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Book Review: *Making a Modern Central Bank: The Bank of England 1979-2003*, by Harold James, Cambridge University Press 2020, 543 pages.

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Introduction

Writers about the past fall into two categories. Historians like Harold James, the latest official historian of the Bank of England, are, if you like, members of the jury at the court of history. They have access to all the evidence that endures, above all written records. This reviewer, by contrast, was a witness to some of the events, having worked for the Bank of England throughout the period that the book chronicles.[1] Readers should bear in mind that witnesses suffer from memory failures and prejudices; however they may remember things that weren't recorded, and they have generally had a long time to think about what happened. This review is mainly about what I observed and remember. There is a lot in the book that I didn't know, which supports James' contention that internal communication in the Bank of England was not always extensive.

The Functions of the Bank of England

The first sentence of his book says that at the end of the 1970s, the Bank of England "was deeply confused about its identity." It was not, as I recall. It knew quite clearly what its functions were: to advise the government on its financial policies, and to implement the policies that the

[1] I worked in the Economic Section from 1972 -1977, in the Gold and Foreign Exchange Office from 1977-1978, in the Bank for International Settlements from 1978-1980, in the Monetary Policy group of the Economics Division from 1980-1982, and in the Gilt-Edged Division from 1982-1986. I was head of the Money Market Operations Division from 1986-1990, and of the Foreign Exchange Division from 1990-1994, including sterling's sojourn in the European Exchange Rate Mechanism. I was Deputy Director of Monetary Analysis from 1994-1998, and of Financial Market Operations from 1999-2002. From 2002-2003 I was Director for Europe and Deputy Director for Financial Stability.

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government decided on. It had not been an easy job, for many years. Governments had decided on ambitious but unrealistic economic objectives, usually for faster economic growth; they had overestimated the effectiveness of official controls on wages and prices and financial flows; and they had allowed inflation to get out of control. Sometimes they had received bad advice from the Bank of England, but even if they had received consistently good advice, it seems unlikely that the results would have been much different. In the environment of the 1970s, it was impossible for the Bank of England, lacking autonomy from the government, to appear to be in control of inflation.

Yet despite the macro-economic instability of the 1970s, the Bank of England retained some authority, as did the Banca d'Italia in comparable circumstances. Its publications and pronouncements attracted public attention, and were scoured for veiled criticisms of government policies, which were not highly regarded by financial markets. The Treasury became upset when the Bank said anything that it found inconvenient, and censored the Bank's publications. The Bank of England had more credibility, at least in financial markets, than the government that it served. This may I believe be attributed to two factors. First, the Bank's income was sufficient for it to be able to recruit talented people. Second, Gordon Richardson, the Governor from 1973 to 1983, was a perfectionist, who was desperately anxious to ensure that everything that the Bank did was of the highest quality.[2] The Bank could out-research the Treasury.

Monetary Base Control and Monetary Policy in the 1980s

The Bank thus emerged from the chaotic 1970s in good shape, and was well equipped to play a major role in the macro-economic stabilization of the 1980s. Unfortunately, that was not how the Thatcher administration saw things after the election of 1979. They were inclined to attribute rampant inflation to irresolution and incompetence on the part of the Bank of England, of which they were deeply suspicious.

One manifestation of this mistrust was the proposal for monetary base control, pressed hard by Margaret Thatcher. Open-market operations would cease to be directed at maintaining a pre-determined level of short-term interest rates, and would instead be directed at maintaining a pre-determined level of base money. Short-term interest rates would adjust to balance supply and demand.

There were some obvious reasons for concern about monetary base control. The demand for monetary base is not always stable. In a financial crisis, it is prone to surge. Monetary base control would prevent a central bank from acting as lender of last resort in a crisis. Short of that, the greater volatility of interest rates that was likely to accompany monetary base control would aggravate the risks faced by intermediaries in financial markets, because asset prices would become much more volatile. That would have undermined the commercial viability of the discount houses, which were the intermediaries and market makers in the short-term money market. Their disappearance might have been a price worth paying, though it would have led to a less liquid money market. However, bond yields would also have become more volatile, as they did in the United States after the Fed introduced an attenuated form of monetary base control in October 1979. That would have threatened the viability of the gilt-edged jobbers in the Stock Exchange, which were the market-makers in gilts, and which had much thinner capital resources than their American counterparts. Their retrenchment or withdrawal would have imperilled the government's ability to sell gilts and raised the cost of borrowing. In short, the survival of the necessary infrastructure of monetary policy would have been threatened. For analogous reasons, the Fed's version of monetary base control introduced in 1979 placed a limit on the fluctuations in short-term interest rates.

