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Gordon Unbound: The Heresthetic of Central Bank Independence in Britain

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Abstract

This article combines theory and historical narratives to shed new light on the politics surrounding the making of central bank independence in contemporary Britain. Its central argument is that Gordon Brown's decision to rewrite the British monetary constitution in May 1997 constituted an act of political manipulation in a Rikerian sense. The institutional change involved can be conceptualized as a heresthetic move, that is, structuring the process of the political game so you can win. The incoming government removed a difficult issue from the realm of party politics in order to signal competence and enforce internal discipline in the context of a government that was moving toward the right. But building on Elster's constraint theory, the paper argues that the institutional reform was not a case of self-binding in an intentional sense. Rather, Brown adopted a precommitment strategy that was aimed at binding others, including members of his government. The reform had dual consequences: it was not only constraining, it was also enabling. The institutionalization of discipline enabled New Labour to achieve key economic and political goals. By revisiting the political rationality of precommitment, this paper questions the dominant credibility story underlying the choice of monetary and fiscal institutions.

‘The world has turned upside down. A Labour Government is elected and the new Chancellor's first move is to hand over control of macroeconomic policy to the Bank of England.’

The Times, 7 May 1997

‘One good way to understand the development of institutions is to analyze crucial turning points when people consciously try to change the way the institutions work.’

William Riker, ‘The Experience of Creating Institutions’, p. 122

Introduction

This paper looks at the politics surrounding a pivotal change in the rules of the game governing British political economy. On 6 May 1997, the newly elected Labour government surprised friends and foes by announcing that the power to set interest rates would be transferred from the Treasury to the Bank of England. Giving the Bank operational responsibility for setting interest rates should be seen as a seminal event. This momentous change in the ‘constitution of economic policy’[1] was regarded by Tony Blair as ‘the biggest decision in economic policy-making since the war’.[2] Many commentators went further and argued that the move was ‘the most significant shake-up at the Bank of England in its 300-year history’.[3] In hindsight, one might argue that central bank independence (CBI) in Britain was simply an idea whose time has come. Yet the paradox is that at the time nobody saw it coming. Although New Labour had signalled financial reform in its election manifesto, the issue was barely mentioned during the campaign. Indeed, ‘Brown got through fifty interviews and press conferences during the campaign without being seriously questioned over his plans for the Bank of England’.[4] Even the most perceptive journalists were astonished by Brown’s bold and unexpected move.[5] According to the *Financial Times*:

‘Labour’s election manifesto had seemed to suggest this momentous change in the conduct of economic policy was on a fairly distant horizon’.[6]

The adoption of central bank independence in Britain poses an explanatory puzzle: if independence is supposed to enable a central bank to resist pressures from elected politicians, why might those politicians have an incentive to establish independent

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[1] James Buchanan, ‘The Constitution of Economic Policy’, *American Economic Review* 3 (1997), 343-50.

[2] *The Times*, 7 May 1997.

[3] Paul Routledge, *Gordon Brown: The Biography* (London: Pocket Books, 1998), p. 298. See also *The Times*, 7 May 1997; *The Mirror*, 7 May 1997.

[4] Hugh Pym and Nick Kochan, *Gordon Brown: The First Year in Power* (Bloomsbury, 1998) p. 8.

[5] William Keegan, *The Prudence of Mr Gordon Brown* (Chichester: Wiley, 2004), Robert Peston, *Brown’s Britain* (London: Short Books, 2005).

[6] *Financial Times*, 7 May 1997.

central banks in the first place?[7] Britain is a crucial empirical case for interpreting competing theories of monetary governance. As Michael King shows, this institutional change does not sit well with theories based on structural changes in the global financial system, economic competition among states, or external coercion by international financial institutions.[8] More critically, this case defies the expectations of the partisan literature. This sweeping institutional reform was introduced by the Labour Party, which had nationalised the Bank in 1946, and whose constituents are not likely to prefer price stability over job creation. The Conservatives, the party representing business and financial interests, had resisted several attempts to introduce central bank independence in the period 1988-1997. This rapid constitutional transformation cannot be easily explained on the basis of existing theory such as North's notion of 'relative price shocks' or Schofield's concept of 'belief cascades'.[9]

The aim of this article is to provide a political economy account of the origins of central bank independence in Britain. As a point of departure, I assume that to remove monetary policy from the political sphere is a *political* act.[10] Given this assumption, this article stresses the strategic nature of institutional creation and assesses the role of political entrepreneurs in the process of institution-building. In particular, I will claim that William Riker's notion of *heresthetic* is a useful analytical tool for understanding the logic of institutional formation. I will focus on two mechanisms which I suggest were at work in the thinking of the 'founding fathers'.[11] First, building on Jon Elster's reformulation of his original thesis on 'Ulysses and the Sirens',[12] I will argue that precommitment strategies are about *binding others* rather than being acts of self-binding. Second, I will contend that institutional commitments

[7] John Goodman, 'The Politics of Central Bank Independence', *Comparative Politics*, 23 (1991): 329-30; Kathleen McNamara, 'Rational Fictions: Central Bank Independence and the Social Logic of Delegation', *West European Politics*, 25(2002): 47-76.
[8] Michael King, 'Epistemic Communities and the Diffusion of Ideas: Central Bank Reform in the United Kingdom', *West European Politics*, 28 (2005): 94-123.
[9] Douglass North, *Institutions, Institutional Change and Economic Performance* (Cambridge: Cambridge University Press, 1990); Norman Schofield, 'Evolution of the Constitution', *British Journal of Political Science*, 32 (2002): 1-20.
[10] Jon Elster, *Ulysses and the Sirens: Studies in Rationality and Irrationality* (Cambridge: Cambridge University Press, 1979).
[11] Following the convention in constitutional political economy, founding fathers refer to the core group of people playing a central role in the process of institutional framing.
[12] Jon Elster, *Ulysses Unbound: Studies in Rationality, Precommitment and Constraints* (Cambridge: Cambridge University Press, 2000).

fulfil not only constraining functions, but also *enabling* ones. By revisiting the political rationality of precommitment, I will shed new light on the credibility story underpinning the making of CBI in Britain. My account challenges economic narratives based on the idea of self-binding and complements political narratives constructed around the influence of epistemic communities and the benefits of depoliticization.

The paper proceeds by setting out an analytical narrative of Gordon Brown's decision to grant operational independence to the Bank of England. An analytic narrative seeks to convert descriptive historical accounts into analytical ones by using theoretically relevant language. Its basic methodological assumption is that 'theory linked to data is more powerful than either data or theory alone'.[13] The data come from the abundant secondary literature on New Labour's policies and politics. In line with McLean's advice,[14] the paper engages with the trade of the historian and analyses parliamentary debates, politicians' biographies and memoirs, hundreds of newspaper articles and media reports, and a wealth of lectures and policy speeches given by the key actors involved in the process. But satisfactory answers to complex empirical puzzles depend not only on the evidence available, but also on what we bring into the analysis.[15] Theory should guide empirical explorations.[16]

Case studies are not always good for testing theories. However, they are good for uncovering missing mechanisms, developing new ideas, and dealing with causal complexity.[17] This case study aims to contribute to the comparative literature on the political economy of monetary institutions.[18] Econometric studies do not reach a

