***The Alternative Externalisation Strategy, operational independence and the Bank of England***

*Summary*

*This article places analysis of operational independence within a context of broader debates that took place in the Bank of England in the 1970s focused on how it might achieve greater prominence and authority. A clear alternative to operational independence emerged in the form of an `externalisation’ strategy designed to loosen constraints on the Bank and enhance its role in the formulation and direction of national economic policy. Contrary to accounts which suggest that operational independence benefited the Bank this article argues that it was devised to reduce its remit. After 2007 the Bank was able to `capitalize on crisis’ and develop a broader view of its operations including an externalization dimension to increase its visibility in public discourse and foster its role as commentator on broader government policy.*

Keywords: Bank of England, Depoliticisation, Economic Policy, Treasury

1. **Introduction**

Recent scholarship has done much to extend our understanding of the logic behind Gordon Brown’s move to grant `operational independence’ (or `operational responsibility’) to the Bank of England in the field of monetary policy in 1997 (Dellepiane-Avellaneda, 2013; Patel, 2008; King, 2005). Of particular interest to this article is the suggestion, initially made by McLean (2001, p.229) and considerably extended by Sebastian Dellepiane-Avellaneda (2013), that operational independence was a `heresthetic move,’ designed not only to enhance the credibility of monetary policy but also to enforce policy change and party discipline within the Labour Party and extend the authority of the Treasury across government departments. Building on the argument that operational independence *reduced* rather than *extended* the role of the Bank (Dellepiane-Avellaneda, 2013, p. 288), the article analyses operational independence within a context of the broader debates that took place in the Bank in the 1970s that looked at how the Bank might achieve greater prominence and authority. From a range of options considered in the 1970s a clear alternative to operational independence emerged in the form of an `externalisation’ strategy designed to loosen constraints on the Bank and enhance its role in the formulation and direction of national economic policy. This largely forgotten episode shows that the Bank’s appraisal of how it might extend and restructure its activities was much more nuanced and sophisticated than is generally acknowledged in the existing literature. In addition it demonstrates that officials within the Bank recognized that an instruction to follow a specific rule set by the government might limit rather than extend its influence. Externalization, it will be argued, offered a credible alternative strategy for the Bank, the fundamentals of which can be seen again in the Bank’s expansionist orientation post-2007.

The argument proceeds by firstly, contextualising discussion on independence looking in particular at internal Bank debates on how it might achieve greater prominence. This section draws on recently released primary sources from the Bank and the National Archives and details plans drawn up in the Bank in the 1970s to extend its remit in policy terms. Secondly, the article analyses the politics of operational independence suggesting that the 1997 restructuring was motivated in part by the desire of the in-coming Labour government to contain and restrict the role and activities of the Bank. The final section suggests that the Bank post-2007 has managed to `capitalise on crisis’ (Krippner, 2011) to expand its activities beyond monetary policy and encompass a much broader role in economic management. In conclusion it is suggested that the Bank had a clear strategy for expanding its activities and influence in the late 1970s in the guise of externalisation. This strategy was shelved by the Bank after successive Conservative chancellors suggested a quicker and more secure route for the Bank through constitutional change. Brown finally delivered `instrument independence’ but in a form that stripped the Bank of some of its wider and traditional responsibilities reducing its primary activity to day-to-day monetary management. The expansion of the remit of the Bank post-2007 has been accompanied in part by implementation of elements of the externalisation strategy first articulated in the late 1970s. In theoretical terms the article highlights the analytical importance of disaggregating the centres of power that form the ensemble of institutions and organisations that comprise the `core of the state apparatus’ (Jessop, 2008, p. 9). Operational independence in this context is usefully characterised as a complex piece of statecraft (or heresthetic) implemented not simply to `depoliticise’ monetary management but to achieve a restructuring of relations between the administrative, fiscal, monetary and financial apparatuses of the state.

