Bank of England: History, Role and Current Policy Debates

Summary

The Bank of England ('the Bank') is a key player in the design and execution of UK economic and regulatory policy. It was founded in 1694 as a private bank. Over time, the Bank's public role became more prominent. It was nationalised in 1946 and in 1997 the Bank was granted operational independence.

The Bank has four main roles. First, it regulates other banks. This function moved away from the Bank in 1997 but returned in 2012. Second, it issues banknotes; it is the only institution in England and Wales that can do so, although certain banks in Scotland and Northern Ireland may also. Third, it sets monetary policy with the aim of meeting the Government's target for the rate of inflation. And fourth, it is responsible for maintaining financial stability. In addition, the Bank acts as banker to the Government, collects certain economic statistics and carries out and publishes research.

The activities of the Bank are the subject of public debate in a range of areas, from the appropriate aims of monetary policy and its links with fiscal policy to the design of banknotes. Some commentators have questioned the political consensus that the Bank should remain independent, while others have accused the Bank of acting too politically, particularly in its communications on Brexit and environmental policy. Discussions also continue about the effectiveness of the Bank's policy of 'quantitative easing' since the financial crisis. Some commentators have also argued that the Bank's appointments process for senior posts should be more transparent and promote diversity to a greater degree.

For much of the Bank's existence, the British currency was convertible into gold on demand at the Bank. The gold standard limited the government and Bank's discretion over monetary policy. The UK left the gold standard in 1931. In the period since, governments have voluntarily placed other constraints on monetary policy, such as exchange rate targeting and attempts to control the quantity of money in the economy. The Bank has been at the forefront of implementing these policies.

On 20 December 2019, the Government announced that Andrew Bailey, currently chief executive of the Financial Conduct Authority (FCA), would succeed Mark Carney as governor of the Bank of England. Mr Bailey is due to take office on 16 March 2020.

Chris Smith | 6 January 2020

1. Foundation and Early History

The Bank of England ('the Bank') was founded in 1694 as a private bank.[1] Its shareholders at the time included the then King and Queen, William III and Mary II. It has described its initial purpose as "primarily" to fund the war against France under Louis XIV, which became known as the Nine Years' War. However, the Bank also carried out a conventional banking operation, accepting deposits from members of the public and making "carefully selected loans".[2]

The Bank moved to its current site at Threadneedle Street in the City of London in 1734.[3] In 1797, the satirist James Gillray published a cartoon in which the then Prime Minister, William Pitt the Younger, attempted to extract gold from the Bank to fund the Revolutionary Wars with France. In the cartoon, the Bank was represented as an old lady fighting off Pitt's advances. The nickname 'the Old Lady of Threadneedle Street' is still used for the Bank today.[4]

2. Functions of the Bank of England

The Bank's four main roles today are:[5]

- regulating other banks;
- issuing banknotes;
- setting monetary policy; and
- maintaining stability in the financial system.

Each of those functions is explored further below.

The Bank also: acts as banker to the Government; collects certain statistics and data; and carries out and publishes research.[6]

2.1 Regulating Other Banks

For much of its history, the Bank has performed a coordinating role amongst other banks and participants in the financial markets. The *New Palgrave Dictionary of Economics* suggested that by 1830 "a semblance of a banking 'system' had emerged […] with the Bank of England as the central bank".[7] It received formal supervisory powers in the Banking Act 1979, including the ability to withdraw a bank's authorisation to conduct business.[8]

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[1] Bank of England, 'Our History', accessed 5 November 2019.

[2] David Kynaston, *Till Time's Last Sand: A History of the Bank of England 1694–2013*, 2017, p 20.

[3] ibid. The buildings on the site were expanded over the following 94 years and then completely replaced between the First and Second World Wars.