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[13] Robert Bates, Avner Greif, Margaret Levi, Jean-Laurent Rosenthal and Barry Weingast, *Analytic Narratives* (Princeton, Princeton University Press, 1998), p. 3.
[14] Iain McLean, *Rational Choice and British Politics: An Analysis of Rhetoric and Manipulation from Peel to Blair* (Oxford: Oxford University Press, 2001).
[15] Graham Allison and Philip Zelikow, *Essence of Decision: Explaining the Cuban Missile Crisis (2nd Edition)* (New York: Longman, 1999).
[16] Colin Hay, *Political Analysis: A Critical Introduction* (Basingstoke: Palgrave, 2002).
[17] Dietrich Rueschemeyer, 'Can One or Few Cases Yield Theoretical Gains?', in James Mahoney and Dietrich Rueschemeyer, eds, *Comparative Historical Analysis in the Social Sciences* (Cambridge: Cambridge University Press, 2003); Alexander George and Andrew Bennett, *Case Studies and Theory Development in the Social Sciences* (Cambridge Mass.: MIT Press, 2005); John Gerring, *Case Study Research: Principles and Practices* (Cambridge: Cambridge University Press, 2007).
[18] See, e.g., William Bernhard, 'A Political Explanation of Variations in Central Bank Independence', *American Political Science Review*, 92 (1998): 311-28; William Bernhard, Lawrence Broz and Williams Roberts Clark, eds, *The Political Economy of Monetary Institutions* (Cambridge, Mass.: The MIT Press, 2003); Jonathan Kirshner, *Monetary Orders: Ambiguous Economics, Ubiquitous Politics* (Cornell University Press, 2003); Bumba Mukherjee and David Singer, 'Monetary Institutions,

consensus regarding the factors that determine the choice of monetary institutions, and cannot resolve disagreement about the precise processes by which politics affects the choice of these institutions.[19] Theories of institutional change are still underdeveloped, and game-theoretic models of credibility are too abstract for dealing with the nuances of historical situations. Happily, there is a rich variety of sources for New Labour's economic project, including the early move towards Bank independence. To date, few of these narratives have sought to draw implications from their observations of political behaviour. An analytically informed analysis of a seminal episode of institutional development may therefore have both empirical and theoretical value.

This article proceeds as follows. The first section reviews political economy theories of central bank independence, seeking to identify the puzzles of the British case. The second presents the theoretical framework of this paper, drawing ideas from the works of Elster and Riker. The third section discusses the economic and political context of the institutional reform. The fourth section offers an analytical narrative of the origins of central bank independence in Britain. Key findings and implications of this research are summarized in the conclusion.

Partisanship and Inflation Targeting', *International Organization,* 62 (2008): 332-358; Michael Hall, 'Democracy and Floating Exchange Rates', *International Political Science Review,* 29 (2008): 73-98.
[19] Bernhard et al., 'The Political Economy of Monetary Institutions', p. 28.

Britain's puzzling road to central bank independence

What explains the choice of monetary institutions in general and independent central banks in particular? An established literature has looked at the costs and benefits of alternative monetary regimes from an economic perspective.[20] The starting point of this approach is the macroeconomics of time-inconsistency. Time-inconsistency models point to the welfare losses that arise when a policy announced for some future period is no longer optimal when it is time to implement the policy. Economists have proposed institutional responses to the credible-commitment problem of time-inconsistent plans. Following Kydland and Prescott, some scholars have advocated 'rules rather than discretion' in the governance of monetary affairs.[21] Others have observed that 'credibility may be achieved by delegating powers to suitably designed institutions'.[22] For example, Giavazzi and Pagano discussed the advantages of handing over power to a conservative foreign bank.[23] In the same line, Rogoff argued that the right incentives could be generated by setting up an independent central bank that is staffed with inflation-averse officials.[24]

It is often assumed that there is a strong *economic* case for insulating central banks from the influence of elected politicians. However, Kathleen McNamara argues that this conventional wisdom should not be taken for granted.[25] On the one hand, some studies have found that high central bank independence (CBI) is correlated with low-

[20] See, among others, Alberto Alesina, 'Alternative Monetary Regimes: A Review Essay', *Journal of Monetary Economics*, 21 (1988): 175-86; Alan Drazen, *Political Economy in Macroeconomics* (Princeton: Princeton University Press, 2000); Torsten Persson and Guido Tabellini, eds, *Monetary and Fiscal Policy, Vol. 1: Credibility* (Cambridge, Mass.: The MIT Press, 1994); Lawrence White, *The Theory of Monetary Institutions* (Malden: Blackwell Publishers, 1999).
[21] Finn Kydland and Edward Prescott, 'Rules Rather Than Discretion: The Inconsistency of Optimal Plans', *Journal of Political Economy* 85(1977): 473-91.
[22] Giandomenico Majone, 'Public Policy and Administration: Ideas, Interests and Institutions', in Robert Goodin and Hans-Dieter Klingemann, eds, *A New Handbook of Political Science* (Oxford: Oxford University Press, 1997), at p. 61.
[23] Francesco Giavazzi and Marco Pagano, 'The Advantage of Tying One's Hands: EMS Discipline and Central Bank Credibility', *European Economic Review* 32 (1988): 1055-82.
[24] Kenneth Rogoff, 'The Optimal Degree of Commitment to an Intermediate Monetary Target', *Quarterly Journal of Economics*, 100 (1985): 1169-90. See also Alex Cukierman, *Central Bank Strategy, Credibility and Independence: Theory and Evidence* (Cambridge, Mass.: The MIT Press, 1992); Susanne Lohmann, 'Optimal Commitment in Monetary Policy: Credibility versus Flexibility', *The American Economic Review*, 82 (1992): 73-286; Alan Blinder, *Central Banking in Theory and Practice* (Cambridge, Mass.: The MIT Press, 1998).
[25] McNamara, *Rational Fictions*.

inflation performance, often at no costs in terms of output stabilization.[26] On the other hand, other scholars have shown that the apparent correlation between CBI and low inflation is not *causal.*[27] In fact, it is highly sensitive to measures of independence, the time period chosen, and especially to the countries included in the sample.[28] But even assuming that there is a strong economic case for choosing an independent central bank, the *political* logic of delegation remains a paradox. If independent central banks did nothing but limit the ability of governments to manipulate monetary policy for their own short-term gain, governments would never choose an independent central bank.[29] Delegation may be a way to achieving credible commitments.[30] But the core question remains: 'why did the same politicians who always preferred to have their hands on the monetary lever, suddenly opt to delegate such far-reaching powers to an independent technocratic institution?'[31]

A body of research has exposed the limitations of the economic approach. This literature questions the apolitical nature of traditional optimal currency area and time-inconsistency models, which rely on the unwarranted assumption that monetary choices are made by benevolent social planners motivated by welfare considerations. By neglecting the role of politics, the argument goes, approaches that focus solely on countries' structures or expected economic performance have little explanatory power to account for the observed pattern of currency arrangements.[32] Hence, a theory of monetary institutions should incorporate the 'political incentives and constraints that

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[26] Vittorio Grilli, Donato Masciandaro and Guido Tabellini, 'Political and Monetary Institutions and Public Financial Policies in the Industrial Countries', *Economic Policy,* 10 (1991): 342-92; Alberto Alesina and Lawrence Summers, 'Central Bank Independence and Macroeconomic Performance: Some Comparative Evidence', *Journal of Money, Credit and Banking,* 25 (1993): 151-62; Alberto Alesina and Roberta Gatti, 'Independent Central Banks: Low Inflation at No Cost?' *The American Economic Review,* 85 (1995): 196-200.

[27] Adam Posen, 'Declarations Are Not Enough: Financial Sector Sources of Central Bank Independence', *NBER Macroeconomics Annual,* 10 (1995): 253-74.