[2] The diaries of Christopher Dow give a vivid description of Richardson (Hacche and Taylor 2013).

The Bank of England therefore resisted monetary base control, and it prevailed. Reforms to open market operations introduced in 1981 did not amount to monetary base control, though they offered the opportunity to learn more about the implications of monetary base control, and to metamorphose into monetary base control if that were thought to be desirable. Incidentally, James is mistaken when he says that "there was no more MLR [Minimum Lending Rate]" (112); Richardson insisted on the Bank retaining the ability to announce a minimum lending rate in case of need, and as James himself notes (300-301) it did so in September 1992.

James is rather scathing about the Bank's resistance to monetary base control, describing it as an aspect of "UK exceptionalism" (63). I don't think he means it kindly, but it is in any case inaccurate. Monetary base control had been implemented in its full rigour nowhere other than Switzerland, so that not implementing it can hardly be described as "exceptionalism". Thinking carefully about the implications of a policy proposal before adopting it is usually regarded as a virtue. Pure monetary base control would have been a reckless choice for the United Kingdom, and in my opinion, it is greatly to the Bank's credit that it dodged the bullet: the final vindication lay in the fact that inflation was subdued anyway (Duncan Needham 2014, 143-146).

The most powerful criticism of the monetary policy of the early 1980s is that it achieved its inflation objectives only with the help of a soaring exchange rate propelled partly by North Sea oil, which destroyed many industries and created heavy unemployment. The fact that the exchange rate subsequently fell back was not much compensation. Richardson had proposed a North Sea Oil wealth fund, which would have served the dual purpose of restraining the exchange rate and accumulating external assets, but the proposal, like others, was "unceremoniously batted away by the government, especially Financial Secretary [of the Treasury], Nigel Lawson. Their view was that high exchange rates were a market-led way of bringing down inflation, and hence to be embraced rather than reversed, especially not by government intervention" (Charles Goodhart 2014, 85-86). Curiously James doesn't mention the wealth fund proposal.

The problem of meeting targets for broad monetary aggregates was not completely solved, and the attempt was eventually abandoned. Nevertheless, broad money growth was in some degree restrained by the "overfunding" of the government. In short, the government issued more gilts than would have been needed to finance its deficit and maturing debts, and first ran off its short-term debts and then built up a credit balance with the Bank of England, which was used to accumulate a stock of commercial bills (short-term corporate debt), known as the "bill mountain". It was the opposite of the quantitative easing which has been practised since 2009. Even this effort does not win James' approval: he says that "the overall effect of the policy innovation was to *artificially* reduce bank deposits … but at the same time to allow bank credit to expand at fast rates" (126, emphasis added). There was nothing artificial about it. The target was for money supply, in other words mainly bank deposits; and James does not suggest that a bank credit target would have been better.

The Big Bang and the Bank

The prohibition of fixed commissions in the Stock Exchange was a decision taken by the Thatcher administration as a matter of principle. James provides a straightforward account of the ensuing "Big Bang" of 1986 which revolutionized the Stock Exchange (214-220). He does not however explore the profound effects that the re-shaping of the gilt-edged market had on the Bank of England and its functions. Before 1986, the market makers in the gilt-edged market had been the jobbers in the Stock Exchange. There were two large ones and five which concentrated on small deals for retail investors. They were partnerships; and under the rules of the Stock Exchange, the partners had unlimited liability and could have no other occupation.

Their capital resources were not thought to be large. For a long time, the Bank had considered that the jobbers were unable on their own to maintain an adequately liquid market in government securities, and had found various ways of supplementing market liquidity. Since the 1950s, the Bank had itself acted as a market maker, sometimes on such a large scale as to conflict with the objectives of monetary policy. The Bank's market making activities had been curtailed in 1971 as part of the Competition and Credit Control programme, but they had continued on a more modest scale and had enabled the market to continue to function during the turbulent period that followed (William Allen 2019).

Nevertheless the structure was fragile, and the Bank could not have afforded to lose either of the two big jobbers. The jobbers lacked the financial resources to underwrite a gilt tender, and the Bank acted as underwriter itself, selling the unsold residue of tenders "on tap", as and when demand emerged at the officially-determined and periodically-adjusted tap price. With large amounts of gilts needing to be issued each year to finance deficits and to roll over maturing stocks, it was impossible to manage short-term interest rates without considering carefully the impact of any action on selling prospects in the gilt market. Monetary policy and debt management were inseparable.