[4] ibid. While the nickname is thus often attributed to Gillray, his cartoon was actually based on imagery used in a speech in the House of Commons by the playwright Richard Brinsley Sheridan some two months earlier: David Kynaston, *Till Time's Last Sand: A History of the Bank of England 1694–2013*, 2017, pp 85–6. The Library's collection of original Gillray prints contains a copy of the cartoon, entitled 'Political Ravishment or The Old Lady of Threadneedle Street in Danger': House of Lords Library, *Library: Special Collections—House of Lords Library: Gillray Collection*, February 2017, p 47.

[5] Bank of England, 'About Us', 11 December 2019.

[6] ibid.

[7] Steven Durlauf and Lawrence Blume (eds), *The New Palgrave Dictionary of Economics*, 2008, 2nd ed, vol 1, p 341.

[8] ibid, p 345.

Bank supervision was transferred out of the Bank to the Financial Services Authority (FSA) in 1997.[9] However, the prudential aspect of supervision (ie overseeing the financial soundness of banks) returned in 2012, when the Prudential Regulation Authority (PRA) was established as a department of the Bank as part of the Government's response to the financial crisis. The Bank also became the prudential supervisor of building societies, insurers, credit unions and major investment firms.[10] In his history of the Bank, David Kynaston suggested that this made it "arguably […] more powerful than at any time in its history". The journalist Sean O'Grady commented that "the Bank will be pretty much in charge of everything".[11] The supervision of banking conduct of business (eg ensuring that customers get a fair deal and promoting competition), as well as the prudential regulation of firms not covered by the PRA, remained with the FSA, renamed the Financial Conduct Authority.[12]

As well as regulating banks, the Bank also provides settlement and clearing systems to facilitate payments between them. It has performed this role since the mid-19th century.[13] In 1996, the Bank introduced the real-time gross settlement (RTGS) system. It said that this now settles payments totalling around £500 billion per day on average.[14]

2.2 Issuing Banknotes

In the UK, banknotes originated as receipts given by banks in exchange for deposits of gold or silver coins.[15] In its early days, therefore, the Bank's notes were often for the specific amount deposited by the customer and were handwritten.[16]

Over time, the notes came to be used more widely, with the first pre-printed notes appearing in 1725.[17] Kynaston suggested that the "era of paper money" began in 1797 and that notes first came into the hands of the general public during the Napoleonic wars.[18]

When it was established, the Bank was just one of many institutions printing banknotes.[19] However, most London banks had ceased to issue notes by 1770, instead using those of the Bank.[20] The Bank Charter Act 1844 placed restrictions on other banks printing notes and prevented any new banks from issuing notes in the UK, thereby formalising the Bank of England's role.[21]

Today, only the Bank can issue notes in England and Wales. Seven banks in Scotland and Northern Ireland can do so, but only under certain conditions. Special banknotes, worth £1 million or

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[9] Steven Durlauf and Lawrence Blume (eds), *The New Palgrave Dictionary of Economics*, 2008, 2nd ed, vol 1, p 346.

[10] Bank of England, '[What is the Prudential Regulation Authority?](#)', accessed 22 November 2019.

[11] David Kynaston, *Till Time's Last Sand: A History of the Bank of England 1694–2013*, 2017, p 788; and Sean O'Grady, '[Who's in Charge in a Crisis? It is Now Very Much Mervyn, but it Should be George](#)', *Independent*, 2 August 2010.

[12] Financial Conduct Authority, '[About the Financial Conduct Authority](#)', 30 July 2019.

[13] Bank of England, '[Our History](#)', accessed 5 November 2019.

[14] ibid.

[15] Katie Allen, '[Banknotes: A Short History](#)', *Guardian*, 10 September 2013.

[16] Bank of England, '[Our History](#)', accessed 5 November 2019.

[17] Steven Durlauf and Lawrence Blume (eds), *The New Palgrave Dictionary of Economics*, 2008, 2nd ed, vol 1, p 341.

[18] David Kynaston, *Till Time's Last Sand: A History of the Bank of England 1694–2013*, 2017, pp 83 and 88. Kynaston reported that one consequence of wider usage was widespread forgery, to which the Bank responded "vigorously". He said that a "significant proportion" of prosecutions ended in the death penalty: ibid, p 89.