[28] McNamara, *Rational Fictions*; James Forder, 'Central Bank Independence: Reassessing the Measurements', *Journal of Economic Issues,* 33 (1999): 23-40. Other authors have found a trade-off between inflation and real variables. See Guy Debelle and Stanley Fischer, 'How Independent a Central Bank Should Be? *Working Papers in Applied Economic Theory* 94-05 (1994), Federal Reserve Bank of San Francisco; Sylvester Eijffinger and Jakob De Haan, 'The Political Economy of Central-Bank Independence', *Special Papers in International Economics* 19 (1996), Department of Economics, Princeton University. For a review of this literature see, Allan Drazen, *Political Economy in Macroeconomics* (Princeton: Princeton University Press, 2000).

[29] McNamara, *Rational Fictions,* p. 7.

[30] Fabrizio Gilardi, 'The Same, But Different: Central Banks, Regulatory Agencies, and the Politics of Delegation to Independent Authorities', *Comparative European Politics,* 5 (2007): 303-327.

[31] Majone, *Public Policy and Administration,* p. 617.

[32] Benjamin Cohen, *The Geography of Money* (New York: Cornell University Press, 1998).

shape governments' decisions on monetary institutions'[33] and acknowledge the fact that 'monetary phenomena are *always* and *everywhere* political'.[34]

Political economy accounts of variations in central bank independence can be divided into five groups of explanations. Firstly, *institutional* explanations claim that independent central banks tend to emerge in countries with a federal form of government and/or many veto players.[35] Secondly, *distributional* or *partisan* explanations contend that central banks should be more independent in countries where anti-inflationary social interests are powerful, and that conservative parties, more concerned about inflation than unemployment and redistribution, should be more likely to support the institutionalization of price stability.[36] However, an alternative and more counterintuitive partisan argument is that left-wing parties lacking anti-inflation credibility may choose CBI to signal a commitment to responsible economic policies.[37] Thirdly, *international ideational* accounts suggest that, in the context of increasing economic openness and capital mobility, national politicians have been forced to grant CBI in order to achieve market confidence by reassuring international financial markets.[38] According to this logic, the growing popularity of this regime is rooted in a process of social diffusion of (appropriate) organizational models led by influential epistemic communities.[39] Fourthly, *strategic* explanations argue that political actors establish monetary commitments to lock in the policy preferences of the enacting coalition,[40] address the problem of political

[33] Bernhard et al., *The Political Economy of Monetary Institutions*, p. 18.
[34] Jonathan Kirshner, *Monetary Orders*, p. 3.
[35] King Banaian, Leroy Laney and Thomas Willett, 'Central Bank Independence: An International Comparison', *Economic Review*, Federal Reserve Bank of Dallas, March (1983): 1-13; Arend Lijphart, *Patterns of Democracy* (New Haven: Yale University Press, 1999); Mark Hallerberg, 'Veto Players and the Choice of Monetary Institutions', in Bernhard et al., *The Political Economy of Monetary Institutions*.
[36] Goodman, 'The Political Economy of Central Bank Independence; Posen, 'Declarations Are Not Enough: Financial Sector Sources of Central Bank Independence'.
[37] Gian Maria Milesi-Ferretti, 'The Disadvantage of Tying Their Hands: On the Political Economy of Policy Commitments', *Economic Journal*, 105 (1995): 1381-1402; Geoffrey Garrett, 'Capital Mobility, Trade, and the Domestic Politics of Economic Policy', *International Organization*, 49 (1995): 657-87.
[38] Sylvia Maxfield, *Gatekeepers of Growth: The International Political Economy of Central Banking in Developing Countries* (Princeton, NJ: Princeton University Press, 1997), Schamis (2003).
[39] McNamara, *Rational Fictions*, p. 61.
[40] John Goodman, *Monetary Sovereignty: The Politics of Central Banking in Western Europe* (Ithaca: Cornell University Press, 1992); Susanne Lohmann, 'Federalism and Central Bank Independence: The Politics of German Monetary Policy, 1957-92', *World Politics* 50 (1998): 401-46; Delia Boylan, 'Preemptive Strike: Central Bank Reform in Chile's Transition from Authoritarian Rule', *Comparative Politic,s* 30 (1998): 443-62.

survival,[41] or to make it possible to shift the blame when something goes wrong.[42] Finally, *integrative* approaches to the politics of central banking examine the interaction of international, national and micro-institutional incentives.[43]

The British case appears to defy conventional theories regarding the adoption of central bank independence.[44] To start with, governments of unitary countries with few veto players have little incentives to support a politically independent central bank.[45] This case also contradicts partisan and interest-group explanations. While the Labour Party surprisingly instigated this flagship neo-liberal reform in 1997, the powerful City of London, which was meant to be among the key winners of this institutional change, did not take the lead in the constitution-making process. Given that decisions over interest rates were bound to have significant distributive effects, it is also striking that neither the business community nor the Bank of England itself actively lobbied for independence. Finally, the British experience is not consistent with the most popular strategic argument, which contends that monetary commitments are used to constrain future governments.

At first glance, this case offers support to the hypothesis that politicians hand over policy tools to signal credibility to financial markets. Yet even though the binding implications of open markets featured strongly in the way the founding fathers perceived their own interests, the British road to independence was dominated by domestic considerations.[46] King argues that while the diffusion of ideas through epistemic communities is the key mechanism explaining central bank reform in Britain, 'policy failure and paradigm innovation are insufficient conditions for the

[41] William Bernhard, *Banking on Reform: Political Parties and Central Bank Independence in the Industrial Democracies* (Ann Arbor: University of Michigan Press, 2002); William Bernhard and David Leblang, 'Political Parties and Monetary Commitments', in Bernhard et al., *The Political Economy of Monetary Institutions*, pp. 111-38.
[42] Cukierman, *Central Bank Strategy, Credibility and Independence*; Elster, *Ulysses Unbound*.
[43] Lucia Quaglia, 'An Integrative Approach to the Politics of Central Bank Independence: Lessons from Britain, Germany and Italy', *West European Politics*, 28 (2005): 549-68; Lucia Quaglia, *Central Banking Governance in the European Union: A Comparative Analysis* (New York: Routledge, 2008).
[44] Michael King, 'Epistemic Communities and the Diffusion of Ideas'; Michael Tager, 'Central Bank Independence: A Research Note on the Case of the United Kingdom', *The Social Science Journal*, 44 (2007), 359-66.
[45] Mark Hallerberg, 'Veto Players and the Choice of Monetary Institutions', p. 95.
[46] King, *Epistemic Communities and the Diffusion of Ideas*; Quaglia, 'An Integrative Approach to the Politics of Central Bank Independence; Robert Elgie and Helen Thompson, *The Politics of Central Banks* (London: Routledge, 1998).

adoption of new ideas by politicians'.[47] Politicians' *incentives* for adopting ideas have to be accounted for. King's argument is that 'Bank of England independence provided electoral gains for New Labour by making the party more attractive to voters. In particular, this policy was designed to win the support of homeowners that represent the median voter in the British context'.[48] King's account is compelling, but it is not without problems. Had electoral considerations been central, the decision would have been taken before the election, not after. Moreover, the process of policy learning was less than straightforward. Ed Balls, for many the real intellectual father of the reform,[49] used to believe that an independent central bank was the right instrument for 'escaping' rather than strengthening monetarism.[50]

