the Bank. Jo Michell and Rob Calvert Jump estimated in September 2021 that, without QE, the UK's national debt would be £110 billion higher (close to the annual cost of the entire National Health Service).[78]

The Bank maintains that, while QE does reduce gilt yields, 'that's not why we do QE'.[79] Yet COVID-19, in particular, has led to an increasing fiscal role for the Bank – whether through ostensibly monetary interventions, or more direct support for public spending.[80] Many observers see this, however, as part of a longer-running trend.[81]

QE is also relevant to the question of the Bank's authority as an economic policy institution *vis-à-vis* the Treasury. Clearly, the use of QE moves the MPC away from the role envisaged when it became independent in 1997, even it can claim it is continuing to pursue the same overall objectives (and noting its objectives were updated in 2013, as discussed above). Arguably, therefore, QE – when contrasted to the setting of interest rates – stretches the Bank's operational independence to its limits. However, in practice, the Treasury is intimately involved in the design and use of QE. The Treasury authorises each instance of QE, including the assets which QE funds are allocated to. And although the Treasury benefits significantly from being in debt to the Bank, the Treasury also indemnifies the Bank against QE-related losses.[82]

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[77] Tommy Stubbington and Chris Giles (2021) 'Investors sceptical over Bank of England's QE programme', *Financial Times*, 5 January, available at: https://www.ft.com/content/f92b6c67-15ef-460f-8655-e458f2fe2487.

[78] Jo Michell and Rob Calvert Jump (2021) 'Without quantitative easing the national debt would be more than £100 billion higher', *Progressive Economy Forum*, 24 September, available at: https://progressiveeconomyforum.com/blog/without-quantitative-easing-the-national-debt-would-be-more-than-100bn-higher/.

[79] See https://www.bankofengland.co.uk/monetary-policy/quantitative-easing.

[80] Cornel Ban (2021) 'Central banking in pandemic times', *Global Perspectives* 2(1): 24188, available at: https://online.ucpress.edu/gp/article-abstract/2/1/24188/117181/Central-Banking-in-Pandemic-Times?redirectedFrom=fulltext; Craig Berry *et al.* (2020) 'The covidist manifesto: assessing the state's emergency enlargement', Future Economies Research and Policy Paper No. 9, available at: https://www.mmu.ac.uk/media/mmuacuk/content/documents/business-school/future-economies/covidist-manifesto-FINAL-PDF.pdf.

[81] Josh Ryan-Collins and Frank van Lernen (2018) 'Bringing the helicopter to ground: a historical review of fiscal-monetary co-ordination to support economic growth in the 20th Centrury', Post-Keynesian Economics Society Working Paper 1810, available at: http://www.postkeynesian.net/downloads/working-papers/PKWP1810.pdf.

[82] Richard Murphy (2020) 'Mythbuster: the Bank of England is independent', Tax Research UK, 4 June, available at: https://www.taxresearch.org.uk/Blog/2020/06/04/mythbuster-the-bank-of-england-is-independent/.

Further reading

The Bank of England website

The Bank's own website (https://www.bankofengland.co.uk/) is an extraordinary resource, reflecting the Bank's recent commitment to explaining its decisions and positions. The website has explainers on issues such as money creation and monetary policy, and a rich account of the Bank's history. Leading figures at the Bank make regular speeches exploring a wide range of economic and financial issues: transcripts and accompanying analyses are made available online. The Bank also publishes quarterly bulletins on topical economic policy issues.

Inflation reports and MPC minutes

The Bank's inflation reports (recently renamed Monetary Policy Reports) offer a detailed account of MPC decisions. Minutes of the committee's meetings are also available online (see https://www.bankofengland.co.uk/monetary-policy-report/2021/august-2021).

Underground and overground

The *Bank Underground* blog was established in 2015 after the Bank's strategic plan recommended a new publication offering the perspective on the Bank's own analysts, as distinct from the policy and regulatory committees. Posts are written by Bank staff with little or no oversight from senior management – often posts accord with the Bank's settled positions insofar as they seek to provide further insight into their rationale, but they also encompass contrary opinions which might challenge existing Bank of England policy. In 2019, the Bank established the *Bank Overground* blog to provide summaries of the Bank's analytical projects in a more official capacity.

Money

While popular discourse on the Bank of England focuses almost entirely on interest rate decisions, literature on the nature, creation and management of money provides greater insights into the role of the Bank, as a central bank. Recent books which marry expertise and accessibility in this area include:

- Geoffrey Ingham (2020) *Money* (Cambridge: Polity).
- Ann Pettifor (2017) *The Production of Money: How to Break the Power of Bankers* (London: Verso).
- Josh Rylan-Collins, Tony Greenham, Richard Werner and Andrew Jackson (2011) *Where Does Money Come From?* (London: NEF).

It is worth noting that one of the most important papers on money creation ever written was published by the Bank itself: Michael McCleary, Amar Radia and Ryland Thomas's 'Money creation in the modern economy', which was published as part of the quarterly bulletin in Q1 2014 (see https://www.bankofengland.co.uk/-/media/boe/files/quarterly-bulletin/2014/money-creation-in-the-modern-economy.pdf; the authors were officials in the Bank's monetary analysis directorate). Additionally, Mervyn King's book *The End of Alchemy* (cited above) views the financial crisis through the prism of money creation.

The Future of Finance

The Future of Finance, an ebook published by Paul Woolley and the LSE in 2010, encompassed a series of long essays on the future of the banking and regulation in the wake of the financial crisis. Its authors included Andy Haldane, Adair Turner, Charles Goodhart, and Andrew Large (a former Deputy Governor of the Bank). The ebook explores many of the issue that have preoccupied the Bank in the last decade. It is available at https://harr123et.files.wordpress.com/2010/07/futureoffinance5.pdf.

