



MAKING A MODERN CENTRAL BANK

Professor Harold James, Claude & Lore Kelly Professor In European Studies, Princeton University

Webinar

Wednesday, 17 March 2021, 15:00 GMT

MAKING A
MODERN
CENTRAL BANK
THE BANK OF ENGLAND 1979-2003
HAROLD JAMES



A Word From Today's Chairman



Professor Michael Mainelli

Executive Chairman

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Today's Agenda



- 15:00 – 15:05 Chairman's Introduction
- 15:05 – 15:25 Keynote Address
- 15:25 – 15:45 Questions & Answers

Today's Speaker



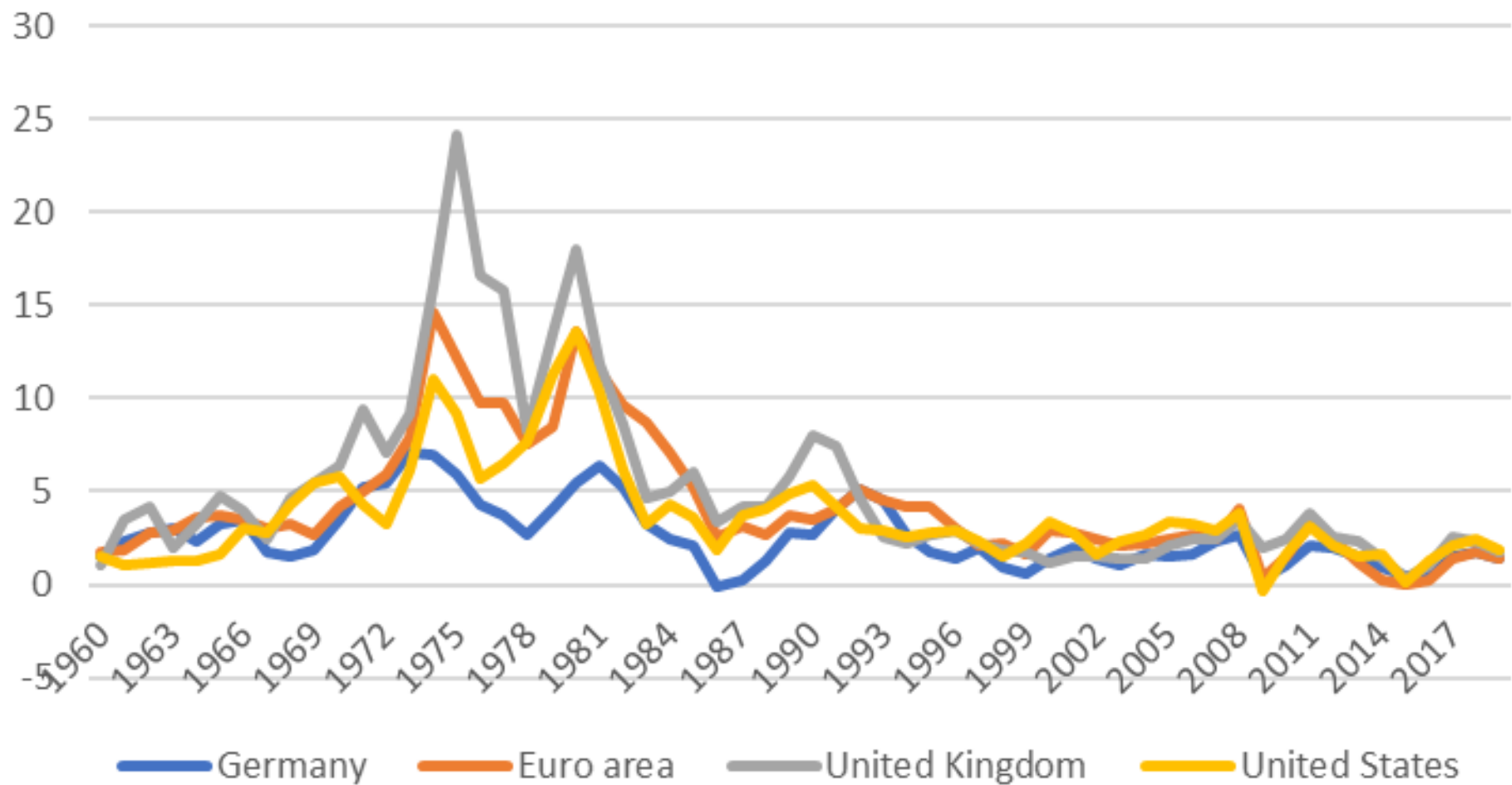
Professor Harold James

Claude & Lore Kelly Professor In European Studies

Princeton University

At the end of the 1970s, the Bank of England was a microcosm of the United Kingdom. It was steeped in history, but at the same time deeply confused about its identity and quite inconstant in its performance. Within a quarter of a century, both the country and the Bank changed. The country became modern – with the subsequently widely derided slogan of “Cool Britannia” – and so did the Bank. By the beginning of the 2000s, the Bank of England exemplified what was then thought to be the best practice of a modern central bank, running a clearly defined rule-based system based around an inflation target.

CPI Inflation 1960-2020



United States: 1913 Federal Reserve: “to provide for the establishment of Federal reserve banks, to furnish an elastic currency, to afford means of rediscounting commercial paper, to establish a more effective supervision of banking in the United States, and for other purposes”

1977: “promote effectively the goals of maximum employment, stable prices, and moderate long term interest rates”

Germany: 1957 Bundesbank law “secure the currency”