The move towards central bank independence was entirely consistent with one of the defining governing strategies of the Blair government, the politics of *depoliticization*. In a path-breaking work, Peter Burnham claimed that by granting operational independence in the area of monetary policy to the Bank of England, New Labour could off-load responsibility for unpopular policies and enhance its much-needed governing competence in the eyes of both markets and voters.[51] Burnham correctly assumes that depoliticization is an intensely political process. He is also right in underlining the role of economic competence. However, our argument is that the founding fathers were more interested in enforcing governing competence *through time* than in signalling economic responsibility. At the same time, it is likely that the blame avoidance argument has been overstated. Some scholars suggest that, given the British constitutional settlement, trying to shift the blame through policy delegation is not always the best strategy.[52] There is little evidence suggesting that blame avoidance was a key motivation influencing this institutional change. King argues that 'the British case supports the hypothesis that an epistemic community of monetary experts has the ability to influence policy *if they can convince a key*

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[47] King, *Epistemic Communities and the Diffusion of Ideas,* p. 115.
[48] King, *Epistemic Communities and the Diffusion of Ideas,* p. 115.
[49]According to Peston, 'the young Balls deserves as much credit –probably more- than anyone else for the creation of the modern Bank of England'. Peston, *Brown's Britain*, p. 118.
[50] Ed Balls, *Euro-Monetarism: Was Britain Was Ensnared and How It Should Escape* (London: Fabian Society, 1992).
[51] Peter Burnham, 'New Labour and the Politics of Depoliticisation', *British Journal of Politics and International Relations*, 3 (2001): 127-49. See also Peter Burnham, 'The Politicisation of Monetary Policy-Making in Postwar Britain', *British Politics*, 2 (2007): 395-419; Jim Buller and Matthew Flinders, 'The Domestic Origins of Depoliticisation in the Area of British Economic Policy', *British Journal of Politics and International Relations,* 7 (2005): 526-44.
[52] Elgie and Thompson, *The Politics of Central Banks*.

politician to champion this reform'.[53] This implies that the *incentives* of those key politicians, the constitution-makers, should be at the centre of the analysis. Was the Bank of England reform really about signalling economic competence and appealing to the median voter? Was it really about shifting the blame for unpopular decisions? To what extent were the founding father constrained by the actions and expectations of influential epistemic communities? In short, what were the microfoundations of this radical institutional change?

These reflections suggest that the political economy of monetary governance has a critical analytical gap, namely its isolation from the rich theoretical literature on institutions. It is striking, for example, that most scholars writing about the political economy of monetary institutions and the politics of central banking in Britain in particular make practically no reference to the works of leading political economists such as Douglass North and William Riker.[54] In the next section, I will draw some lessons from the political of institutions research tradition.

Analytical tools: heresthetic and constraint theory

'The key for understanding the process of change is the *intentionality* of the players enacting institutional change and their *comprehension* of the issues'

Douglass North, *Understanding the Process of Economic Change*, p. 3

Why do institutions emerge? Rational-choice scholars conceptualize institutions as negotiated solutions to problems of coordination and cooperation.[55] But we should not neglect an important part of the story: *political institutions are also weapons of coercion and redistribution*. They are the structural means by which political winners pursue their own interests, often at great expense to political losers.[56] Institutions are not usually created to be socially efficient; they are created 'to serve the interests of

[53] King, *Epistemic Communities and the Diffusion of Ideas*, p. 113, emphasis added.
[54] Similarly, mentions to the works of Schofield, Shepsle, Tsebelis and Weingast are exceptional.
[55] Robert Bates, 'Contra Contractarianism: Some Reflections on the New Institutionalism', *Politics & Society*, 16 (1988): 387-401, Randall Calvert, 'The Rational Choice Theory of Social Institutions: Cooperation, Coordination and Communication', in Jeffrey Banks and Eric Hanushek, eds, *Modern Political Economy* (Cambridge, Cambridge University Press, 1995), pp. 216.
[56] Terry Moe, 'Political Institutions: The Neglected Side of the Story, *Journal of Law, Economics, and Organizations*, 6 (1990): 215-53, at p. 213.

those with bargaining power to create new rules'.[57] Moreover, they are products of 'struggles among unequal actors'.[58] If institutions have distributional effects, the 'politics of structural choice'[59] should be rigorously investigated. If there is a systematic relationship between institutions and outcomes, a political actor 'may operate on the cause in order to modify its effects'.[60] In this context, the politics of institutional change can be analysed from the perspective of heresthetic.

Heresthetic

'Heresthetic…may not happen as often as Riker claims, but when it does, it matters'
Iain McLean, *Rational Choice and British Politics*, p. 556

Heresthetic is the art of political manipulation. It is about 'structuring the world so you can win'.[61] This concept is used in electoral politics to describe the strategy of bringing about a new alternative to divide an existing majority, upsetting the prevailing equilibrium. As a case in point, Abraham Lincoln famously split and then defeated a solid Democratic majority by introducing a new dimension of political competition, that is, slavery. Political scientists mainly focus on the way electoral equilibria are broken by increasing or fixing dimensionality. But Riker's lessons are more general. Skilful herestheticians outmanoeuvred political adversaries by redefining political situations, reframing policy alternatives, manipulating agendas, voting strategically, and changing the process by which collective decisions are taken.[62] Indeed, heresthetic is essentially 'the art of constructing choice situations so as to be able to manipulate outcomes'.[63] In Riker's words, it is about:

[57] Douglass North, 'Economic Performance Through Time', *American Economic Review,* 84 (1994): 359-68, at p. 360.
[58] Paul Pierson and Theda Skocpol, 'Historical Institutionalism in Contemporary Political Science', in Ira Katznelson and Helen Milner, eds, *Political Science: The State of the Discipline* (New York: Norton, 2002). On the distributional implications of institutions, see also Jack Knight, *Institutions and Social Conflict* (Cambridge, Cambridge University Press, 1992).
[59] Moe, *Political Institutions*.
[60] George Tsebelis, *Nested Games: Rational Choice in Comparative Politics* (California, University of California Press, 1990), p. 97. See also William Riker, 'Implications from the Disequilibrium of Majority Rule for the Study of Institutions', *American Political Science Review,* 74 (1980), 432-46.
[61] William Riker, *Liberalism Against Populism* (Waveland Press, 1988).
[62] Riker, *Liberalism Against Populism*. For an excellent account of heresthetic, see Iain McLean, 'William H. Riker and the Invention of Heresthetic(s)', *British Journal of Political Science* 32 (2002): 535-38. See also Albert Weale, 'Social Choice Versus Populism: An Interpretation of Riker's Political Theory', *British Journal of Political Science,* 14 (1984): 369-85.
[63] Schofield, 'The Evolution of the Constitution'.

'Setting up situations...in such a way that even those who do not wish to do so are compelled by the structure of the situation to support the heresthestician's purpose'.[64]

One of the key arguments of this paper is that heresthetic is also about the strategic manipulation of institutions. Social decisions are made by aggregating the opinions of relevant people. New institutionalism contends that social outcomes depend as much on the procedure of aggregation as on the tastes of participants. If institutions mediate the relationship between preferences and outcomes, it is always possible to manipulate outcomes by redesigning institutions. In this context, the logic of heresthetic can inform the politics of institutional change.[65] In certain moments of history, the introduction (or elimination) of dimensions involves the manipulation of institutional structures, as actors struggle to shape the mechanisms transforming preferences into outcomes in order to prevail in future political contests. Hence, heresthetical manoeuvres are a source of institutional change. However, while some politicians are strong on heresthetic, others not.[66] We will see that this issue played a key role in explaining the evolution of bank independence in Britain.