[19] ibid, p 42.

[20] Steven Durlauf and Lawrence Blume (eds), *The New Palgrave Dictionary of Economics*, 2008, 2nd ed, vol 1, p 341.

[21] Bank of England, '[Our History](#)', accessed 14 November 2019.

£100 million each, are held by the Bank to back these Scottish and Irish note issues.[22]

The physical printing of banknotes is a separate task to their issuance but was also carried out by the Bank until 2003.[23] Since then it has been contracted out to the private company De La Rue.[24]

2.3 Setting Monetary Policy

The Bank defines monetary policy as "action that a country's central bank or government can take to influence how much money is in the economy and how much it costs to borrow".[25]

A key tool of monetary policy for the Bank is setting the bank rate. This is the interest rate at which other banks borrow from the Bank of England, and it influences interest rates throughout the economy.[26]

Aims of Monetary Policy

The Bank has had different goals for its monetary policy operations throughout its history. Today, the aim of monetary policy is to keep inflation, as measured by the consumer prices index (CPI), near the target rate of 2 percent per annum.[27] Formerly, under the gold standard (see Appendix), interest rates were set to ensure that sufficient gold was attracted to London to maintain convertibility.[28] Other targets have included the actual quantity of money in the financial system (1979 to 1986), or maintaining a particular exchange rate; for example, during and after the Second World War and under the exchange rate mechanism (1990 to 1992).[29]

While the Bank's primary economic goal is its CPI inflation target, it stressed that it may sometimes need to balance this with supporting economic growth and jobs.[30] The Bank has also made clear that monetary and fiscal policies do not operate in isolation and that it takes into account the fiscal position when setting monetary policy.[31]

Quantitative Easing

Following the financial crisis, the Bank found that reducing interest rates to their lowest practicable levels did not provide a sufficient boost to the economy to enable it to meet its inflation target.[32]

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[22] Bank of England, 'Scottish and Northern Ireland Banknotes', 15 October 2019. One of the Irish Banks, First Trust Bank, announced in February 2019 that it would cease to print its own notes: Julian O'Neill, 'First Trust Bank to Stop Printing Notes', BBC News, 13 February 2019.

[23] David Kynaston, *Till Time's Last Sand: A History of the Bank of England 1694–2013*, 2017, p 782.

[24] De La Rue, 'De La Rue Designs and Manufactures Bank of England's New Polymer £20 Note', 10 October 2019.

[25] Bank of England, 'Monetary Policy', 31 October 2019.

[26] Bank of England, 'Interest Rates and Bank Rate', 31 October 2019.

[27] Bank of England, 'Inflation and the 2 Percent Target', 10 May 2019.

[28] David Kynaston, *Till Time's Last Sand: A History of the Bank of England 1694–2013*, 2017, p 253.

[29] Steven Durlauf and Lawrence Blume (eds), *The New Palgrave Dictionary of Economics*, 2008, 2nd ed, vol 1, pp 345–6 and 548.

[30] Bank of England, 'Monetary Policy', 31 October 2019.

[31] For example, Bank of England, 'Governor's Address to the Lord Mayor's Banquet for Bankers and Merchants of the City of London at the Mansion House', 17 June 2009, p 5; and 'Governor's Address to the Lord Mayor's Banquet for Bankers and Merchants of the City of London at the Mansion House', 16 June 2010, p 4.

[32] Bank of England, 'What is Quantitative Easing?', accessed 21 November 2019.

It therefore introduced quantitative easing (QE) as a further tool of monetary policy. It described QE as "creating digital money", which was then used to buy assets (eg government bonds) from institutions such as pension funds.[33] The Bank argued that these institutions would then use the money to invest in other assets, in turn stimulating further activity. In addition, it suggested that QE should reduce interest rates on mortgages and loans, making households and businesses more willing to borrow and invest.