Eurozone: 1991 ECB Statute article 2: “The primary objective of the ESCB shall be to maintain price stability. Without prejudice to the objective of price stability, it shall support the general economic policies in the Union with a view to contributing to the achievement of the objectives of the Union as laid down in Article 3 of the Treaty on European Union.”

Bank of England

- 1694: “the carrying on the Warr against France”
Bank Charter: “we being desirous to promote the publick Good and Benefit of our People”
- 1844: Peel Act
- 1946: Bank of England Act: 4 (1). The Treasury may from time to time give such directions to the Bank as, after consultation with the Governor of the Bank, they think necessary in the public interest....
4 (3). The Bank, if they think it necessary in the public interest, may request information from and make recommendations to bankers

1990 Three Purposes

1. The stabilisation of the value of the currency as the necessary precondition for the achievement of the Government's wider economic goals.
2. The maintenance of stability in the financial system.
3. The promotion of the efficiency and effectiveness of the UK financial services sector, both to meet the needs of the rest of the economy and as an important contributor in its own right to employment and to national income whether generated in this country or by British firms abroad.

1998 Bank of England Act

11. In relation to monetary policy, the objectives of the Bank of England shall be—

(a) to maintain price stability, and

(b) subject to that, to support the economic policy of Her Majesty's Government, including its objectives for growth and employment.

21. The following functions of the Bank are hereby transferred to the [Financial Services] Authority—

(a) its functions under—

(i) the [1987 c. 22.] Banking Act 1987,

(ii) the [S.I. 1992/3218.] Banking Coordination (Second Council Directive) Regulations 1992, and

(iii) section 101(4) of the [1986 c. 53.] Building Societies Act 1986, (banking supervision functions)



Styles of communicating ...

