Review of *The Bank of England and the Government Debt: Operations in the Gilt-Edged Market, 1928–1972* by William A. Allen (Cambridge University Press, 2019)

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November 4, 2022

As the title indicates, this book covers the period from 1928 to 1972. The rest of the title, however, could practically be ripped from today's headlines. Those who are intrigued by recent Bank of England intervention in U.K. government longer-term securities markets, and who are trying to find a way to view these events in a historical context, should read this valuable account. William Allen provides an informative, absorbing, and highly readable narrative.

That endorsement is the bottom line. What follows are a number of analytical, factual, and bibliographical quibbles about the book.

First, Allen has made the book unnecessarily unfriendly to modern readers, particularly non-U.K. readers, by using now-obsolete terminology and, having followed this practice, not providing a glossary in the book. It is not unreasonable to expect the default meaning of "reserves" in a book on central-bank balance-sheet policy to be in reference to reserve balances—that is, to the non-currency component of the monetary base. Yet Allen, without explicit indication or explanation, lets "reserves" mean "foreign exchange reserves" and then takes for granted that readers know that when he (infrequently) refers to "bankers' balances," he means reserve balances. "Tap" and "funding" are likewise not provided clear-cut definitions at the outset (see the "Appendix: Some further comments (by page)" below for a discussion of what Allen says about what tap stocks were). Allen does, however, take mercy on his readers by explaining in a footnote that he'll be using "stock" to mean "bond" (though, having so indicated, he then uses "stock" in reference to both a particular debt instrument and the volume outstanding, or issued, of that instrument). Not only a glossary but also a truly cross-referenced index are much-needed items absent from the book.

Second, while the drawing on archival material for sources and data is impressive, one point that deserves stress is that, in books such as these that rely heavily on what officials said internally, there is a risk of neglecting the extent to which policymakers and other officials—via speeches, articles, interviews, etc.—put material on the public record that was of relevance. As they are in danger of overlooking this material, books of this kind risk understating what was known publicly at the time and overstating the revelations provided by the archives.

Third, with regard to what was said publicly, it is likely that the book's use of Bank of England material was overweighted *vis a vis* that produced by the United Kingdom's Treasury. For example, on page 3 of the book a footnote attached to a statement that there are "already several accounts of debt management in Britain in the twentieth century" refers to Bank of England accounts (like those in the Bank's *Quarterly Bulletin*) but not the Treasury's. But the Treasury was, of course, the issuer-generator of the debt instruments that needed to be managed or marketed, and it had a number of regular publications over the period covered by this book (though much of that material has apparently not been digitized). Such Treasury-published material could have been integrated thoroughly into the narrative.

Fourth, with regard to existing "accounts" and other published research material relevant to the book, Allen's choice of both old and new references is haphazard. The book's bibliography omits references that have discussed matters that are key to the book, and the book's narrative repeatedly attributes to later sources points available in earlier references. One example, covered in the appendix below, is Allen's non-citation of Keynes' books. A second example is the citation (on page 97) of a 2016 reference for the well-known point—one easily obtainable from pre-2016 work—that the U.S. authorities' bills-only policy was the outcome of a Federal Reserve Board/Federal Reserve Bank of New York dispute. A third example is the non-citation of the 1999 Bank of England conference volume on debt management and monetary conditions, particularly Charles Goodhart's chapter in that volume. Finally, the present author's 2005 paper (also published as a book in 2009) with Nicoletta Batini, "The U.K.'s Rocky Road to Stability," is probably the most cited piece of research on U.K. monetary policy history to have appeared in the twenty-first century (and has been cited by, among others, both Mervyn King and the late Marvin Goodfriend, in each case as long ago as 2005), and it had a section specifically on long-term debt operations' place in U.K. economic policy as well as a discussion of the Radcliffe Committee's view of the long-term interest rate's role. But the Batini-Nelson paper is not cited in Allen's book. Furthermore, that paper tried to reconcile with economic theory the analytically anomalous position of the U.K. authorities (maintained by them up to the 1980s) that they could set both short- and long-term interest rates—and vary each rate independently of one another. In contrast, Allen seems to accept this puzzling claim as an empirical fact.