The Big Bang brought into the gilt market a very large number of new market makers and a very large amount of new capital. The market became much more liquid, and, as James reports, in 1994-1995 the Treasury conducted a debt management review which recommended pre-announcement of debt management intentions and more reliance on auctions rather than tap sales. The gilt-edged market was thus able to get along without the Bank, and monetary policy could be conducted without undue concern about its immediate implications for gilt sales. Thus it was not very surprising that the Treasury decided to take over the function of debt management for itself in 1998, as a kind of *quid pro quo* for the newly-elected Labour government's grant to the Bank in 1997 of operational autonomy in setting short-term interest rates through the Monetary Policy Committee (MPC). Monetary policy was separated from debt management for the first time since the early twentieth century, and the Bank of England lost the function that it had been set up in 1694 to perform.

The Big Bang was also important for the status and significance of economists in the Bank. Markets are human institutions, governed by their own laws, rules and practices. The study of markets–"market microstructure"–has unfortunately been something of a backwater for economists, including those who work in the Bank of England. The pre-1986 Stock Exchange appeared to the latter to be a closed shop, beset by arcane restrictive practices codified in an impenetrable book of rules. The people who managed the Bank's market operations had not all been educated as economists, though as I recall they were none the less intelligent and dedicated.

The Big Bang, and the introduction of gilt repos a decade later, brought market reality closer to the assumptions that economists were accustomed to make, and thereby facilitated the economists' ascendancy in the Bank's hierarchy. There had already by that time been parallel though much less dramatic changes in the other markets in which the Bank dealt. There was now no apparent need for Bank of England officials to make any special effort to understand how markets worked, and the notion that all the information about markets that you needed could be inferred from the prices that you saw on a screen became implanted. It was thus possible, though I think unwise, for the Bank in 2003 to disavow any special interest in the functioning of financial markets.

Relations with Market Participants

It was an established practice that representatives of the discount houses would call on the Governor every Thursday afternoon for a short meeting. The discussion at the meeting was then written up and communicated to the rest of the houses on Friday morning before the

Treasury bill tender. James appears to be rather appalled that these meetings took place (25), as were many contemporary observers, and the meetings were ended in 1994.

It is worth recalling that the meetings were initiated in the turmoil that followed the end of the First World War, when the Bank was struggling to sell Treasury bills so as to reduce the government's dependence on Ways and Means advances (short-term advances from the Bank to the government), and after 1925, to sustain the gold standard which it had precariously re-established. "At first, the Bank was continuing its wartime concern that the market, rather than the Bank itself, should unfailingly cover the Bank's weekly requirements" (Richard Sayers 1976, 274-275). This sentence perhaps carries the key to the logic of the Bank's communications with the market: if the Bank needed something from the market, it had to ask, and asking implies communicating.

The Bank's communications with market participants were by no means confined to well-known events like the Governor's weekly tea parties with the discount houses and the regular rather formal meetings with various groups of commercial banks, which were all carefully minuted. The less formal contacts were perhaps more significant. The Government Broker, the stockbroker who acted in the Stock Exchange on behalf of the Bank of England and other official clients, communicated with the gilt jobbers, and there were many points of contact with the commercial banks. Occasionally, though not often, market-sensitive information was disclosed, quite intentionally: for example, the jobbers might be warned to keep their exposures limited if the Bank was planning an unexpected new issue; or the clearing banks might be warned not to be short of sterling if a policy change was envisaged. No records were kept. It would have been better from all points of view for the discount houses' meetings to have been with someone less exalted than the Governor, to avoid arousing the jealousy of others, but their position was less privileged than it appeared to be.

Maintaining a distant relationship with market participants is a feasible policy in calm conditions when there are no monetary policy or financial stability risks. It is not a desirable policy: for example poor communication between the Bank of England and financial market participants in 2003-2007 must have lessened the chances of maintaining financial stability. The Debt Management Office wisely holds regular meetings with gilt-edged market makers and investors. And when there are serious and immediate issues, communication is essential.

The Exchange Rate Mechanism

James' account of sterling's accession to, sojourn in, and departure from the European Exchange Rate Mechanism in 1990-1992 seems generally accurate to me. Two features stand out. One is the inability of the member countries to address collectively the problems posed by the reunification of Germany and the appreciation of the Deutsche Mark, and to find a solution other than the break-up of the mechanism. For all the participants, national interest trumped the European interest. After that experience, it seems extraordinary that they pushed on to monetary union.