Communicative problems

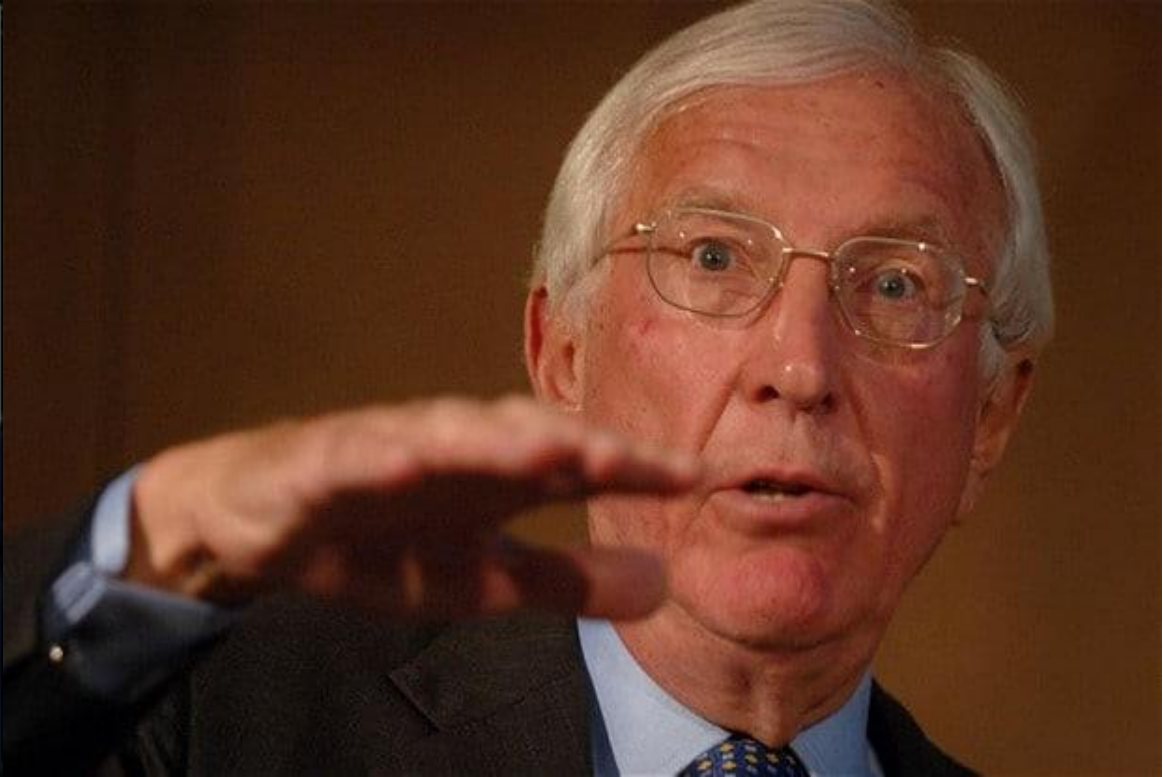
R.S. Sayers on the 1920s/30s: “If there had been an articulate Governor (they do not seem to have been born that way).....”

John Fforde, Executive Director for Home Finance 1970-1982

Next, it is helpful to remind ourselves that British monetary policy relies heavily on debt management conducted within the money markets mentioned above and a bond market of comparable breadth and sophistication. There, the lenders are kept fully at arms length from the borrower, and a completely free market has thereby been preserved despite the strong tendency to corporatism shown in other governmental relationships both in the financial field and elsewhere. But the bulk of debt management is conducted through marketable bonds of a conventional character unindexed against inflation. It has then to be said that there is no way in which such a bond market can be effectively shielded from sharply fluctuating fears, hopes, and uncertainties concerned with the future pace of inflation, the future rate of monetary growth, the size of public borrowing, etc. But by timely adaptation of tactics and techniques, their effect can be mitigated or softened.

BoE, 7A174/5, July 12, 1979, John Fforde: Prime Minister's Monetary Seminar

Sir Eddie George; Sir David Walker



November 1995 Inflation Report (August 2020)