The concept of heresthetic is also a reminder that political agency matters in the process of institutional change. One way of incorporating agents into a model of institutional origins is to look at the behaviour of 'political entrepreneurs', who engage in institution building to make profits.[67] Transforming institutions is costly though. Political entrepreneurs must invest time and energy in the design of institutions from which they seek to secure political gains. In the reminder of this section, we will discuss two types of motivations: (1) the notion of binding others and (2) the enabling functions of institutional precommitments.

[64] William Riker, *The Art of Political Manipulation* (New Haven: Yale University Press, 1986), p. 9.
[65] William Riker and David Weimer, 'The Political Economy of Transformation: Liberalization and Property Rights', in Banks and Hanushek, *Modern Political Economy*, pp. 80-108; Norman Schofield, 'Constitutional Political Economy: On the Possibility of Combining Rational Choice Theory and Comparative Politics', Center of Political Economy Washington University, St. Louis, Missouri, 2000.
[66] McLean, *Rational Choice and British Politics*.
[67] Norman Frohlich, Joe Oppenheimer and Oran Young, *Political Leadership and Public Goods* (Princeton: Princeton University Press, 1971); Itai Sened, 'The Emergence of Individual Rights', in Jack Knight and Itai Sened, eds, *Explaining Social Institutions* (Michigan: The University of Michigan Press, 1995), pp. 161-89.

From self-binding to binding others

'In politics, people never try to bind themselves, only to bind others'

Jon Elster, *Ulysses Unbound*

The idea of *self-binding* is omnipresent in the credibility-based narratives explaining the choice of monetary arrangements. Several scholars have employed the metaphors of tying one's hands and burning own ships to describe the pre-commitment options available for achieving credibility in strategic interaction.[68] These metaphors have been widely applied to account for the evolution of fiscal and monetary commitments.[69] Correspondingly, Ulysses' self-binding logic is often used to explain the rise of independent central banking. As one expert put it:

> 'Perhaps the principal reason why central banks are given independence from elected politicians is that the political process is apt to be too shortsighted. Knowing this, politicians willingly and wisely cede day-to-day authority over monetary policy to a group of independent central bankers who are told to keep inflation in check…The reasoning is the same as Ulysses': He knew he would get better long-run results by tying himself to the mast, even though he wouldn't always feel very good about it in the short run!'[70]

The abusive use of the self-binding rhetoric leads to misleading interpretations of the political logic of institutional solutions to problems of credible commitment. Moreover, scholars writing on monetary commitments seem to be unaware of Elster's important U-turn on the rationale of self-binding. In *Ulysses Unbound*, he explicitly revisits and reformulates some of the key arguments of his influential *Ulysses and the Sirens*. In particular, he argues that: 'the transfer of concepts used to study individuals to the behaviour of collectivities, as if these were individuals writ large, can be very misleading'. For one thing, '*constitutions may bind others rather than being acts of self-binding*'.[71] By removing the assumption that governments are unitary actors, Elster now claims that precommitment devices, like granting central bank independence, are not self-binding in an *intentional* sense. On the contrary, many

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[68]Elster, *Ulysses and the Sirens*; Avinash Dixit and Barry Nalebuff, *Thinking Strategically*, New York: Norton, 1991); Kenneth Shepsle, 'Discretion, Institutions and the Problem of Government Commitment', in Paul Bourdieu and James Coleman, eds, *Social Theory for a Changing Society*, (Boulder: Western Press, 1991).

[69] Giavazzi and Pagano, 'The Advantage of Tying One's Hands'; Milesi-Ferretti, 'The Disadvantage of Tying Their Hands'; Douglass North and Barry Weingast, 'Constitutions and Commitments: The Evolution of Institutions Governing Public Choice in 17th Century England', *Journal of Economic History* 19 (1989), 803-32; Hilton Root, 'Tying the King's Hands: Credible Commitments and Royal Fiscal Policy during the Old Regime, *Rationality and Society*, 1 (1989), 240-58.

[70] Blinder, *Central Banking in Theory and Practice*, pp. 56-61, emphasis added.

[71] Elster, *Ulysses Unbound*, p. 92, emphasis added.

alleged cases of self-binding institutions turn out, on a closer inspection, to confirm the dictum that in politics 'people want to bind others, not themselves'.[72]

More formally, Elster shows that self-binding entails the following four analytical options: (1) An agent A binds the same agent A (of course, most of the times A needs assistance from B to bind himself); (2) An agent B imposes a constraint on an agent A because A has asked him to do so; (3) An agent B binds A because B believe that A *would have asked* to be bound had he known all the facts about the case and been capable of making an informed decision; and (4) A person bind himself merely for the purpose of creating a constraint that will also limit the freedom action of others.[73] It is the last of these options that provides the most useful framework for understanding the Britain's path to independence. By strategically delegating power, Gordon Brown did not want to bind himself. Instead, the institutional choice was meant to constrain potential challengers while simultaneously increasing the capacity of the Treasury to control other departments' plans, enabling Brown to play a more powerful role than any previous Chancellor.

Enabling political institutions

'Common sense suggests that it is always preferable to have more options than fewer…very often common sense fails... Sometimes it is simply the case that less is more; people may benefit from being constrained.'

Jon Elster, *Ulysses Unbound*

By reading too much into the self-binding metaphor, most works on credibility overestimate the *constraining* dimension of institutional commitments. Institutional constraints are not only about limiting power. Indeed, the democratic paradox of constitutional pre-commitment is that constraints can be power-enhancing. As James Madison famously claimed, constraints can promote freedom. In this context, Stephen Holmes argues that 'precommitments are not disabling, but enabling'.[74] In Douglass North's terms, institutions reduce the transaction costs of certain exchanges by increasing the costs of engaging in certain forms of (undesirable) behaviour.

[72] Elster's research on constitution-making in post-communist societies might have shaped his view on this issue. Jon Elster, Claus Offe and Ulrich Preuss, *Institutional Design in Post-communist Societies: Rebuilding the Ship at Sea* (Cambridge: Cambridge University Press, 1998).
[73] Elster, *Ulysess Unbound*, p. 276-7.
[74] Stephen Holmes, 'Pre-commitment and the Paradox of Democracy, in Jon Elster and Rune Slagstad, eds, *Constitutionalism and Democracy* (Cambridge: Cambridge University Press, 1988), p. 215.

This dialectic relationship between the constraining and enabling features of government commitments refers to Thomas Schelling's classic thesis: in strategic bargaining 'weakness is often strength'.[75] This enabling function reinforces the benefit-side of the ruler's equation. Herestheticians are not seduced by discipline per se, but rather by the profits attached to the institutionalisation of discipline.

Some classic works on political economy support the proposition that *less is more* in the creation of commitments through institutions. For example, North and Weingast show that a 'fiscal boom' was one of the outcomes of the constitutional reforms that took place during the Britain's Glorious Revolution.[76] Hilton Root's research on France's historical political economy also emphasises the enabling implications of tying one's hands. He wrote: 'the King supported the expansion of corporate society because corporate institutions enabled him to obtain credit'.[77] We will see below that the logic of enabling political institutions can also inform the evolution of Gordon Brown's prudence. In a curious way, the strategy of constrained discretion ended up liberating rather than binding the Treasury. The government was able to exploit unprecedented political and financial opportunities, creating the conditions for significant increases in government spending.