Methods of Operation

As well as setting the bank rate, the Bank has other ways of operating to achieve its monetary policy aims and ensuring liquidity in financial markets.[34] These include open market operations (OMOs), whereby it buys and sells securities directly in the open market. Before the liberalisation of the capital markets in the 1980s, known as the 'big bang', the Bank also operated controls on, for example, bank lending and foreign exchange trading.[35]

Communications

Today, the Bank's publications and speeches by its senior officials are highly detailed. They are considered an important tool of monetary policymaking and are carefully analysed for indicators of future economic conditions.[36] However, this has not always been the case. Kynaston described the Bank prior to the 1790s as "muteness itself when it came to explaining and detailing its activities and ambitions to the outside world".[37] Even in 1925, Keynes observed that "the Bank of England works with so much secrecy and so much concealment of important statistics that it is never easy to state with precision what it is doing".[38] The Bank first published a 'quarterly bulletin' in 1960, and it has published inflation reports since 1993 and financial stability reports since 1996.[39]

2.4 Maintaining Stability in the Financial System

The Bank states that a healthy economy requires people to have confidence in financial institutions, markets and infrastructure.[40] Financial stability, and particularly the management of financial crises, has therefore been part of the Bank's role for much of its history. Kynaston suggested that it provided support to the financial system in the form of additional liquidity in crises such as 1772, 1825, 1914 and 1987.[41]

Closely related is the Bank's role as 'lender of last resort'. This it has described as "buying assets […] in exchange for either Bank of England notes or deposits at a time when others might not lend

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[33] Bank of England, 'What is Quantitative Easing?', accessed 21 November 2019.

[34] Simon Gray and Nick Talbot, 'Monetary Operations', Bank of England, accessed 26 November 2019.

[35] Steven Durlauf and Lawrence Blume (eds), *The New Palgrave Dictionary of Economics*, 2008, 2nd ed, vol 1, p 341.

[36] For example, Delphine Strauss, 'Bank of England: What to Watch in its Policy Report', *Financial Times* (£), 6 November 2019.

[37] David Kynaston, *Till Time's Last Sand: A History of the Bank of England 1694–2013*, 2017, p 39.

[38] John Maynard Keynes, *The Economic Consequences of Mr Churchill*, 1925, reprinted in John Maynard Keynes, *Essays in Persuasion*, 2010, p 219.

[39] Bank of England, 'Our History', accessed 14 November 2019.

[40] Bank of England 'Financial Stability', 11 October 2019.

[41] David Kynaston, *Till Time's Last Sand: A History of the Bank of England 1694–2013*, 2017, pp 51, 120, 270–1 and 623.

because of market-wide uncertainty”.[42] Kynaston suggested that the Bank first acted in this capacity around 1763.[43] Its function in this capacity was undisputed by 1890.[44] In recent times, this function was used to assist financial institutions such as Northern Rock in September 2007.[45]

Even when supervision of the banking system was moved to the FSA in 1997, the Bank retained overall responsibility for financial stability.[46] However, looking back on the financial crisis, several commentators, including the then chief executive of the FSA, Hector Sants, suggested that the Bank had paid insufficient attention to this function.[47]

Today, the Bank’s financial policy committee (FPC) oversees its work in reducing systemic risks. It also publishes regular reports on the Bank’s view of the resilience of the financial sector.[48]

3. Current Discussions About the Bank

The Bank’s activities are the subject of public debate in various areas. This section summarises a number of these discussions.

3.1 New Governor

The Bank is led by a governor. The *Financial Times* has described the role as being “widely seen as the most powerful unelected position in the UK”.[49]

On 20 December 2019, the Government announced that Andrew Bailey, currently chief executive of the Financial Conduct Authority (FCA), would succeed the incumbent, Mark Carney, as governor of the Bank of England.[50] Mr Bailey is due to take office on 16 March 2020 and he has been appointed for an eight-year term. The Government said that Mr Carney’s term had been extended to 15 March 2020 “to ensure a smooth transition”.[51] Mr Carney was originally appointed on 1 July 2013.[52]

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[42] Mike Anson et al, *The Bank of England as Lender of Last Resort: New Historical Evidence from Daily Transactional Data*, Bank of England, November 2017, p 2.