1. **Towards the Alternative Externalisation Strategy**

In terms of its articulation with the Treasury and the government of the day it is commonplace to view the Bank in the postwar period as either subordinate to, or relatively independent of, `political’ influence (for an overview see, Elgie and Thompson, 1998; Fforde, 1992; Peden, 2000; Capie, 2010). This of course reflects the significance of two pieces of postwar legislation - the 1946 Bank of England Act which, *in theory*, provided for formal subordination to the Treasury, and the 1998 Bank of England Act which gave the Bank a definite role in statute (operational independence in respect of monetary policy) – to deliver price stability as defined by the government’s inflation target of 2%. This binary opposition however does not adequately capture, either empirically or theoretically, the full range of possibilities open to the Bank in respect of its relationship to the Treasury and the government (for a theoretical analysis of independence see Franzese, 1999).

Analysis of recently released Bank material (also see Capie, 2010) indicates that at the height of the `crisis of Keynesianism’ in the mid-1970s, senior officials in the Bank considered, not two, but three possible scenarios that might loosen the Treasury’s grip on its operations: firstly, a wholesale transfer of responsibility for discretionary monetary management from the Treasury to the Bank; secondly, a transformation in the constitution returning to the Bank a statutory duty related to a precise legal rule – a form of operational independence; and thirdly, a strategy of the `externalisation’ of the Bank and its activities (BE*: 7A.127/1*, `Externalising the Bank’, J. Fforde to the Governors, 23 August 1977). Option one was quickly dismissed as involving too much of a constitutional upheaval. The Bank as a legally separate part of the executive answerable directly to the Commons independently of the Prime Minister and the Cabinet ran contrary to established `British practice and convention’ and, it was thought, `might prove little less debilitating for the central bank than direct subservience to the Government’ (Ibid). Option two would be less constitutionally innovative (the Bank had operated similar rules under the gold standard) but would have the effect of severely reducing the remit of the Bank subordinating its activities to a `supposedly rigid rule’ of the `crudest and least effective’ kind (ibid). This left the strategy of `externalisation’ which in this context meant, `taking a more active role in explaining its policies and operations at a number of different levels, with a view (in the short term) to preventing or at least countering ignorant and misplaced criticism of the Bank, and (in the longer term) to establishing in both the official and the public eye a more distinctive and recognised position for the Bank as an independent and intellectually sound source of advice on monetary policy and thus increasing the visible role of the Bank in the formulation and direction of national economic policy’ (BE*: 7A.127/1*, `Externalising the Bank’, A. D. Loehnis to the Governor, 13 May 1977). This third option stressed that whilst the Bank would not be independent of the executive it would seek to develop a role as an advisor to the Chancellor, separate from and roughly equal to the Treasury. The position of the Bank would therefore be `less independent than that of the Bundesbank or the Federal Reserve but more than that of being merely executant of policies laid down by the Government’ (BE: *7A.127/1*, `Possible Lines of Development for the Bank’, Dow to the Governor, 7 April 1976).

One important element of the plan centred on the public role of the Bank. There was, Bank officials suggested, `a case for the Bank playing a more important role than now in the public debate on economic issues’ (BE: *7A.127/1*, `Possible Lines of Development for the Bank’, Dow to the Governor, 7 April 1976). The Bank could aspire to competence in the field

of general economic policy, both domestic and external, and extend its operations to cover fields such as industrial policy. The difficulty of defining the constitutional relation of the Bank to the Treasury and government could be turned to advantage inasmuch as the Bank `might be freer than the Treasury from political constraint’ and in status terms the Governor was a `public figure’ in a way that Civil Servants were not (BE: *7A.127/1*, `Possible Lines of Development for the Bank’, Dow to the Governor, 7 April 1976). Profile raising activity in particular would help establish the Bank’s credibility and qualify the somewhat widespread view that its advice was inherently `negative and somewhat right-wing’ (BE: *7A.127/1*, `Possible Lines of Development for the Bank’, Dow to the Governor, 7 April 1976).