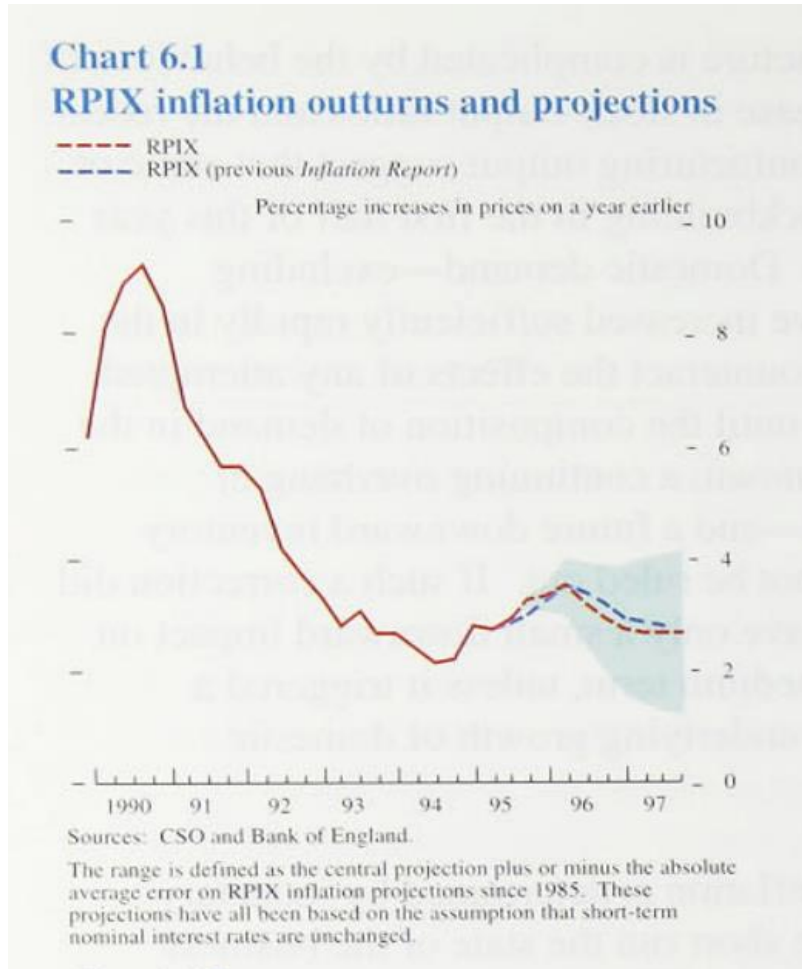
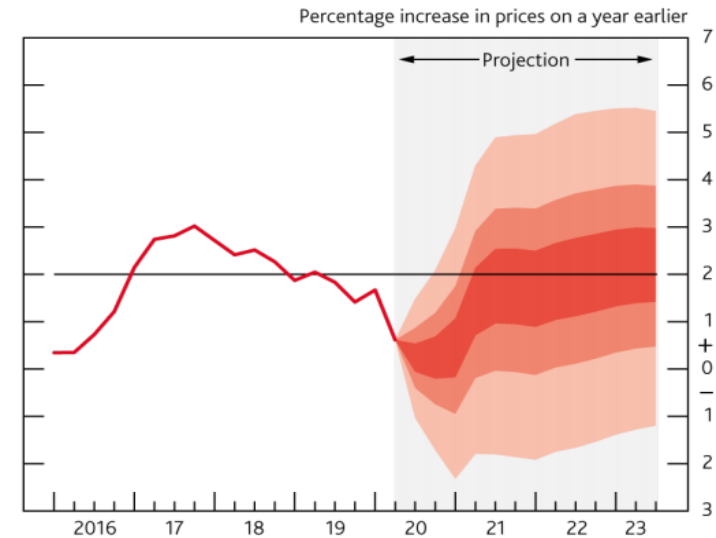


Chart 1.3 CPI inflation projection based on market interest rate expectations, other policy measures as announced