The other feature is that the Bundesbank, unrestrained by the German government, adroitly made it clear to financial markets that it wanted the pound devalued, or out of the ERM, and it got what it wanted on "Black Wednesday", 16 September 1992; though it should be made clear that the pound might not have been sustainable in the ERM even had it not been shoved out by the Bundesbank. James describes the role of Helmut Schlesinger (298–300). A year or so later, Germany went to extraordinary lengths to prevent the French franc from being devalued. The contrast between these two events was surely crucial in changing the attitude of the British Conservative party towards the European Union.[3]

[3] Much has been written elsewhere about the ERM crises of 1992 and 1993, for example: Harold James 2012, ch 9; William Keegan, David Marsh and Richard Roberts 2017. In addition there are the

Monetary Policy Autonomy

The adoption of inflation targeting, and from 1997, autonomy in managing short-term interest rates, greatly changed the Bank. The argument in favour of autonomy was carefully articulated and applied specifically and exclusively to the setting of short-term interest rates in the interests of price stability. The accompanying bureaucratic apparatus–the MPC, its timetable, its minutes–was elegantly constructed to support it. It was fortunate that the Bank's economic forecasters had produced a model in which discretionary changes in short-term interest rates affected output and inflation to a credible degree, so that the MPC could readily justify its decisions by reference to its objective.

The advent of the MPC led to greatly improved relations between the Bank of England and the Treasury: strong fences make for good neighbours. Yet, with the benefit of hindsight, I wonder whether the fences were too strong. It was understood that the Treasury would leave monetary policy to the Bank of England; in return, the Bank did not comment on the Treasury's fiscal policy. The Treasury set fiscal rules and largely abided by them, and it was also subject to EU fiscal surveillance. As a result, there was not much co-ordination of monetary and fiscal policy. Looking back, it would have been much better if fiscal policy had been tighter and interest rates lower. The current account of the balance of payments would have been stronger; the banks would have depended less on short-term external funding; and the financial crisis would have been less damaging.

The Role of Economics

James comments that the "old [pre-inflation target] Bank was pragmatic, and highly integrated in the life of the City. The new [post-inflation target] Bank would be driven by economic policy-making; and there then started a new debate about the role of economics in the policy approach" (319). It would be more accurate to say that the debate about the role of economics in the policy approach ended: there was simply no role for anything else.

James evidently approves of the change of culture. This is apparent in several places. One is his occasional references to what he calls "genuine markets". Thus the changes made to open market operations after the monetary base control debate aimed "to increase the extent to which the money market operated as a genuine market" (110), and the Big Bang "thus marked the beginning of a long process of replacing the very peculiar London fixed interest and money market by a much bigger, open, in short genuine market in government debt" (219). In this context, the use of the word "genuine" clearly conveys a value judgment. Frustratingly, the judgment is not articulated, but it may safely be assumed that by "genuine" markets, James means markets that approach the perfection that economists are accustomed to assuming, in which very large quantities can be traded at a well-defined equilibrium price. No real market is perfect, however. One way or another, monetary policy and government debt management had been conducted in imperfect financial markets for centuries, and they still are today, even if the degree of imperfection decreased greatly in 1986.

Another instance is James' comment about John Page, who was the Chief Cashier from 1970–1980 and in that capacity responsible for the Bank's operations in the gilt-edged market. James says that Page was "actively hostile to economists, whom he saw as threatening his view of the Bank and its hierarchy" (22). He does not quote any source, or say how the alleged hostility manifested itself. Active hostility to economists would, to be sure, have constituted a serious failing, if not a dereliction of duty. For my part, I never detected any hostility, active or otherwise; and Page was the opposite of hostile to the economist Eddie George, who was his

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reports published by the central banks themselves. For example, the Bank of England provided a frank account (1992).

deputy for several years and who spoke of him with great affection. [4] John Page had the responsibility of dealing in the gilt-edged market, with all its peculiarities. He resisted, as he was obliged to, the urgings of naive economists to press sales of gilts beyond a point which would have destroyed the market-making capacity of the Stock Exchange. But he was able and willing to explain why, as I can testify; the truth is that too many of those who had been educated as economists were unwilling to listen to him.

In an important sense, all central bankers are economists, no matter how they have been educated. The real issue was whether the economics education they received was sufficient for central bankers, or whether they needed something more. The Bank came to believe that everything that mattered could be explained by economics as it was currently taught. I think it was mistaken, and that I learned a lot on the job. In particular, economists recruited by the Bank, extremely able though they generally were, knew too little economic and financial history.