The means of achieving these ends included: a programme of public speeches – one every six weeks (on monetary policy, banking, the City and industry, profitability, or medium term economic prospects); a new series of publications – more frequent in the Quarterly Bulletin and Staff Papers bolstered by `back-room’ analytic papers; regular seminars - with academics and policymakers to establish the Bank as a source of excellence in monetary economics; and enhanced relations with the press (at this stage the Bank did not brief journalists or produce spokesmen for radio or TV) (BE*: 7A.127/1*, `Externalising the Bank’, A. D. Loehnis to the Governor, 13 May 1977).

Despite some misgivings that externalization might weaken the Bank’s private influence with government, by the summer of 1977 there was widespread agreement that a strategy should be pursued to establish the Bank `as a different source of advice and influence on those aspects of national economic policy with which it is legitimately concerned’ (BE*: 7A.127/1*, `Externalising the Bank’, A. D. Loehnis to the Governor, 21 June 1977). Central to gaining this acceptance was an intervention by Kit McMahon who had been drafted in to `give the Bank intellectual muscle’ (Capie, 2010, p. 829). McMahon, who later became Deputy Governor, suggested that the Bank was routinely subject to `abuse, misrepresentation and belittlement’ with no recourse to setting the record straight (BE: *7A.127/1,* `Externalising the Bank’, Christopher McMahon to Loehnis, 24 June 1977). British economic performance, he noted, had long been unsatisfactory and the Bank could not avoid catching some of the responsibility for this. However, if `things started to go very much better, we would want some of the credit’ (Ibid). Currently it was simply impossible to make public `plain policy differences with the Treasury or the Government of the day’. To counter its negative image and make public the degree to which the Bank was responsible for policies, McMahon suggested that `it might be better for the Bank and indeed for the UK economy if the Bank were more independent from government’ (Ibid). However it was not simply a question of the Governor making more speeches but rather `in some critical situations for him to say publicly things that are clearly unwelcome to the Government and their political supporters’. Not only would this achieve `big headlines’ and stimulate `much excitement’ but it could also transform comment about the Bank. The strategy might produce `anger at the other end of town’ (in the Treasury) but over time would enhance the prominence, independence and influence of the Bank rather than continue in a subservient position to the Treasury which, it was thought, would involve `further shackling of its power’ (Ibid).

This brief review of the externalization strategy of the late 1970s highlights three key issues. First, the Bank’s appraisal of how it might extend and restructure its activities was much more extensive and wide-ranging than is suggested in much of the existing literature on the role of the Bank in the postwar period (Elgie and Thompson, 1998). Second, Bank officials clearly understood that externalization would bring `depoliticisation’ benefits to the government of the day. As Leslie O’Brien, Governor until 1973, emphasized in a speech endorsing the Bank’s right to speak out in public, `a wise government will be aware that a central bank which is recognized to be more than that government’s mere creature can serve to deflect unpopularity from itself’ (BE*: 7A.127/1,* `The Independence of Central Banks’, Lord O’Brien of Lothbury, 1 November 1977). Thirdly, and most significantly for this article, it is clear that whilst the Bank sought a mechanism to enhance its `independence’, officials within the Bank recognized that the adoption of specific rule might limit rather than extend its influence. As O’Brien also clarified, `tinkering with the constitutional position of central banks, or hiving off some of their functions, whether to ivory towers or to impregnable monetarist citadels’ was no `economic panacea’ or necessarily of great benefit to the Bank (Ibid). Externalisation, by contrast, would be of mutual benefit inasmuch as the `legitimacy’ and `political will’ of elected governments would remain intact whilst the `independence’ of the central bank would be encouraged through the recognition of its right to `speak out in public with more force than is customary with most present day central bankers’ on a range of issues not only those falling within its particular field of expertise (Ibid). In developing the externalization strategy Bank officials were clearly articulating an early version of `signaling theory’ (Spence, 1973) suggesting that by emphasizing its expertise and distinctive orientation it would gain authority in both the official and the public eye. The `distancing effect’ of externalization would, it was thought, enhance both the effectiveness and the credibility of the signals sent by the Bank (on signaling and Bank independence in comparative perspective see Hall and Franzese, 1998).