The context of institutional choice

The overriding aim of central bank independence is to induce low and stable levels of inflation. British inflationary history has been problematic. During the so-called post-war settlement, governments put the emphasis on demand management through fiscal means with monetary policy performing a subordinate, supporting role.[78] The stagflation of the mid-1970s dislocated this framework. Inflation reached record levels in 1975, as Britain was particularly hit by the dismantling of the Bretton Woods system and oil crisis. The dramatic failure of traditional income policies to provide an adequate response to the new reality, epitomized in the IMF crisis of 1976 and the winter of discontent of 1978/9, brought about a 'new politics' and a 'new

[75] Thomas Schelling, *The Strategy of Conflict* (Cambridge: Harvard University Press, 1981), p. 22.
[76] Douglass North and Barry Weingast, 'Constitutions and Commitments'.
[77] Hilton Root, 'Tying the King's Hands', p. 241.
[78] Wyn Grant, *Economic Policy in Britain* (Basingstoke: Palgrave, 2002).

policy paradigm'.[79] In the context of the Thatcher revolution, the conquest of inflation – rather than unemployment – became the government's new priority. Inflation was eventually controlled, helped by structural changes. However, endless disputes over monetary and exchange-rate policy (e.g. the quarrel between fixers and floaters) were one of the dominant features of the Conservative years.[80] In the event, the ERM crisis of 1992 raised serious questions about both the consistency and appropriateness of Britain's monetary framework.

It is certainly tempting to explain the origins of central bank independence in Britain as the predictable outcome of its traumatic monetary history and politics of economic decline. However, this conclusion would be misleading. The shock in relative prices of the mid-1970s critically challenged the core beliefs underpinning the post-war British model of political economy. This belief cascade in turn led to a radical change in the institutional foundations of economic policy. Actually, Britain experienced a 'movement from a Keynesian mode of policymaking to one based on monetarist economic theory'.[81] It should be pointed out though that CBI was one *among a range* of monetary commitments that might have been consistent with monetarism and the rational-expectations revolution.[82] And indeed the Conservatives sought alternative mechanisms to anchor their anti-inflation strategy, including money supply limits, external commitments and inflation targets.[83] The founding fathers were also aware of the available options. In the words of Ed Balls, economic adviser to Gordon Brown:

> 'Of course, there is more than one route to stability for countries and regions – and different successful models of central bank independence – depending on their history, institutions and track record'.[84]

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[79] Andrew Gamble, *The Free Economy and the Strong State: The Politics of Thatcherism* (London: Macmillan, 1988); Peter Hall, 'Policy Paradigms, Social Learning, and the State: The Case of Economic Policymaking in Britain', *Comparative Politics*, 25 (1993): 275-96.
[80] Nigell Lawson, *The View from No. 11* (London: Bantam Press, 1992); Margaret Thatcher, *The Downing Street Years* (London: Harper Collins Publishers, 1993); Norman Lamont, *In Office* (London: Little Brown, 1999); John Major, *The Autobiography* (Harper Collins Publishers, 1999); Philip Stephens, *Politics and the Pound* (London: Macmillan, 1996).
[81] Hall, *Policy Paradigms, Social Learning, and the State*, p. 283.
[82] This argument draws from Sandholtz's brilliant analysis of Maastricht. See Wayne Sandholtz, 'Choosing Union: Monetary Politics and Maastricht', *International Organization*, 47 (1993): 1-39.
[83] See Lawson, *The View from No. 11;* Grant, *Economic Policy in Britain*.
[84] Ed Balls, 'Delivering Economic Stability', Speech by the Chief Economic Advisor to the Treasury to the Oxford Business Alumni Annual Lecture, 12 June 2001; Ed Balls and Gus O'Donnell, *Reforming Britain's Economic and Financial Policy* (London: Palgrave, 2002).

This argument also applies to the role of globalization. Many authors stress the importance of the processes of Europeanization and internationalization for explaining New Labour's policy formation.[85] It is probably true that globalization has created constrains on autonomous and discretionary economic policy,[86] on the one hand, and incentives for delegation in the name of credibility, on the other. It is also probably true that New Labour's leaders consciously sought to adapt to the pressures imposed by economic integration, financial liberalization and heightened capital mobility.[87] However, it should be noted again that alternative institutional configurations, other than central bank independence, might have been consistent with the imperatives of globalization.

Political economists largely focus on changes in *economic* relative prices to explain the emergence of fiscal and monetary rules. But *political* relative prices are important as well. New Labour faced powerful political incentives, both electoral and coalitional, to endorse the main tenets of the neo-liberal consensus in an attempt to recapture the political centre of British politics.[88] Colin Hay shows that economic policy in general and monetary policy in particular were key elements of New Labour's reckless 'politics of accommodation'.[89] Labour had to overcome the problem of being seen as the party of devaluation, inflation and high taxation.[90] In a bid to signal that the party had learned the hard lessons of the past, its 1997 manifesto committed to macroeconomic stability, control of inflation and fiscal prudence.

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[85] Mark Wickham-Jones, *Economic Strategy and the Labour Party* (Basingstoke: Macmillan, 1996); Mark Wickham-Jones, Mark, 'New Labour in the Global Economy: Partisan Politics and the Social Democratic Model', *British Journal of Politics and International Relations*, 2 (2000): 1-25; Colin Hay, *The Political Economy of New Labour* (Manchester: Manchester University Press, 1999); Simon Lee, *Best for Britain? The Politics and Legacy of Gordon Brown* (Oxford: Oneworld, 2007).
[86] Yet Garrett demonstrates that national governments enjoy more freedom than suggested by the globalization thesis. See Geoffrey Garrett, *Partisan Politics in the Global Economy*, Cambridge: Cambridge University Press, 1998).
[87] Colin Hay, *The Political Economy of New Labour*.
[88] See, among others, David Sanders, 'Conservative Incompetence, Labour Responsibility and the Feel-Good Factor: Why the economy failed to save the Conservatives in 1997?' *Electoral Studies*, 18 (1999): 251-70; David Coates and Peter Lawler, eds, *New Labour in Power* (Manchester: University of Manchester Press, 2000); Anthony Heath, Roger Jowell and John Curtice, *The Rise of New Labour* (Oxford: Oxford University Press, 2001); Harold Clark, David Sanders, Marianne Stewart and Paul Whiteley, *Political Choice in Britain* (Oxford: Oxford University Press, 2004).
[89] Hay, *The Political Economy of New Labour*.
[90] Lee, *Best for Britain?*

Critically, Labour proposed ‘a robust and stable framework of monetary and fiscal discipline’.[91]

The adoption of central bank independence in Britain cannot be fully explained by looking only at the economic and political underpinnings of New Labour, as most analysts implicitly do. At most, the structure of incentives described above affected the rational-choice calculations of the institutional framers by providing *the context of decision*. Those factors might have made possible a range of feasible options. They are hardly *the essence of decision*. Important puzzles remain. Why didn’t CBI, one of the flagship institutions of neo-liberalism, emerge during the height of conservative hegemony? Why didn’t this radical institutional change coincide with the rise of financial interests and the monetarist paradigm? If Blair and Brown wanted to use CBI to signal competence through repositioning, why didn’t they announce this radical reform before the election? In order to answer these questions, we should focus on the beliefs and motivations of the founding fathers.

Bank of England reform as heresthetic

‘The power to constrain an adversary may depend on the power to bind oneself…freedom may be freedom to capitulate, and to burn bridges behind one may suffice to undo an opponent’.

Thomas Schelling, *The Strategy of Conflict*, p. 22

Evolution? No, heresthetic!

‘My intention is to lock into our policy making system a commitment to consistently low inflation in the long term.’