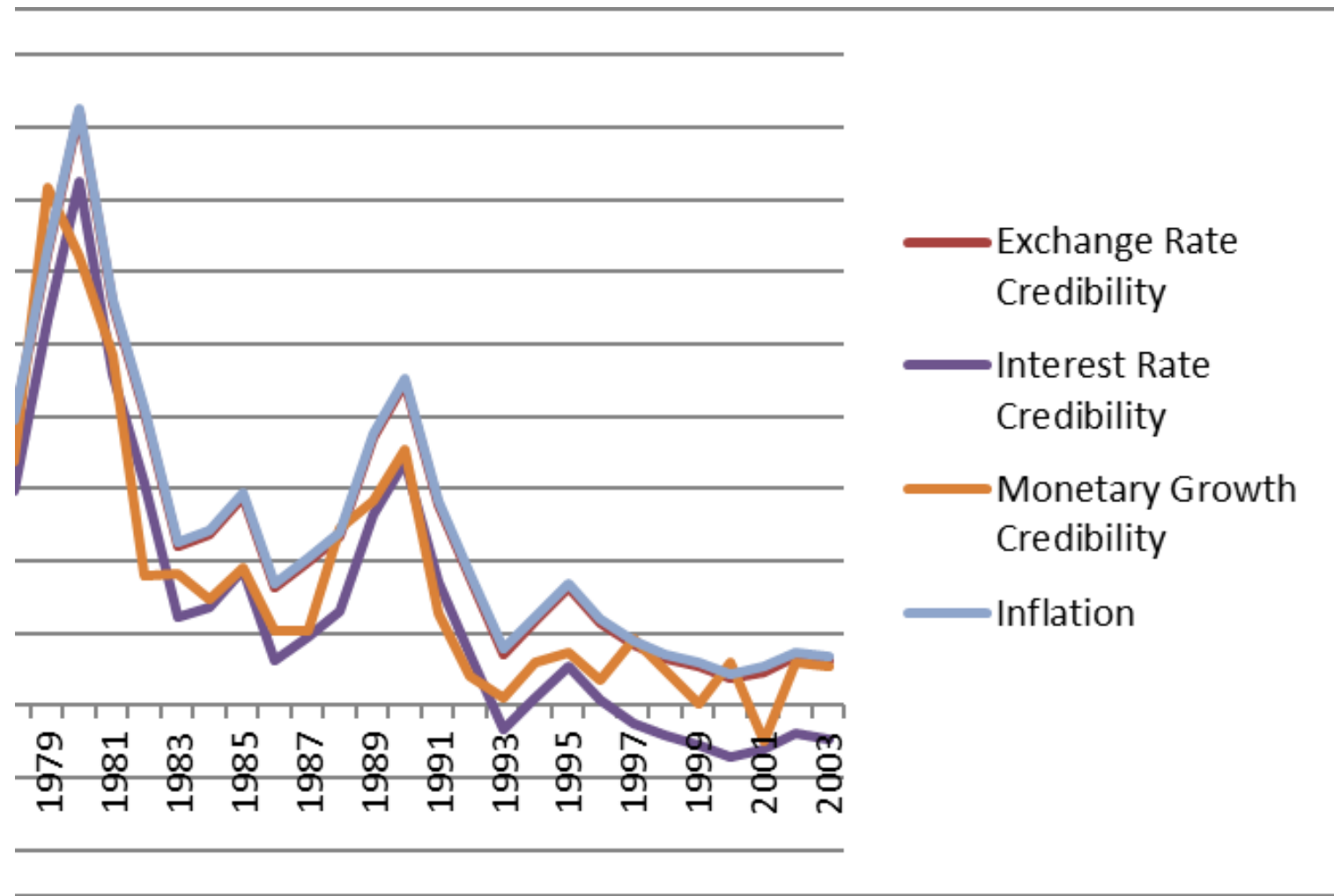
The fan chart depicts the probability of various outcomes for CPI inflation in the future. It has been conditioned on the assumptions in **Table 1.A** footnote (b). If economic circumstances identical to today's were to prevail on 100 occasions, the MPC's best collective judgement is that inflation in any particular quarter would lie within the darkest central band on only 30 of those occasions. The fan chart is constructed so that outturns of inflation are also expected to lie within each pair of the lighter red areas on 30 occasions. In any particular quarter of the forecast period, inflation is therefore expected to lie somewhere within the fans on 90 out of 100 occasions. And on the remaining 10 out of 100 occasions inflation can fall anywhere outside the red area of the fan chart. Over the forecast period, this has been depicted by the light grey background. See the box on pages 48–49 of the May 2002 *Inflation Report* for a fuller description of the fan chart and what it represents.

Carlo Azeglio Ciampi, Karl Otto Pöhl, Robin Leigh-Pemberton



Alan Greenspan and Eddie George





Bordo and
Siklos 2015:
Central Bank
Credibility

Banking Supervision

- 1979 Banking Act (Banking Supervision Department 70 staff, responsible for 150 UK banks and 200 branches of foreign banks)
- 1987 Banking Act eliminates 2-tier supervisory system, stricter control on lending exposures

Goodbye to all that ...

“shaving off the
Governor’s
eyebrows”



Robin Leigh-Pemberton as Money Doctor



Financial Times, January 16, 1991

Discount house accused on trading

By Stephen Fidler, Euromarkets Correspondent

A LABOUR MP alleged in a Commons motion yesterday that a London discount house was engaged in heavy speculation in the 24 hours before the announcement of Britain's entry into the exchange rate mechanism of the European Monetary System.