Although the Bank’s assessment of the limits of constitutional change proved to be broadly accurate, Bank officials were persuaded from late 1977 to shelve the externalization strategy as the Bow Group held out the immediate prospect of greater independence under a Conservative government committed to rules rather than discretion in monetary policy (BE*: 7A.127/1*, `Bow Group Study on Monetary Policy’, Goodhart to Thornton, 22 July 1977). This view was bolstered by discussions held in the Bank in late 1977 with a number of Conservative MPs including Geoffrey Howe, Keith Joseph, John Nott, David Howell, Adam Ridley and John Biffen who further raised hopes that under a Conservative administration a tangible form of independence was within easy reach (BE: *7A.127/1*, `Meeting with Conservative MPs’, 1 September 1977). This of course proved fruitless under the Conservatives notwithstanding supportive interventions from a string of chancellors including Howe, Lawson, Lamont and Clarke (see Keegan, 2004; King, 2005; Patel, 2008).

1. **The Bank and the politics of operational independence**

In chronicling the Labour Party’s thinking on independence in the run-up to the 1997 General Election, William Keegan (2004, p. 163) emphasises that the main attraction for Ed Balls, who had advocated the idea since 1992, lay in bridging the `credibility gap’ between the short-term interests of politicians and the public interest in medium term stability. The day after the landslide victory, Brown was at the Treasury drawing up three proposals – operational independence for the Bank in respect of monetary policy, stripping the Bank of its responsibility for banking supervision and closing the Bank’s `Gilt-Edged Division (and with it responsibility for managing the government’s debt) (Conaghan, 2012, p. 26). Whilst Eddie George and Mervyn King readily endorsed the first proposal, the Governor threatened to resign over the second – which involved setting up the Financial Services Authority (FSA) - only apparently to be `talked back from the brink’ by a personal intervention from Blair (Conaghan, 2012, p. 33). In public, the official Bank view was celebratory, but many behind the scenes including the Bank’s chief expert on gilts viewed the restructuring as `an almost unmitigated disaster’ (Keegan, 2004, p. 183).

Monetary policy would now be set by a committee (MPC) of nine members, five from the Bank’s executive – the so-called internal members – and four external members. The MPC would, in theory, have complete discretion over decisions on monetary policy but its primary objective – an inflation target of 2 per cent – would be set by the Chancellor. In terms of accountability and transparency, the MPC would be answerable to the Treasury Select Committee of the House of Commons and through that to Parliament (Weale, 2015, p. 2). Furthermore, members of the MPC would be expected, via speeches and interviews with the press to `ensure that the process of monetary policy is accountable to the wider public’ (Treasury Select Committee report quoted in Weale, 2015, p. 3).

The original format of the MPC meetings involved a schedule of twelve meetings a year each divided into what former members Warsh (2014) and Weale (2015) refer to as a `deliberation meeting’ and a `discussion and voting meeting’ split over two days. This format has led, perhaps predictably, to a `smoothing’ of decision making with long periods of unanimity, limited dissent and rare instances of minority votes (Weale 2015, p. 4; Hix, Hoyland, Vivyan, 2007). Analysis of Bank data on `Voting on interest rates by the MPC’ shows that of the 216 meetings (as of July 2015) since operational independence there have only been two occasions on which the Governor’s preference has not prevailed (both under Mervyn King – in August 2005 and June 2007). Moreover there have been only ten instances of a five to four split in voting preference (derived from Bank of England, 2015a).

