THE BANK OF ENGLAND AND THE GOVERNMENT DEBT

The Bank of England and the Government Debt recounts the surprising history of the Bank of England's activities in the government securities market in the mid-twentieth century. The Bank's Governor, Montagu Norman, had a decisive influence on government debt management policy until he retired in 1944, and established an auxiliary market in government securities outside the Stock Exchange during the Second World War. From the early 1950s, the Bank, concerned about inadequate market liquidity, became an increasingly active market-maker in government securities, rescuing the commercial market-makers in the Stock Exchange several times. The Bank's market-making activities often conflicted with its monetary policy objectives, and in 1971 it curtailed them substantially, while avoiding the damaging effects on liquidity in the government securities market that it had feared. Drawing heavily on archival research, William A. Allen sheds light on little-known aspects of central banking and monetary policy.

William A. Allen is a Visitor at the National Institute of Economic and Social Research. He worked at the Bank of England from 1972 to 2004, serving as a senior official in the Gild-Edged Division from 1982 to 1986.

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Operations in the Gilt-Edged Market, 1928–1972

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Preface

When I joined the staff of the Bank of England in 1972, equipped with a masters' degree in Economics, I was assigned to the Economic Intelligence Department, which was the Bank's main repository of economic expertise. Yet what seemed to be the Bank's most important functions were performed without reference to the Economic Intelligence Department. Those functions were its operations in financial markets: the domestic money market, the gilt-edged market and the foreign exchange market. Why was that? Was it simply that a mystique been created, perhaps to protect the positions and self-esteem of those involved and exclude *parvenu* economists, or perhaps to maintain secrecy? Or did performing the functions require knowledge beyond that which had been imparted to the economics students of that time?

The purpose of this book is to describe the history of the Bank of England's operations in the gilt-edged market, and to suggest possible reasons why they were at times conducted in a way which most economists found quaint and incomprehensible, and which led to a conflict of objectives. The evidence is patchy, as will be explained, and I am sure to have missed some interesting episodes. Nevertheless I believe that I have produced enough evidence to alter the perception of debt management and monetary policy during the period.

I am grateful to many people for helpful discussions about the subject over many years, comments on earlier versions of the book, and for general encouragement, which in many cases was unconsciously provided. They include the late Derek Allen, the late Sir Nigel Althaus, Michael Anson, Lord Armstrong of Ilminster, Angus Armstrong, Rex Baldwin, Jagjit Chadha, Victoria Chick, Tony Coleby, the late Lord Cromwell, Roger Daniell, Jonathan Davie, Sahil Dutta, the late John Fforde, Kenneth Garbade, the late Lord George, Graeme Gilchrist, Charles Goodhart, Tony Hibbitt, Rob Jones, Jim Juffs, Olwen Myhill, George Nissen, Margherita Orlando, Brian Peppiatt, the late Patrick Phillips, Ian Plenderleith, Jessica Pulay, Clifford Smout, Sir Robert Stheeman, David Wilkie, Peter Wills, participants in seminars at Cass Business School, the Debt Management Office, the London School of Economics, and the National Institute of Economic and Social Research, and the archivists of the Bank of England and the National Archives.

I am especially grateful to Anthony Hotson, Susan Howson, Richhild Moessner, Rodney Offer and Jeremy Wormell for reading the entire manuscript and making helpful suggestions, and to Susan Howson for provoking me to look closely at the events of 1940. None of the above necessarily agrees with anything I have said in the book, nor is responsible for errors or misinterpretations that I have perpetrated.

Above all I am grateful to my wife Rosemary for her remarkable tolerance and encouragement.