Mr Dale Campbell-Savours, MP for Workington, also called on the Bank of England to issue a statement about enquiries which were made into unusual market movements before the ERM announcement on October 5.

He cited allegations that **Gerrard & National**, the discount house, had engaged in trading which allowed it to profit from the rise in sterling which followed the announcement of entry into the ERM and the one-percentage-point cut in interest rates.

Mr Campbell-Savours tabled an early day motion in the Commons which allowed him to make the allegations under the protection of parliamentary privilege.

He said the allegations suggested that G&N bought

£35m of forward foreign exchange contracts – compared with their normal daily trading of £2m to £5m – invested a further £100m in the UK government bond market, and increased its exposure to sterling forward rate agreements by a further £1bn.

He said five officials of G&N, including Mr Brian Williamson, its chairman, and Professor Tim Congdon, its economic adviser, should be asked to give evidence to the Commons trade and industry committee.

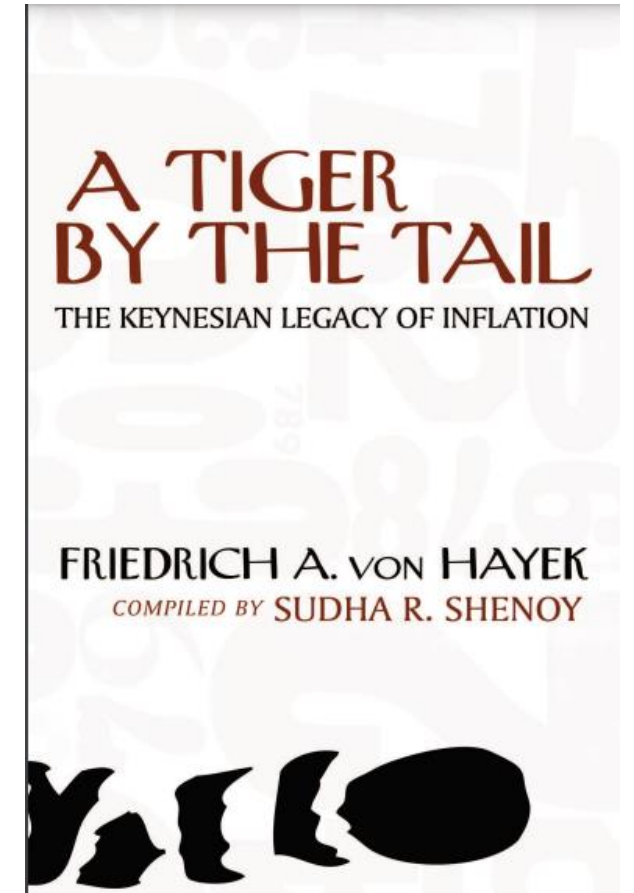


The Revenge of History

- Fiscal-monetary link: does the UK need a “macro-economic executive” ?
- Debt management
- Financial regulation
- Industrial policy
- “The Big Cat”?

Yet more
history....

“There are few, if any, historical precedents to help judge the response of the economy to this scale of shock and degree of policy stimulus.”