Gordon Brown, ‘Remit for the Monetary Policy Committee’

Actors maximize their goals by either changing their strategies under giving rules or by changing the institutions that transform their strategies into outcomes. Most of the time they do the former, but they may occasionally do the latter. They attempt to shape political outcomes by manipulating the rules of the game. As the many examples included in Iain McLean’s *Rational Choice and British Politics* show:

‘Once in a while there comes a politician who sees further than the others. Such a politician can see opportunities where others do not, in opening up or closing down political dimensions. This may lead to the enactment of radical and unexpected policies. It may turn a

[91] Hay, *The Political Economy of New Labour*, p. 126. See also Tony Blair, ‘The Economic Framework for New Labour’, in Forrest Capie and Geofrrey Wood, eds, *Policymakers on Policy: The Mais Lectures* (London: Routledge, 2001), pp. 103-22.

persistently losing coalition into a winning coalition. It may save a party whose social base is eroding. It may protect a party from overstretch'.[92]

Institutional reform is always an outcome of both evolution and design, a complex interaction of continuity and change, a blend of the old and the new. The making of central bank independence in Britain was not an exception. For some, it was a bold and radical reformulation of the monetary constitution. For others, it was simply the consolidation of the monetary arrangements introduced by Lamont following the ERM fiasco of 1992. In a lecture given to mark the first ten years of the Bank of England's Monetary Policy Committee, Mervyn King, in his capacity of Governor of the Bank of England, played around the ambiguity between evolution and design as he claimed that,

'although the announcement in 1997 of independence for the Bank of England was a bolt from the blue, it was a long time in the making'.[93]

However, in the very same paragraph King added that 'granting independence to the Bank of England was the dramatic constitutional change that convinced financial markets of the United Kingdom's conversion to stability as the basis of macroeconomic policy' and that the decision was 'both unexpected and far-reaching'. In another lecture given in 1999, King argued that 'the Monetary Policy Committee has broken new ground in British constitutional history. In its three hundred year history probably no change has been as significant as operational independence and the creation of the Monetary Policy Committee'.[94] According to Eddie George, this sweeping reform transformed the old Bank of England into the 'The New Lady of Threadneedle Street'.[95] Detailed analysis of yield curves on UK government bonds also showed that Brown's announcement on 6 May 1997 was 'a complete surprise to the financial markets'.[96] It is evident that the key players perceived this reform as a *turning point*, a radical departure from existing practices and traditions.

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[92] McLean, *Rational Choice and British Politics*, p. 231.
[93] Mervyn King, 'The MPC Ten Years On', Speech of the Governor of the Bank of England to the Society of Business Economists, 2 May 2007.
[94] Mervyn King, 'The MPC Two Years On', Lecture at Queen's University Belfast, 17 May 1999. See also Mervyn King, 'The MPC Five Years On', Speech delivered to the Society of Business Economists, at the Royal College of Pathologists, London, 22 May 2002.
[95] Eddie George. 'The New Lady of Threadneedle Street', *Bank of England Quarterly Bulletin*, 38 (1998): 172-8.
[96] Jagjit Chadha, Peter Macmillan and Charles Nolan, 'Independence Day for the 'Old Lady': A Natural Experiment on the Implications of Central Bank Independence', *Manchester School* 75 (2007): 311-27. In a way, Brown 'misled' the markets, as he had hinted that any decision on independence

Evolutionary accounts of the politics of central bank independence in Britain suggest that this was simply an idea whose time had come.[97] But Brown's largely unforeseen decision to move swiftly towards granting operational independence to the Bank of England was nevertheless hailed as 'an audacious stroke', 'a political masterstroke', a 'revolutionary move', 'a pre-emptive and brilliantly orchestrated manoeuvre'.[98] The always well-informed Andrew Rawnsley argued that 'expert and inexpert opinion agreed that Brown had pulled off an astonishing *coup de théâtre* and a strategic masterstroke'.[99] This pivotal decision, not mentioned explicitly in the party manifesto,[100] was announced only five days after the election. More tellingly, Brown deliberatively waited until the eve of polling day to discuss with Blair his intention to go for an early announcement of CBI. According to Rawnsley, this was partly tactics: 'it would give Blair little time to consult others who might be cool about the idea'.[101] It was both striking and illuminating that this decision – for many the biggest change in economic policymaking since the war – was not discussed in the Cabinet, let alone referred to a formal consultation process. As Brown thought that making the move quickly was essential, the project was presented to Eddie George on a take-or-leave-it basis.[102] This 'great political coup'[103] had all the fingerprints of heresthetic.

Iain McLean argued that the decisions to cede control over interest rates and to establish the golden rule to borrow only for government's capital spending were indeed 'heresthetic moves'.[104] He suggested that the key motive behind the move was to avoid the blame when the economy goes wrong. The depoliticization literature has also assumed that New Labour surrendered control over monetary policy to evade

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'would have to follow an assessment of the Bank's long-term track record in giving policy advice'. *The Times*, 7 May 1997.

[97] See especially Sucheen Patel, 'An Independent Bank of England: The Political Process in Historical Perspective', *Public Policy and Administration*, 23 (2008): 27-41.

[98] *The Economist*, 5 October 1997; *The Mirror*, 7 May 1997; *The Independent*, 7 May 1997.

[99] Andrew Rawnsley, *Servants of the People: The Inside Story of New Labour* (London: Hamish Hamilton, 2000), p. 37.

[100] The manifesto pledged 'to ensure that decision-making on monetary policy is more effective, open, accountable and free from short-term manipulation'. Labour Party, 'New Labour, New Life for Britain' (London: Labour Party, 1996). For antecedents of this policy, see also Gordon Brown, 'Labour's Economic Approach', Speech on 17 August 1993; Gordon Brown, 'Labour's Macroeconomic Framework', Speech to the Labour Finance and Industry Group, 17 May 1995.

[101] Rawnsley, *Servants of the People*, p. 31.

[102] Rawnsley, *Servants of the People*.

[103] William Keegan, *The Prudence of Mr Gordon Brown*, p. 199.

[104] McLean, *Rational Choice and British Politics*, p. 229.

responsibility for unpopular decisions such as interest rate increases.[105] Indeed, this motivation of avoiding the blame loomed large in both media analyses and parliamentary debates. And as might be expected, it was one of the preferred lines of argument used by Conservative MPs in the House of Commons. As Mr Lilley put it:

> 'the Bill is yet another example of the Government's desire to remove power from the House and from elected representatives and give it away to appointed officials. They want to escape the blame for difficult decisions'.[106]

Blame avoidance might have been one of the motives of the group around Gordon Brown. However, the strategic implications of the decision to surrender key tools for managing the economy were much broader. Heresthetic is about restructuring games to achieve political ends. Brown sought to reconstruct British political system by manipulating the institutions of economic decision-making. By removing monetary policy from the realm of party competition (fixing dimensionality in Riker's analytics), Brown could achieve vital strategic aims. For one thing, he was able to consolidate his reputation for economic competence by sending the ultimate signal to the markets. For another, he bought a powerful institutional insurance for enforcing internal discipline and policy cohesiveness in the context of a coalition of groups within the Labour Party that was moving towards the right.