In terms of rate changes, the first decade of the MPC (referred to in Bank circles as the period of the `Great Stability’) was spent `agonising over whether to tweak the bank rate 25 basis points (0.25%) this way or that’ (Bean, 2012, p. 2). Although rates moved up marginally from May 1997 to June 1998 (and then again from August 2006 to July 2007) throughout the entire period of operational independence the rate has not exceeded 7.5% and of course since March 2009 has been kept at the all-time low of 0.5% (Bank of England, 2015b). If this situation is contrasted with rates under Thatcher (17% in November 1979 with a low of 7.3% for one month only in May 1998) it becomes clear that the MPC has so far not been tested in terms of making difficult decisions to increase rates significantly.

The institutional re-jigging associated with operational independence and the clearly stated objective to enhance credibility and minimise `political interference’ has led many political scientists to endorse a simple depoliticisation argument which stresses the benefits for the government in terms of off-loading responsibility for the management of this traditionally difficult policy area (Hay, 1999, 2007; Burnham, 2001; Flinders, 2008). However if we broaden our analysis to look at Bank, Treasury, and government relations a more complex picture emerges. Far from this form of `instrument independence’ (Bernanke, 2010, p. 2) reducing the capabilities of the Chancellor and the Treasury, and enhancing the prominence of the Bank, Dellepiane-Avellaneda (2013) makes a powerful case that it restricted the power of the Bank narrowing its remit solely to monetary policy. In essence, operational independence `liberated the Treasury’ which could now give up its day-to-day monitoring of interest rates and `concentrate on other levers of economic policy and the Government’s wider economic objectives’ (Balls and O’Donnell quoted in Dellepiane-Avellaneda, 2013, p. 288). Drawing on Clift and Tomlinson (2006), Dellepiane-Avellaneda (2013, p. 290) plausibly argues that by `binding’ the Bank, the Treasury was now in a freer position to exert greater control across government departments and in particular create space and clear authority for `fiscal activism’. From the point of view of the Bank, operational independence in theory promised greater authority particularly in the context of its previously ill-defined role and position in the state system (Chapman, 1970; Fforde, 1992). However, for the incoming government, the 1997 restructuring was motivated in part by the view that the Bank had been responsible for spectacular failures in banking supervision (Johnson Matthey in 1984 and BCCI in 1991) in addition to mismanagement that followed the Lawson boom and culpability for Black Wednesday (Keegan, 2004, p. 155). Tying the Bank to a particular role given in statute could in principle, release the Blair government from the `bankers’ ramp’ (Keegan, 2004, p. 155). It is no wonder that Mark Carney refers to 1997 as embodying a `flawed … reductionist vision of a central bank’s role’ – essentially focused on monetary policy alone – in contrast to a more expansionist `broader role’ (Carney, 2014a, p. 4).

1. **The Bank post-2007**

Under the terms of the 1998 Act, the Bank was nominally responsible for the stability of the financial system whilst the FSA had responsibility for the supervision of individual banks and other financial organisations. In 2006 a new Memorandum of Understanding (MoU) clarified this emerging relationship indicating that the role of the Bank was to `maintain a broad overview of the system as a whole’ and limit the risk of problems in particular institutions spreading to other parts of the financial system (Bank of England, 2006). However in the wake of the financial crisis it was clear that responsibility without power in the financial field left the Bank unable to act in accordance with the 1998 and 2006 agreements. Questioned in 2007 by the Treasury Select Committee on who bore responsibility for the crisis, King responded sardonically, `we are each responsible for the various responsibilities that we have been given under the MoU’ (King quoted in Conaghan, 2012, p. 152). A special release of Bank Court of Directors’ minutes from 2007-09 (Bank of England, 2015e), reveals that the 1998/2006 division of labour created a significant concern in terms of the monitoring of financial stability. The Bank was responsible for overall stability but the FSA bore responsibility for individual and market regulation including prudentiary risk. This raised the fundamental question, when does the emergence of such issues in a number of institutions became a collective issue which represents a systemic risk? (Bank of England, 2015e, Minutes, 12 September 2007). This `strategic gap’ essentially undermined the Bank’s role in monitoring systemic issues relating to financial stability. The Bank, however, has not avoided shouldering its share of responsibility for the crisis. The release of Bank minutes noted above (Bank of England, 2015e) reveals a catalogue of deficiencies at the Bank and in hindsight King has recently accepted in part the criticism often levelled by commentators such as William Keegan (2012) that the Bank sacrificed its mandate to control inflation on the altar of sustaining house price inflation in the context of `light touch’ regulation and excessive levels of risk in mortgage lending (Wintour, 2014).