Bank Supervision

The first Basel capital accord, reached in 1988 and now known as Basel 1, was a momentous event, both in bank regulation and in central bank cooperation. It established, for the first time, global minimum capital standards for banks. The Basel Committee on Banking Supervision, after more than a decade of discussion, had failed to agree on the principle of a global minimum standard, and in 1986 the Bank of England and the Fed agreed bilaterally on a standard. This was then revealed to the other countries represented on the Committee, some of which regarded it as a kind of betrayal. They nevertheless felt obliged to go along with the principle, which was implemented after further negotiation. The Bank of England's management was not at one on the purposes of the accord. Peter Cooke, the architect of the accord, saw it as a means of avoiding bank distress: "the perception in the market of capital inadequacy is likely to arrive for some banks at a time when they are no longer in a position to remedy the situation." [5] Eddie George, by contrast, thought that the objective of the accord was solely to protect British banks from competition in international credit markets from Japanese banks, which maintained very low capital ratios by pre-1988 international standards. James deals with the whole subject inadequately in a single paragraph (238), in which he says, half-truthfully, that the continental Europeans and the Japanese were "deliberately excluded" from the negotiation; however they were, of course, members of the Basel Committee.

I had no direct experience of bank supervision, and learned only when I read James' book that the Bank of England concluded in January 1991 that "Midland [Bank] is in, or rapidly approaching, a crisis" (391). It was however apparent at the time that the Bank of England in effect took over the governance of Midland, one of the big four clearing banks, by installing a new chairman and chief executive. The book devotes only three pages to the subject, and does not reveal much detail about the nature or scale of Midland's problems; nor does it say what part, if any, Midland's board of directors played in the drama. Incidentally, James does not mention the Bank of England's unsuccessful efforts to arrange for Lloyds, and not Hong Kong and Shanghai Bank, to take Midland over.[6]

It was entirely justifiable in 1991 not to disclose the details of the latent crisis at Midland. To disclose them then would have made it harder for the new management to stabilize the bank. History shows that crises are much more easily resolved in secret than in the

[4] Eddie George was the Executive Director for market operations from 1982-1990, Deputy Governor from 1990-1993, and Governor from 1993-2003.

[5] Quoted by Goodhart (2011, 148). Goodhart's chapter 6 provides a full account of the genesis of the accord. Peter Cooke was an Associate Director of the Bank from 1982-1988.

[6] Roberts and Kynaston (2015, ch 8).

atmosphere of panic which inevitably follows public disclosure. However, it seems to me highly regrettable that the episode has not been fully explained to the public for three decades. A candid and comprehensive public account might have led to what, in the light of later events, would have been a highly-desirable re-assessment of the credit standing and governance of the clearing banks. It might just have made it more difficult for Lloyds and the Royal Bank of Scotland to pursue their disastrous acquisitions fifteen years later. Moreover, the supervisors reasonably complained that they always attracted attention when something went wrong, but never when their actions caused something to go right. Saying more about the Midland episode would have helped to redress the imbalance.

I confess to having seriously misjudged the nature of twenty-first century banking myself. Geoffrey Wood and I wrote a paper intended to define the nature of financial stability and suggest how it might be achieved, in the hope of better motivating the Bank of England's financial stability work.[7] The early parts of the paper were written in 2002, while I was still at the Bank: I left in 2004. As James notes (408), the final version, published in 2006, expressed the belief that the banking system might be safer if bankers, like the managers of other leveraged businesses, were left to run their own affairs and manage their own risks, rather than being subject to the decisions of a single supervisory agency and the complex array of risk weights and prescribed ratios that comprised Basel 2. At least their risk assessments would be diverse, and the chance of them all making the same mistake would be lower. I assumed that bank directors and managers would take a long-term view of their responsibilities to shareholders, and was proved wrong by the financial crisis.[8] I wrote the passage that James refers to after I left the Bank, probably in 2005. It is unlikely to have affected the Bank's thinking. I still doubt whether the post-crisis arrangement in which banks are subject to detailed but opaque official supervision will be sustainable.

Internal Organization

Gordon Richardson's considerable energy was for a long time fully absorbed in dealing with the relentless pressures of current events, and during the 1970s he was reactive rather than proactive in matters of internal organization. As James records, he expanded and reorganized banking supervision after the secondary banking crisis of 1973-1975.