It is highly likely, too, that Allen, like many other authors, overstates the difficulty that would have been entailed in the U.K. authorities moving to a true auction system for government debt well before the 1980s. The feasibility of an auction system was stressed by several critics of official policy who are not cited in the book but who were prominent during the 1960s and 1970s, among them Brian Griffiths and Alan Walters.

Appendix: Some further comments (by page)

1) Page 9: In a footnote, Allen states that "the word 'tap' has two different meanings in the history of the gilt market." But the two descriptions then given are, in fact, broadly compatible with one another (each bringing out different characteristics of tap stocks) and, furthermore, neither description is in itself really a solid definition. In particular, neither of the two descriptions that Allen gives of "tap stocks" captures the feature that likely most distinguished the tap system from an auction system, namely, the attempt (in the former system) by the authorities to administer the selling price of the bond. It would have been preferable to give a clear-cut definition of "tap" in the book. The beginnings of a workable definition would seem to be available in an IMF publication in 1997 by Ferré Carracedo and Dattels, which referred (see page 118 of *Coordinating Public Debt and Monetary Management*) to "continuous sales methods, called tap issues, in which the price is set and… [then] adjusted in [response] to secondary market conditions."
2) Page 46 states: "Neville Chamberlain may be regarded as the pioneer of forward guidance…" He certainly was not the pioneer of forward guidance. The examples that Allen gives of alleged forward guidance by Chamberlain (as Chancellor of the Exchequer) are not invariably forward guidance (for example, stating a wish for long-term rates to be stable is not forward guidance). The pioneering work on forward guidance was Keynes' 1930 *Treatise on Money*, a book that Allen does not cite. (For further discussion of the origins of forward guidance, see the present author's 2021 working paper, "The Emergence of Forward Guidance As a Monetary Policy Tool.")
3) The discussion on pages 49 to 50, in describing the Bank's position as one of resisting pressure to subscribe to government debt, neglects the point stressed in Meltzer's books that sizable, non-emergency, central bank lending to commercial banks can serve as a *de facto* way of monetizing deficits and debt, as it gives the banks more resources with which to buy newly issued or already-outstanding government bonds.
4) A contrast is drawn on page 63 between pre-1951 postwar U.K. and U.S. monetary policy, with the U.K. central bank allegedly being "hands-off" with regard to "short yields" and this being juxtaposed against the "Federal Reserve, which was willing to buy and sell government securities of all maturities so as to maintain a predetermined pattern of interest rates." This contrast is not well taken. As the Bank of England set Bank rate and thereby anchored short-term yields, the authorities were not truly "hands-off" with regard to short-term yields before 1951; and the Federal Reserve did not fix rates at "all maturities" from 1947 to 1951, as it dropped its short-term interest-rate peg in 1947. Indeed, the *Financial Times* noted (June 1, 1951) that U.K. short-term Treasury interest

rates were still down near their mid-1940s levels and contrasted this with the situation in the United States and several other countries, in which short-term rates had risen significantly since 1946. (With regard to interest rates at maturities between the very short term and the long term, it may also be the case that the Bank of England, at least in its capacity as the U.K. government broker, participated in purchases of medium-term securities in this period. Financial columnist Oscar Hobson wrote in the London newspaper *News-Chronicle* of August 23, 1947, "the authorities… are regular buyers of the short-dated Exchequer 1¾ percents…" This security was apparently about three years to maturity at the time—as it seems to be the 1950-maturity bond that Allen refers to on pages 50 and 63. Taken together with the continued management of very short-term interest rates and the targeting, especially through 1948, of longer-term yields, the 1947 effort by the authorities to manage medium-term yields via purchases suggests that the authorities' efforts to manage yields were very substantial across the maturity spectrum in the five years to 1951.)