The Banking Act 2009 extended the scope of the Bank creating a Special Resolution Regime to deal with distressed banks but as the financial crisis showed no sign of abating King publicly chastised Alistair Darling for still not giving the Bank the tools necessary for the job - `the Bank finds itself in a position rather like that of a church whose congregation attends weddings and burials but ignore the sermons in between’ (Conaghan, 2012, pp.192, 225). The Court of Directors’ minutes reveal significant conflict with the Treasury and the extent to which the Bank, ` had little appetite for an open-ended statutory objective such as 'maintaining and promoting financial stability', which would amount to different things for different people. That would leave the Bank in the same position as with the original Memorandum of Understanding’ (Bank of England, 2015e, Minutes, 12 March, 2008). Not only did King publicly argue that the Bank should regain full control of bank supervision and regulation he furthermore criticised the Labour government’s stance on fiscal policy and sought to wrestle control of quantitative easing away from the Treasury noting that this instrument and method `has been delegated to the Executive of the Bank by the Chancellor’ (Conaghan, 2012, p. 202).

The financial crisis also broadened the Bank’s approach to monetary policy taking it into `unconventional’ areas to include central bank asset purchases and initiatives such as the Funding for Lending Scheme (FLS) introduced in 2012 (Miles, 2015). The Asset Purchase Facility, set up in January 2009, essentially provided an additional tool for the conduct of monetary policy. Aimed at improving liquidity in credit markets through the purchase of assets financed by the issue of Treasury Bills – and later directly through central bank money - `quantitative easing’ represented a shift in the instrument of monetary policy (towards the quantity of money provided rather than its price) but not in the underlying objective of policy. To date, some £375 billion of assets have been purchased in an effort to restore confidence and provide a monetary stimulus to the economy (Bank of England, 2015c). The limited amount of evidence currently available suggests that the policy may have had some positive effects (mainly in terms of shoring up external credibility) but most studies conclude that `there is considerable uncertainty around the precise magnitude of the impact’ (Joyce, Tong and Woods, 2011, p. 211). In short, since the financial crisis, the Bank has used the quantity of reserves (in addition to the rate earned on them at the Bank) directly as a tool of monetary policy. This represents an extension of the Bank’s powers in the monetary field and, whilst sanctioned by the Treasury, is operationalised by the MPC.

King presided over the final unravelling of Brown’s quid pro quo for independence in the field of monetary policy in July 2010 as the Cameron coalition government unveiled a new framework for financial regulation (HM Treasury, 2012). The framework recognised the `failings’ of the tripartite system in respect of protecting financial stability and responded by placing the Bank `firmly in charge not only of preserving financial stability, but also leading the response when a crisis threatens stability’ (HM Treasury, 2012, p. 7). The Financial Services Act, which came into force on 1 April 2013, returned responsibility to the Bank for regulating the stability of the financial system, and set up three new bodies, `each with clarity of responsibility, a focused remit, appropriate tools and the flexibility to use them as they see fit’ (HM Treasury 2012, 6-7). FSA responsibilities for banking supervision were moved to a new regulator, the Prudential Regulation Authority (PRA), established as a wholly-owned subsidiary of the Bank. Set up on a similar basis to the MPC it is chaired by the Governor with five internal members and six external members with twice monthly formal meetings (Fisher, 2014, p. 3). In practice, the PRA is responsible for the regulation and supervision of around 1700 banks, building societies, credit unions, insurers and major investment firms (Fisher, 2014, p. 3). In 2014 it gained a new secondary objective, to promote effective competition in markets. Although prudential supervision may not attract as much interest as monetary policy, the legal powers of the PRA are extensive and include those relating to authorisation of firms and supervision and enforcement powers (institute criminal proceedings, impose financial penalties and publish public censures) (Bank of England: PRA, 2014). Remaining FSA responsibilities for consumer protection and conduct of business now fell under the remit of the new Financial Conduct Authority (FCA) which although established outside the Bank works alongside the PRA. Most significantly however, a new Financial Policy Committee (FPC) was established within the Bank to set `macro-prudential policy’ with powerful macro-prudential tools at its disposal approved by Parliament. Whilst the creation of the PRA is important indicator of government confidence in the Bank, it is the FPC that, in the words of Paul Fisher (Executive Director of the Bank) is `truly ground-breaking’ (Fisher, 2012). Created again on an organisational basis similar to the MPC with eleven voting members (five from the Bank and chaired by the Governor) it has a stated intention to reach consensus on decision making, publish minutes and record dissent (Fisher, 2012, p. 4).