CPI Inflation 1960-2020

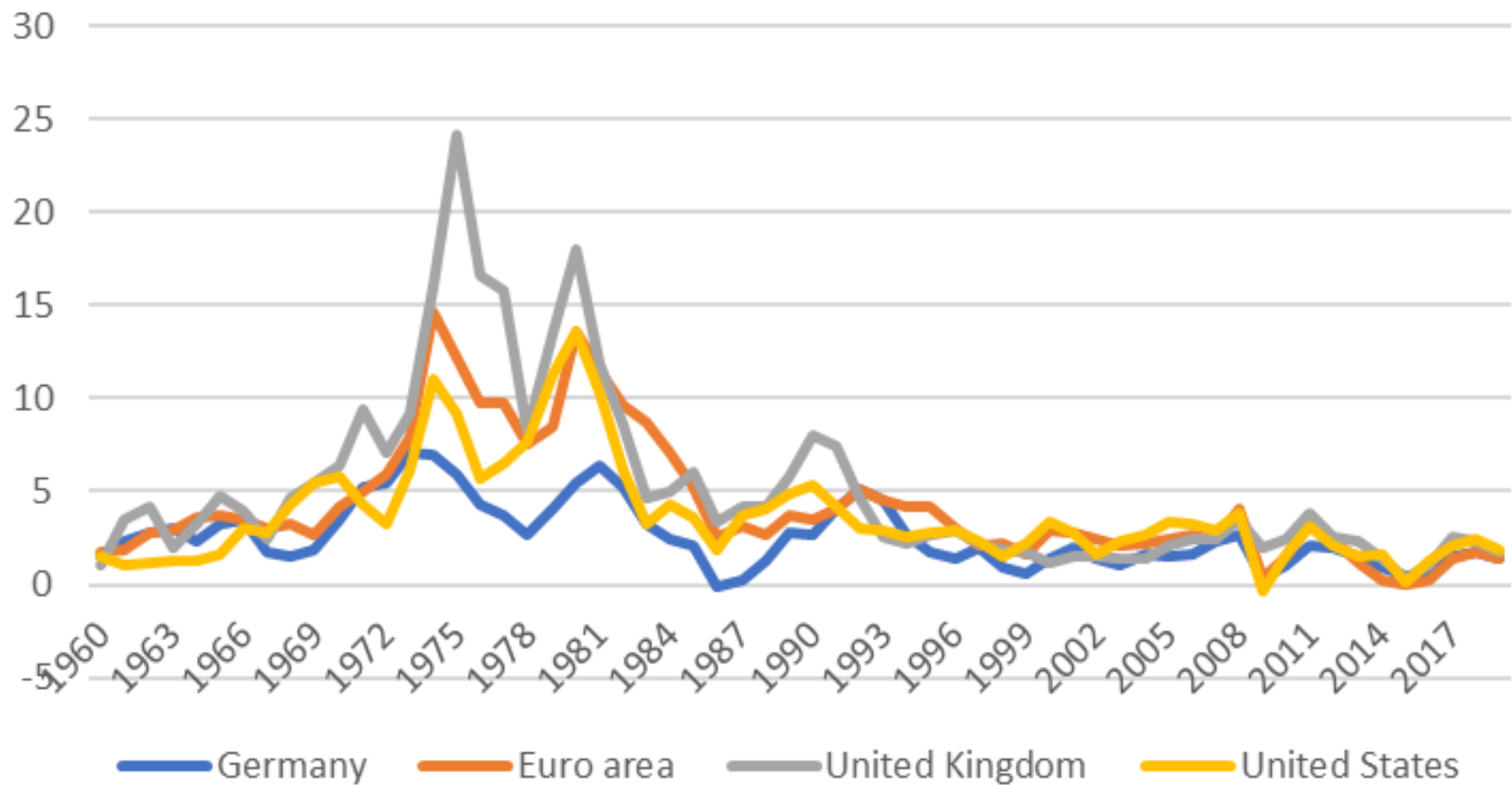


Table 1: Peak Fiscal Deficits in the Global Financial and Covid Crises

	Peak primary balance (a)	Peak output gap (b)
Global Financial Crisis	-8.3	-4.2
Covid Pandemic	-18.0	-3.1

Source: OBR and Bank of England

Note: (a) % of GDP. (b) % of potential GDP. Fiscal numbers for pandemic are based on OBR November 2020 forecast for FY 2019-20.

From: Haldane 2021

The Return of Inflation?

Andy Haldane (February 26, 2021): “the greater risk at present is of central bank complacency allowing the inflationary ‘big’ cat out of the bag.”

- “resurgent demand bumps up against constrained supply”
- annual growth of global M3 is currently running at almost 20%, its highest level since 1988.
- demography
- deglobalization

Poll

Inflation expectations for 2022:

- Over 2 percent
- Over 3 percent
- Over 4 percent



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Questions And Answers



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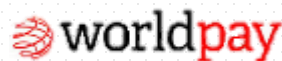
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Forthcoming Events

- Thu, 18 Mar (16:00-16:45) The Challenge To Insurance And Pensions From Sustainability Risks
- Mon, 22 Mar (16:00-16:45) What Keeps Financial Crime Professionals Awake At Night?
- Tue, 23 Mar (08:00-18:00) British Isles Employee Share Ownership Symposium 2021

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