[43] David Kynaston, *Till Time’s Last Sand: A History of the Bank of England 1694–2013*, 2017, p 38.

[44] Steven Durlauf and Lawrence Blume (eds), *The New Palgrave Dictionary of Economics*, 2008, 2nd ed, vol 1, p 342.

[45] David Kynaston, *Till Time’s Last Sand: A History of the Bank of England 1694–2013*, 2017, pp 749–50.

[46] ibid, p 724.

[47] ibid, p 738.

[48] Bank of England ‘Financial Stability’, 11 October 2019. The report is known as the *Financial Stability Report* (FSR): Bank of England, ‘Financial Stability Reports’, accessed 21 November 2019.

[49] Chris Giles, ‘Race to Head Bank of England Still Open’, *Financial Times* (£), 1 November 2019.

[50] HM Treasury, ‘Andrew Bailey to Be New Governor of the Bank of England’, 20 December 2019.

[51] ibid.

[52] HM Treasury, ‘Governor of the Bank of England’, 26 November 2012. Mr Carney originally indicated that he would serve for five years rather than the statutory term of eight (derived from the Financial Services Act 2012, schedule 2, para 1). However, his term was extended in October 2016 and again on 11 September 2018, before the final extension described above: George Parker and Chris Giles, ‘Mark Carney to Stay as Bank of England Governor Until 2019’ *Financial Times* (£), October 2016; and Chancellor of the Exchequer, ‘Letter to Governor of the Bank of England’, 11 September 2018.

3.2 Appointments Process

Positive Money, a group which campaigns for reforms to the money and banking system, has argued that the recruitment process for all members of the Bank's monetary policy committee needs to be more transparent and to promote diversity to a greater degree.[53] It suggested that the House of Commons Treasury Committee be given a greater role in the process. The Government has stated that the processes for appointments to the Bank's policy committees, including the monetary policy committee (MPC), are "of the same standard as appointments within the remit of the commissioner for public appointments".[54] The Bank set out its diversity policy for senior positions in detail in a letter to the Treasury Committee in July 2018.[55]

3.3 Role and Independence

The Bank was originally a private bank. However, the Bank states it has "always seen ourselves as a public institution, acting in the national interest".[56] In his 1776 book, *The Wealth of Nations*, Adam Smith wrote that "the stability of the Bank of England is equal to that of the Government […] It acts, not only as ordinary bank, but as a great engine of state".[57]

Over time its public role increased, and this was given added impetus by the First and Second World Wars.[58] In 1946, the Bank was taken into public ownership, although with operational autonomy. Kynaston described the impact of nationalisation as "muted".[59]

The relative roles of government and the Bank continued to be debated following these changes.[60] In 1988, the then Chancellor of the Exchequer, Nigel Lawson, proposed that the Bank be given independence, but this was rejected by his Prime Minister, Margaret Thatcher.[61] However, in 1997, the Labour Government granted the Bank operational independence. The change was intended to allow monetary policy to be set free of political influence but with the aim of meeting an inflation target set by the Government.[62] A new MPC was set up within the Bank to oversee this function.[63]

In their 2019 election manifestos, neither the Conservative nor Labour Party proposed any alterations to the status or role of the Bank.[64]

However, some economists have recently called for changes in the Bank's role. For example, Lord Skidelsky (Crossbench) has argued for a series of changes, including reversing its independence. He proposed that the Bank's mandate should be to advise and support the economic policy of the

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[53] Rob Macquarie et al, *Seeking Legitimacy: A New Settlement for the Bank of England*, Positive Money, October 2019, p 37.

[54] Chancellor of the Exchequer, 'Letter to Chair of the House of Commons Treasury Committee', 26 October 2017.

[55] Governor of the Bank of England, 'Letter to Chair of the House of Commons Treasury Committee', 4 July 2018.

[56] Bank of England, 'Our History', accessed 5 November 2019.

[57] Adam Smith, *An Inquiry into the Nature and Causes of the Wealth of Nations*, 1776, Everyman edition 1991, pp 284–5.