Andrew Baker

Andrew Baker is among the world's leading scholars of the political economy of macroprudential regulation in the post-crisis era)his work on the UK's 'finance curse' was also cited above). Baker's work in this area is particularly important for illuminating the institutional dynamics of the rise of the macroprudential paradigm – in fact he argues that the pre-crisis presence of macroprudential ideas in central banking networks was central to both their rapid ascendance, and their conservative implications. Baker's key papers in this regard include:

- Andrew Baker (2013) 'The new political economy of the macroprudential ideational shift', in *New Political Economy* 18(1): 112-139.
- Andrew Baker (2013) 'The gradual transformation? The incremental dynamics of macroprudential regulation', in *Regulation and Governance* 7(4): 417-434.

Jacqueline Best

Jacqueline Best is among the world's leading scholars on the institutional politics of economic policy, focusing upon the UK and US. In recent years, she has studied economic policy 'failures', arguing that policy makers responsible for, for instance, the application of monetarism knew that it was failing, but were able to narrate short-term failure as a sign of the strength of their ideas. In a 2019 paper, Best reflected on the politics of inflation targeting, showing how central bankers and other policy makers are not simply monitoring inflation, but rather playing 'the inflation game' whereby they seek to produce the macroeconomic dynamics they are observing (see Jacqueline Best (2019) 'Targets, practices and the social production of monetary policy credibility', in *New Political Economy* 24(5): 623-640).

Lucia Quaglia

Lucia Quaglia is among the world's leading scholars of the political economy of international financial regulation (see https://www.unibo.it/sitoweb/lucia.quaglia/) for a full list of her publications in this area. Recent work with Scott James focused on the UK has examined the variation in the UK's preferences in terms of international standards in different areas of finance, and between global and European regulation (see Scott James and Lucia Quaglia (2020) The UK and Multi-level Financial Regulation: From Post-crisis Reform to Brexit (Oxford: Oxford University Press)).

Green and Lavery

Jeremy Green and Scott Lavery's account of the regressive impact of quantitative easing was cited above. They have also provided a more general account of monetary 'indiscipline' (that

is, unorthodox monetary policy) in the UK's state-led, post-crisis recovery (see Jeremy Green and Scott Lavery (2018) 'After neoliberalisation: monetary indiscipline, crisis and the state', *Transactions of the Institute of British Geographers* 43(1): 79-94)). Green has also recently published a book on the relationship between the British and American finance sectors, challenging the notion that monetary hegemony simply transferred across the Atlantic from the Bank to the Fed, instead arguing that the City of London and British capitalism more generally helped facilitate US power in the post-war era (see Jeremy Green (2020) *The Political Economy of the Special Relationship: Anglo-American Development from the Gold Standard to the Financial Crisis* (Princeton: Princeton University Press).

BBC documentary

In 2018, the BBC broadcast the sympathetic documentary 'Inside the Bank of England', interviewing Bank officials in a range of roles. The full version is not currently available but there are clips available at https://www.bbc.co.uk/programmes/m0006h7q and accompanying resources from the Open University at: https://connect.open.ac.uk/money-business-and-law/inside-the-bank-of-england. A slightly less sympathetic documentary of the same name, from 1988, is available on YouTube at https://www.youtube.com/watch?v=LtbALfAnPME.

The Guardian

In 2015, the UK newspaper *The Guardian* was granted access to the Bank of England, resulting in an excellent 'long read' by Larry Elliott and Jill Treanor (also titled 'Inside the Bank of England'; see https://www.theguardian.com/business/2015/nov/10/inside-bank-of-england). The piece focuses on the politicisation of the Bank's role in the post-crisis era, and questions the Bank's lack of democratic accountability.

Adam Tooze

Adam Tooze is among the world's leading economic historians. After several books on early and mid-twentieth century, in 2017 he turned his attention to the contemporary history of financial crisis, and in 2021 updated his analysis with reference to the very contemporary politics and economics of COVID-19. Tooze has, in effect, pioneered a new genre of historical writing, that is, macrofinancial analysis – but his books are filled with valuable details on the actual institutions and individuals involved in the seismic events and decisions being documented. His latest work is most notable for its account modern central banking (see Adam Tooze (2021) *Shutdown: How Covid Shook the World's Economy* (New York: Viking), as central bankers – especially at the Fed – are shown conjuring evermore inventive policies to prevent widespread economic collapse. Yet the sense of central bankers as heroic figures of the early twenty-first century is tempered by the broader reality of global and financial monetary systems as not only detached from the real economy, but indeed a major threat to human and planetary welfare. Central banks are compelled to intervene to prevent this threat being realised, yet at the same time are preserving a global economic model addicted to crisis.

Daniela Gabor

Daniela Gabor is among the world's leading heterodox economists. She specialises in shadow banking: financial intermediation, lending and money creation which occurs outside traditional banking sectors. Gabor has also written extensively for non-academic audiences (with various

co-authors) on how the Bank of England could help to address climate change (see https://www.suerf.org/policynotes/21233/greening-the-uk-financial-system-a-fit-for-purpose-approach), and support a state investment bank in the UK (see http://speri.dept.shef.ac.uk-/2017/07/05/how-to-fund-a-state-development-bank-a-two-stage-proposal/).

This document was published in November 2021. It was compiled and written by Dr Craig Berry. The author is grateful for their support of Friends Provident Foundation, Rethinking Economics, Christine Berry and a large number of colleagues, research participants and other contributors for their support in the production of this learning resource. He can be contacted at **c.berry@mmu.ac.uk** or **@craigpberry**.

Manchester Centre for Economic Policy
Future Economies
Business School
Manchester Metropolitan University
Oxford Road
Manchester
M15 6BH