The abolition in 1979 of exchange control, which had been in force for forty years, was a watershed. Throughout that period, there had been at least two exchange rates for sterling–one for controlled domestic residents and one or more for other parties. The distinction was paralleled by the division in the organization of the Bank of England between the domestic and overseas functions–the former including domestic market operations and the latter including foreign exchange. There was an analogous division in the organization of the Treasury between Home and Overseas Finance. The domestic/overseas division became anomalous in 1979, but it was not until November 1986 that the management of domestic and foreign exchange dealings in the Bank of England was made the responsibility of a single executive director, as James notes (147).

James perpetuates a myth when he says that before 1979, "the British domestic financial market was self-contained or cut off from the rest of the world through capital and exchange control" and that "the Bank had a much greater leeway in setting interest rates, in that British-domiciled money could not flee to other jurisdictions" (37). No exchange controls can be completely effective and British financial markets were in practice far from isolated; for example, all but one of the six increases in Bank rate that occurred in the 1950s were for

[7] Allen and Wood (2006).

[8] HSBC's relatively good performance during the financial crisis may plausibly be ascribed to its cadre of International Officers, an elite group of managers who expected to spend their whole careers with HSBC. See Roberts and Kynaston (2015).

external reasons.[9] Misplaced faith in the effectiveness of the insulation that the controls provided did immense damage to monetary policy.

It was not until the early 1980s that Richardson got around to thinking about the internal organization of the Bank, and, as James acknowledges, it was pretty obvious that the changes he made then aimed to separate the "thinking" part of the Bank from the "doing" part. It isn't surprising that morale among the "doers" was damaged. Moreover, the "thinkers" were disincentivized from thinking much about what the "doers" were doing. Hence the Bank paid rather little attention to important subjects such as payments system design; fortunately it was able to catch up later.

The Bank as a whole was unnecessarily weakened by the decision in 1984 not to appoint Charles Goodhart as chief economist when the position became vacant. John Flemming, who was appointed, was a quite remarkable economist; but Goodhart, who was also outstandingly articulate and a specialist in monetary economics, would I think have been a better choice for that particular post. He would certainly not have suffered from the lack of self-confidence that James says afflicted Bank of England economists in the 1980s (103). The Bank was extremely fortunate that Goodhart retreated only as far as the London School of Economics (Goodhart 2003, 35).

The post-ERM advent of inflation targeting, and the transparency of the procedures for making decisions about interest rates, brought a new formality to decision making about monetary policy. I believe that this led to a major improvement in quality of the decisions, though there were still some mistakes. Another effect of transparency was that the Bank became still more concerned about its public profile. Consequently what had always been a rather hierarchical institution became more so. The tensions which James describes between the Governors and executive directors of the Bank on one side, and the "external" members of the MPC on the other, was one manifestation of this phenomenon (and the very fact that they were known as "externals" spoke volumes).

The identification of the Bank of England's "core purposes" and ensuing reorganization in 1994 was followed after a few years by the Bank's autonomy in monetary policy and the transfer of the banking supervision function to the new Financial Services Authority. The financial stability function, which remained in the Bank, lacked a clearly defined objective, which made it all too easy a target for budget cutting in the early twenty-first century, the consequences of which will have to be explored in the next volume of the history of the Bank.

Concluding Remarks

The book is called "Making a modern central bank". Central banks are intermediaries between governments and financial markets, and they have to adapt to circumstances. The version of the Bank of England that had been constructed between 1992 and 2003 lasted until 2008. Since then the Bank has once more been made responsible for banking supervision, and fence between the Bank and the Treasury has weakened, above all because of quantitative easing. What constitutes a "modern" central bank is ever changing.

During the eventful quarter-century which Harold James has chronicled, the Bank of England reached a high point in its influence and prestige. Perhaps the greatest strength of the book is its account of the political environment in which the Bank of England operated: in particular it conveys very clearly the attitudes of Margaret Thatcher, her successive Chancellors of the Exchequer, Geoffrey Howe and Nigel Lawson, and their officials in the Treasury in the early years of the Thatcher administration. And James brings to light important but previously little-known episodes in financial history. It is a pity that on some subjects, including the implementation of monetary policy, his account is rather superficial and too often

[9] Allen (2014, 182).

simply reproduces contemporary criticisms without properly assessing them, and that he does not recognize the significance of changing market structures for the functions and culture of the Bank of England. The book is essential reading for anyone interested in the monetary history of the late twentieth century, but not the last word. Other jurors need to be heard.

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