[58] David Kynaston, *Till Time's Last Sand: A History of the Bank of England 1694–2013*, 2017, pp 126–7, 157–8 and 292; and Steven Durlauf and Lawrence Blume (eds), *The New Palgrave Dictionary of Economics*, 2008, 2nd ed, vol 1, pp 342–3.

[59] David Kynaston, *Till Time's Last Sand: A History of the Bank of England 1694–2013*, 2017, pp 397–8 and 409.

[60] For example, in the 1959 Radcliffe Report and a 1993 report by the House of Commons Treasury and Civil Service Committee: ibid, pp 443 and 674.

[61] ibid, p 663.

[62] ibid, pp 718–9.

[63] ibid, p 719.

[64] Conservative Party, *Manifesto 2019*; and Labour Party, *Manifesto 2019*, November 2019.

Government, which should be the "senior partner in macro-policy" because it is accountable to voters. This mandate should, he said, include promoting economic growth.[65]

Jagjit Chadha of the National Institute of Economic and Social Research (NIESR) has also argued for a fundamental rethink of the objects of monetary policy and the role of the Bank.[66] He suggested that while the current regime has existed since well before the financial crisis, it now needs to deal with a different set of policy challenges.[67] Chadha considered a number of possible changes, such as:[68]

- a higher inflation target;
- targeting an average rate over time;
- publishing an expected path of future rates;
- enabling negative interest rates;
- holding individual members of the monetary policy committee accountable for their views; and
- a possible greater role for the bank in measuring some aspects of the economy.

He cautioned against expanding the Bank's remit to include issues such as inequality and climate change. However, Chadha described the "biggest danger" as a blurring of the lines between fiscal and monetary policy, whereby the Government funded increased deficits using short-term debt issued by the Bank. He said that this would amount to "the political system [trying] to offload its obligations onto the central bank balance sheet".

Writing in the *Financial Times*, Gavyn Davies also argued for closer coordination between monetary and fiscal policy.[69] He said that monetary policy will be "found wanting" in the next global recession and argued for a greater role for "fiscal stabilisers". He said that these stabilisers could provide channels whereby government spending automatically increases in a recession to counteract the slowdown. He concluded that "central bankers will argue strongly that this type of enhancement to fiscal stabilisers should be legislated immediately". Academic Drew Woodhouse has also called for the new governor to recognise the "shifting sands in central bank policy".[70] He suggested, for example, that the Bank could play a role in addressing regional inequality in the UK.

In addition, Positive Money suggested that there should be formal input into the Bank's policymaking process from independent academics, "civil society representatives" and citizens' panels.[71]

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[65] Robert Skidelsky, *Money and Government: A Challenge to Mainstream Economics*, 2018, pp 358–61.

[66] Jagit Chadha, '[Objectives and Boundaries of Monetary Policy: A Governor to Renew the Bank of England's Monetary Vows]', National Institute of Economic and Social Research for the Centre for Economic Policy Research, 25 October 2019.

[67] For an analysis of how central banks' roles have changed since the financial crisis, see Samuel McPhilemy and Manuela Moschella, '[Central Banks Under Stress: Reputation, Accountability and Regulatory Coherence]', *Public Administration*, 23 May 2019, vol 97 no 3, pp 489–98.

[68] Jagit Chadha, '[Objectives and Boundaries of Monetary Policy: A Governor to Renew the Bank of England's Monetary Vows]', National Institute of Economic and Social Research for the Centre for Economic Policy Research, 25 October 2019.

[69] Gavyn Davies, '[Can Automatic Fiscal Stabilisers Replace Monetary Policy?]', *Financial Times* (£), 17 November 2019. NIESR has made similar arguments: Russell Jones and John Llewellyn, '[Maintaining Stable Macroeconomic Conditions]', *National Institute Economic Review*, 29 October 2019, vol 250 no 1, pp R7–14.