The responsibility of the FPC is extremely wide and relates `to the identification of, monitoring of, and taking of action to remove or reduce, systemic risks with a view to protecting and enhancing the resilience of the UK financial system’ (Financial Services Bill, 2012). Of particular interest are the tools and levers that might affect financial stability and here the FPC favours those that firstly, affect balance sheets of financial institutions (capital or liquid asset ratios), secondly, those that affect the terms and conditions of loans (loan to value ratios), and thirdly, those that influence market structures (for example, obligations on derivatives contracts) (Fisher 2012, 8). The tools may be familiar (capital standards, liquidity requirements and supervisory oversight) but beyond its formal powers of direction, the recommendations it can make are extremely wide-ranging - `the FPC can make recommendations to pretty much anyone about anything that would help meet its objectives’ (Fisher, 2014, p. 7). The legacy of high indebtedness and structural imbalance in the UK economy has preoccupied the FPC since its creation (Kohn, 2013; Fisher, 2014). To guard against future financial crisis the FPC has recently been given powers to implement minimum `leverage ratio’ requirements (an indicator of a firm’s solvency – a ratio of its capital relative to a gross measure of its exposures) and to develop a new paradigm of financial crisis resolution ending `the scourge of Too-Big-To-Fail’ (Bank of England, 2014; Economic Affairs Committee Hearing, 2015). In this respect the FPC can wield `extraordinary powers over property rights’, enabling the Bank `to write down liabilities

of a failing bank and/or convert them to equity should its failure pose a risk to financial stability’ (Gracie, 2014).

The objective of maintaining financial stability is considerably wider than the MPC’s commitment to meeting inflation targets and for that reason the government is clear that the decisions of the FPC must be `taken independently of undue political influence; indeed, this is why the FPC has been given responsibility for macro-prudential supervision of financial services sector as an expert body in the Bank, independent of the Treasury’ (HM Treasury, 2012, p. 14). In this respect, as Stanley Fischer (2015) emphasises, the structure of the FPC ensures that the Bank is nearly fully independent with regard to financial stability (unlike the Federal Reserve which currently has simply been assigned responsibility of helping to ensure financial stability). As with the MPC, issues of accountability and transparency are high on the agenda of the FPC and place the committee at one remove from the Chancellor and the Treasury whose roles respectively, are to decide on the use of public funds and keep the public informed (HM Treasury, 2012, p. 110). In combination the MPC, FPC and the PRA represent a concentration of power and responsibility in monetary policy, macroprudential policy and microprudential supervision. Since the financial crisis the authority of the Bank has extended to cover responsibility for the UK’s bank notes, its payments systems, oversight of financial markets infrastructure and resolving failed institutions, in addition to its core roles in Europe, at the G20 and at the international Financial Stability Board – chaired by Carney (Carney, 2014a, p. 3).