5) Page 64 states that the effort under Chancellor Dalton to "get" long-term interest rates to 2.5 percent was unsuccessful. This is not quite correct—the authorities did get them there (or perhaps to 2.51 percent, according to some sources) but were not able to keep them that low for a protracted period.
6) Page 66 states that forward guidance was not "tried again for several decades" after 1947, inviting readers to infer that Allen means not until 2013. In fact, all three of the Chancellors of the Exchequer in the Thatcher Government made statements about how long (or about the circumstances under which) high short-term interest rates would continue, and so they engaged in forward guidance.
7) Page 70 states: "Gilt sales to the public were seen as a way of absorbing money balances from the public." Not quite correct. In the event of a budget deficit, gilt sales equal to the amount of newly-issued debt were seen (in the standard U.K. policymaker framework of the time) as a way to prevent the money stock from increasing—not a way to reduce it.
8) The statement on page 72 that the Bank of England was not involved in operations to lower long-term interest rates from 1932 to 1949 seems hard to square with the contemporaneous business-press coverage of its 1946 operations. That press coverage suggested that open-market purchases occurred in that period to support the objective of lowering longer-term interest rates. Even in the absence of such purchases, Allen's statement that there was no instance between 1932 and 1949 in which "the Bank operated so as to bring down long yields" would not be correct because, as the U.K. government broker, the Bank of England executed the 1946 conversion operation that was part of the government's effort to lower long-term rates to 2.5 percent.

9) The statement on page 136 that no aspects of U.K. monetary policy in 1967 seemed directed toward maintaining the fixed exchange rate aligns well with the discussion in Batini and Nelson (2005) of U.K. monetary policy under the Bretton Woods regime. It was suggested in that paper that, in the years through the floating of the pound sterling in 1972, U.K. short-term interest rates were set in response to factors other than the exchange rate, despite the latter being part of a fixed-parity system. (The occasions in the 1950s and 1960s when the authorities did raise Bank rate in situations in which the exchange rate was under downward pressure tended *also* to be times when the rate move was justifiable in terms of the need to stabilize aggregate demand.)
10) Page 149 misses Samuel Brittan's 1971 book on the Treasury (pp. 157, 165) as an early public discussion of the October 1968 meeting between IMF and U.K. officials.
11) It is not correct to state that postwar monetary debate or "monetarist commentators" had "prices move to equate supply and demand for each good" (page 195). Sticky- (or even fully-fixed) price models were highly prevalent over the postwar period and so, once monetary policy was introduced into standard models, it had real effects (at least in the short run) in these models, with quantities produced, rather than prices, doing some of the adjustment to changes in aggregate demand.
12) Also on page 195, William Norton—really, W.E. Norton or, as those who worked with him knew him, Bill Norton—is a poor example to give as an academic critical of the Bank of England. He was a Reserve Bank of Australia researcher-official once he finished his doctorate.
13) A final point with regard to page 195: Goodhart (1973) is described as a "studiously neutral account of the Bank's gilt market operations." In fact, however, Goodhart (1973, p. 476) indicated that the account was "consciously sympathetic to the views of the Bank." Furthermore, it is not accurate for Allen to say that Goodhart "did not discuss market infrastructure," as Goodhart (1973, p. 472) provided a rudimentary account of this infrastructure by sketching the typical profile of investors in the gilt-edged market.
14) On page 208, Harold Macmillan's year of death is given incorrectly, thanks to a typo (it should be 1986, not 1896), while Nicholas Kaldor is given as "adviser to HM Treasury 1964−70"—in contrast to Kaldor's own capsule biographical entry in 1986 (in A&C Black's *Who's Who 1987*), which gave his position as having been special adviser to the Chancellor of the Exchequer, 1964−1968.
15) The name of the "1986/89" security issued in August 1959 was 5 percent Treasury—not (as given here) 5 percent Conversion.
16) Milton Friedman's "The Counter-Revolution in Monetary Theory" should be cited as a publication—not as an unpublished lecture (page 247).