[70] Drew Woodhouse, '[Bank of England's New Governor Andrew Bailey Must Take Radically Different Approach to the Economy]', *The Conversation*, 19 December 2019.

[71] Rob Macquarie et al, *[Seeking Legitimacy: A New Settlement for the Bank of England]*, Positive Money, October 2019, p 6.

The form of the Bank's communications on monetary policy remains an area for debate. For example, MPC member Gertjan Vlieghe has called for the publication of the future path of interest rates which the Bank believes is necessary to meet the inflation target.[72]

3.4 Quantitative Easing

Quantitative easing (QE) was developed as a response to the financial crisis. The most recent round of purchases of government debt (gilts) was announced in August 2016, bringing the total stock of gilts purchased by the Bank to £435 billion.[73] It has also purchased £10 billion of corporate bonds.[74]

The Bank's own assessment of the QE programme concluded that "most households benefited overall […] relative to what would have otherwise happened".[75] However, writing in the *Financial Times*, Thomas Hale suggested that the evidence is more mixed and that an independent assessment is required.[76] Lord Skidelsky was more critical. He said that QE "failed to get inflation up to target; it had, at best, a weak effect on output; and it was far from being distributionally neutral".[77]

3.5 Role in Politics and Comments on Brexit

The Bank has stated that the UK's withdrawal from the EU has "significant implications for the way we discharge our responsibilities".[78] For example, as part of its economic forecasting, the Bank needs to make assumptions about the manner of departure.[79] In doing so, it has been argued that the Bank has been "too quick to engage in politics".[80] A similar charge has been levelled at Mark Carney's interventions on climate change, although some have suggested that the Governor should go even further in this area.[81]

3.6 Banknote Design

The most recent set of banknotes has been criticised for using animal fat in the production process.[82] In response, the Bank launched a public consultation. Though the Bank acknowledged the concerns expressed, it decided to continue with the same method.[83]

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72 Gertjan Vlieghe, *Continuous Improvements in Communicating Monetary Policy*, Bank of England, 12 July 2019, p 2.

73 Bank of England, 'What is Quantitative Easing?', accessed 21 November 2019.

74 Stefania D'Amico and Iryna Kaminska, *Credit Easing Versus Quantitative Easing: Evidence from Corporate and Government Bond Purchase Programs*, Bank of England, September 2019, p 7.

75 Philip Bunn et al, *The Distributional Impact of Monetary Policy Easing in the UK between 2008 and 2014*, Bank of England, March 2018.

76 Thomas Hale, 'The Bank of England has a Strange Idea of What QE Achieved', *Financial Times* (£), 3 August 2018.

77 Robert Skidelsky, *Money and Government: A Challenge to Mainstream Economics*, 2018, p 277.

78 Bank of England, 'EU Withdrawal', 12 November 2019.

79 Bank of England, 'Monetary Policy Report—November 2019', 7 November 2019.

80 Philip Aldrick, 'Bank of England Braced for Political Backlash as it Sets Out Views on Brexit Deal', *Times* (£), 7 November 2019; and, for example, Jeremy Warner, 'Primeval Forces are at Play in Brexit, and they have Engulfed even the Bank of England', *Telegraph* (£), 5 April 2019.

81 Fran Boait et al, 'Next Bank of England Governor Must Serve the Whole of Society', *Guardian*, 4 June 2019; and Tony Yates, 'Positive Money's Problematic Proposal for the Bank of England', *Financial Times* (£), 6 June 2019.

82 Kevin Peachey, 'Animal Fat to Stay in Future Banknotes, Bank of England Concludes', BBC News, 10 August 2017; and Caroline Criado-Perez, 'Women on Banknotes: Is the Bank of England Finally Listening?' *Guardian*, 4 July 2013.