1. **Conclusion: externalisation and the broader role of the Bank**

This article has sought to shift discussion of operational independence away from the usual focus on the benefits accruing to the government to analyse its impact on the Bank. Rather than accepting the orthodoxy (see Conaghan, 2012, p. 278) that instrument independence enhanced the role of the Bank it has built upon Dellepiane-Avellaneda (2013) to suggest that Brown’s aim was to contain and restrict the Bank whilst opening up new avenues for the Treasury. This much had already been predicted by Bank officials in the late 1970s responsible for articulating an alternative to operational independence in the form of an externalization strategy. This alternative approach to extending the role of the Bank was effectively shelved until 2007 when the financial crisis enabled senior Bank officials to begin to break out of the constraints imposed in 1997. For much of the postwar period, as former Deputy Governor Kit McMahon clarified, it was `very difficult for a Governor … to actually go out and criticize the Chancellor in a speech’ (Treasury and Civil Service Committee, 1993b, p. viii). Since 2007 not only has the balance of power in the state system slowly shifted in favour of the Bank, but it has become quite commonplace for Governors to assess and publicly criticize party positions and government policy. Mervyn King undermined much of the Blair/Brown administration’s attempt to escape responsibility for failures of policy by highlighting Labour’s culpability for Northern Rock, Bradford and Bingley and RBS. Removing banking supervision from the Bank’s portfolio and the setting up of the FSA came to haunt the closing days of the Labour administration but paradoxically it was the Bank that emerged from the financial crisis with increased power and responsibility.

King was also vocal and heavily criticized for his strong intervention in sensitive political debates on the morality of the culture of short-term profits and bonuses in the banking sector – in part directing his venom at George Osborne’s reluctance to act (Financial Times, 2010; Guardian, 2011). Similarly, the current Governor, Mark Carney, in office since July 2013, has maintained a strong public presence criticizing `unchecked market fundamentalism’ and suggesting that the Bank can considerably extend its remit with for example an `important role to play in supporting social welfare’ (Carney, 2014b). The current salience of the Bank within broader public discourse is not the sole prerogative of the Governor. Members of Bank committees now regularly present in public on issues of the day. Over seventy five speeches by Bank personnel were made (and made available to the public) in 2014 compared to four in 1997 (Bank of England, 2015d). The creation, within of the Bank, of the FPC and the PRA has effectively trebled the powers of the Bank and doubled the size of the institution (Carney, 2014c). The Bank’s `vast array of policy levers’ now extends beyond traditional monetary policy to encompass supervision and regulation of financial market infrastructures, acting as lender and market maker of last resort, designing and operating macroprudential tools and offering recommendations on core elements of financial reform and the resolution of failing financial institutions (Carney, 2014a, p. 14). For Carney (2014a, p. 11) this enlargement in the Bank’s responsibilities represents `a return to the broader role of the Bank of the past’ in a context characterized less by `esoteric politics’ (Moran, 1984) than by at least a commitment to a degree of transparency, openness and accountability (for example the release of Bank minutes covering 2007-09).

The strategy of externalization was originally conceived as an alternative approach to enhancing the status of the Bank. It remained dormant for almost thirty years until it became clear that operational independence had reduced the position of the Bank within the state system. The narrow conception of independence imposed on the Bank in 1997 has now been replaced by a broader view of its operations which includes an externalization dimension to increase its visibility in public discourse and foster its role as commentator on broader government policy. Advocates of externalization recognized that forms of operational independence are subject ultimately to political will (witness the Corbyn/McDonnell suggestions on revoking the mandate of the Bank (Financial Times, 2015)) whereas externalisation seeks to embed the Bank more broadly and more securely within the British political economy. Behind Brown’s attempt to `depoliticise’ monetary policy was a clear objective to constrain the Bank and subordinate its activities to a form of rigid rule following in the field of monetary policy. In somewhat paradoxical fashion the financial crisis provided the impetus for a reassessment of the role of the Bank within the state system enabling Bank officials finally to take steps to increase the political salience, prominence and authority of the Bank in areas well beyond conventional monetary management.

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