83 Bank of England, 'Bank of England Decision on the Future Composition of Polymer Banknotes', 10 August 2017.

Other commentators have suggested that women are insufficiently represented amongst the historical figures depicted on notes.[84] The Bank stated that in 2015 it changed the way it selects characters to be featured.[85] This would, it said, allow notes to "show the diversity of people who have shaped British life and culture". The new process includes an opportunity for the public to nominate people in a chosen field.[86]

Appendix: The Gold Standard

The earliest banknotes were simply receipts for deposits of gold or silver and could therefore be exchanged on demand. This evolved into a key principle of the Bank's activities for much of its existence: that its banknotes were backed by bullion. In other words, any holder of notes issued by the Bank of England could present the note at the Bank and demand immediate payment in gold (or gold or silver in the earlier years) at a fixed conversion rate.[87] This system is known as the gold standard. In his history of the Bank, David Kynaston reported that it first adopted a de facto gold standard in 1717.[88] Great Britain formally adopted the gold standard in 1816 and it departed in September 1931.[89]

A gold standard has two main effects on economic policy. First, it limits the amount of currency in circulation, known as the money supply, because money can only be printed when stocks of gold increase.[90] Advocates of the standard argued that this would restrain governments from printing money, thereby preventing inflation.[91] However, economist John Maynard Keynes asserted that a key disadvantage is that the country's interest rate policy becomes driven by the need to attract gold reserves into the country. This, in turn, might mean that the interest rate is inappropriate for other economic goals, such as promoting economic growth and reducing unemployment.[92]

Second, a gold standard is particularly significant if other countries are also using it. Then, the fact that each currency is separately fixed in terms of gold means that the exchange rate between the two currencies is also effectively fixed.[93] This could have positive effects; for example, because companies trading internationally do not face uncertainty about exchange rates.[94] However, the same mechanism means that trade imbalances (for example, an excess of imports over exports) cannot be corrected through movements in exchange rates. Instead, they may have to take place through 'real' factors such as falls in real wages and employment.[95]

Economic pressures led to the suspension of convertibility on a number of occasions, and even the

[84] Caroline Criado-Perez, 'Women on Banknotes: Is the Bank of England Finally Listening?' *Guardian*, 4 July 2013.

[85] Bank of England, 'Historical Women on Banknotes', 10 May 2019.

[86] Bank of England, 'Choosing Banknote Characters', 10 October 2019.

[87] Steven Durlauf and Lawrence Blume (eds), *The New Palgrave Dictionary of Economics*, 2008, 2nd ed, vol 3, p 695. To this day, banknotes have printed on them the words "I promise to pay the bearer on demand the sum of …".

[88] David Kynaston, *Till Time's Last Sand: A History of the Bank of England 1694–2013*, 2017, p 42.

[89] Steven Durlauf and Lawrence Blume (eds), *The New Palgrave Dictionary of Economics*, 2008, 2nd ed, vol 3, pp 696 and 701.

[90] Alain Anderton, *Economics*, 2008, 5th ed, p 653.

[91] ibid.

[92] John Maynard Keynes, *A Tract on Monetary Reform*, 1923, reprinted in John Maynard Keynes, *Essays in Persuasion*, 2010, p 179.

[93] Steven Durlauf and Lawrence Blume (eds), *The New Palgrave Dictionary of Economics*, 2008, 2nd ed, vol 3, p 695.

[94] Alain Anderton, *Economics*, 2008, 5th ed, p 651.

[95] ibid, pp 651–2.

right to redeem receipts for deposits was not absolute. In his history of the Bank, David Kynaston wrote that the first episode of the Bank refusing to exchange notes was in 1696, less than two years after it opened for business.[96] Later dates of formal or de facto suspensions included 1792, 1847 and during the First World War.[97] Following prolonged debates, and against the advice of Keynes, Britain returned to the gold standard in 1925.[98] However, the economic strains of the great depression forced the final departure in 1931.[99]

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[96] David Kynaston, *Till Time's Last Sand: A History of the Bank of England 1694–2013*, 2017, p 14.
[97] ibid, pp 82, 151 and 282.
[98] ibid, p 326; and John Maynard Keynes, *The Economic Consequences of Mr Churchill*, 1925.
[99] David Kynaston, *Till Time's Last Sand: A History of the Bank of England 1694–2013*, 2017, p 325.