It is widely accepted that Brown moved promptly towards independence in order to reassure markets about New Labour's modern and business-friendly economic framework. This idea was surely in the mind of the founding fathers, who certainly use independence to signal a decisive break with the 'old dogmas of the past'.[107] But this strategic decision was not only about signalling change; it was mainly about *enforcing* change over time. Essentially, the institutional change aimed at reshaping the structure of the political economy game. The real objective was to enforce a new paradigm of economic policy. In his 2005 Mansion House speech, Brown said: 'in the 1950s Britain managed decline, then in the 1960s we mismanaged decline and then in the 1970s we declined to manage. And our stop- go history is now legendary - so much part of our psychology that it was essential in 1997 to start a new chapter by

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[105] Burnham, *New Labour and the Politics of Depoliticisation*.
[106] House of Commons, *Hansard*, 11/11/97.
[107] Gordon Brown, 'Statement by the Chancellor on the Central Economic Objectives of the New Government', 6 May 1997.

making the Bank of England independent'.[108] In the same spirit, Balls admitted that the early move to independence provided,

'a unique opportunity to reshape the objectives, institutions and practice of British macroeconomic policy'.[109]

William Keegan concluded his insightful chapter on the Bank of England reform with the following words: 'the battleground simply moved'.[110] This is precisely what heresthetic is all about; it is about reframing the rules of decision-making, and by implication, shifting the parameters of political competition. By changing dimensionality, the institutional framers sought to induce a more consensual approach to economic policy-making, attacking the roots of the pervasive conflicts of the past. Constitutional change was not only concerned with credibility, but also with legitimacy. According to Balls, 'the new framework had to be capable of rebuilding and entrenching public support and establishing a new cross-party political and parliamentary consensus for long-term stability – a new consensus about goals and a new consensus about the institutional arrangements needed to deliver those goals'.[111] Brown believed that institutionalizing a new consensus was needed for moving beyond the 'endless and sterile divisions between capital and labour, between state and market and between public and private sectors'.[112]

Gordon Brown is not a typical heresthetician. Political entrepreneurs, who are active in the game of framing institutions, are usually people who strongly believe in the political power and the mediating role of institutions. Brown's policies did not seem to be informed by the institutions-do-matter mantra. Actually, Brown's interest in heresthetic comes from a different source, namely his ability and propensity to 'think and act strategically'.[113] As Keegan put it, 'the MPC episode brought out Brown's strategic and long-term approach'.[114] Other commentators point out that the Chancellor was determined to make Labour's conversion *irreversible*. Stephen argues that 'if a single, overriding, feature defined the economic policy of the first Blair

[108] Gordon Brown, 'Chancellor's Speech at the Mansion House', 22 June 2005.
[109] Ed Balls, 'Delivering Economic Stability'.
[110] Keegan, *The Prudence of Mr Gordon Brown*, p. 171.
[111] Ed Balls, 'Stability, Growth and UK Fiscal Policy', Speech at the Inaugural Ken Dixon Lecture, Department of Economics, University of York, 23 January 2004.
[112] Brown, 'The Conditions for Full Employment'.
[113] Robert Peston, *Brown's Britain*, p. 91.
[114] Keegan, *The Prudence of Mr Gordon Brown*, p. 169.

government, it was the Chancellor's construction of permanent monetary and fiscal frameworks to keep it in the path of virtue'.[115] In Brown's own words:

> 'Improving the institutional arrangements for economic policy will be accorded a high priority by the government in order to deliver long term economic stability and rising prosperity'.[116]

In hindsight, it appears that Brown had clear incentives to alter the dimensionality of the economic policy game by shifting decision-making power from Whitehall to the Square Mile. But this begs the further question as to why this did not happen before? An article in the *Financial Times* nicely captured the reaction of the City. It stated: 'Mr Gordon Brown's decision to give the Bank of England operational autonomy may have been unexpected. But it is welcome. *It should have been taken by the Tories*'.[117] And indeed this radical institutional change should have been championed by the Conservatives in the name of sound money, financial stability and wage restraint. The Tories could have also delivered a pre-emptive strike and moved strategically towards independence just before leaving office. This would have locked in the interests of the Conservative coalition, just as Pinochet did in order to constrain the Chilean democratic transition. Intriguingly, they failed to do so. Why?

Paths not taken

In the period 1988-1997, the Conservative governments of Thatcher and Major seriously considered but eventually rejected a number of proposals for central bank independence.[118] On November 1988, Chancellor Lawson sent a memo to Prime Minister Thatcher, proposing an independent Bank of England. The PM and the Chancellor had famously clashed over interest rates. In her memoirs, Mrs. Thatcher recalled: 'I was always more sensitive to the political implications of interest rates rises – particularly their timing…Prime Ministers have to be. I was also acutely conscious of what interest rate changes meant for those with mortgages… I was cautious about putting up interest rates unless it was necessary'.[119] In this context, Lawson contended that independence would strengthen the use of monetary policy to

[115] Stephen, *The Treasury Under Labour*, p. 189.
[116] Gordon Brown, 'Letter from the Chancellor to the Governor', 6 May 1997. Printed in *Bank of England Quarterly Bulletin*, 37(3), August 1997.
[117] *Financial Times*, 7 May 1997, emphasis added.
[118] For a detailed discussion of these proposals, see Patel, 'An Independent Bank of England'; Elgie and Thompson, *The Politics of Central Banks*.
[119] Thatcher, *The Downing Street Years*, p. 698.

fight inflation, making the commitment to stable prices a permanent feature of British economic policy. He also argued that the change would enhance government's ability to resist electoral pressures. Interestingly, he also pointed out strategic considerations:

'I was anxious above all to entrench our counterinflationary commitment and policies against the vagaries of future governments, possibly of a different political complexion'.[120]

The proposal was turned down by Mrs. Thatcher, who believed that monetary policy, interest rates and the value of the pound were not technical affairs; they were rather at the heart of economic policy, if not quintessential to democratic politics.[121] Paradoxically, heresthetic considerations were probably behind her decision. She might have calculated that removing monetary issues from party political competition was bound to benefit Labour. According to Peston, a senior official of that government confessed that 'she recognized that such a move would reduce the electorate's fear of a Labour government'.[122] A deliberate 'non-decision' of this sort was probably one of the motivations. However, *cognitive* considerations played a crucial role as well. Would-be institutional reformers should be confident about the political power of institutions. Margaret Thatcher did not seem to share this belief. In her own words:

'My reaction was dismissive…I do not believe that changing well-tried institutional arrangements generally provides solutions to underlying political problems –and the control of inflation is ultimately a political problem'.[123]

Chancellor Lamont and Prime Minister Major also clashed over monetary policy. Major wished to see interest rates 'as low as possible, but my frustration was with delays in implementing cuts that were to be taken'.[124] Following his predecessor, Lamont also proposed making the Bank of England independent.[125] But Major, like Thatcher, also rejected the move. Major recalled: 'Norman…wanted to grant independence to the Bank of England. I disliked this proposal on democratic grounds, believing that the person responsible for monetary policy should be answerable for it in the House of Commons. I also feared that the culture of an independent bank would ensure that interest rates went up rapidly but fell only slowly'.[126] Again,

[120] Lawson, *The View from No. 11*, p. 871.
[121] Thatcher, *The Downing Street Years*.
[122] Peston, *Brown's Britain*, p. 144.
[123] Thatcher, *The Downing Street Years*, p. 706-7.
[124] Major, *The Autobiography*, p. 676.
[125] Lamont, *In Office*, p. 325.
[126] Major, *The Autobiography*, p. 675. The debate continued during Ken Clarke's chancellorship. Major stated that: 'Like Norman, he [Ken Clarke] favoured an independent Bank of England, but,

dimensionality seemed to be an issue. According to Lamont, one of the reasons why Major objected to CBI was because 'people were frightened how Labour would handle monetary policy and he didn't want to remove that fear'.[127] Lamont launched a futile counterattack:

'I said there were some indications that Labour might move in the direction of independence, but the PM wouldn't budge. Reluctantly I had to forget the idea' (Lamont 1999: 325).

The Conservatives were trapped in a strategic conundrum. While some key players (notably Lawson and Lamont) were persuaded about the potential gains of central bank independence, other players (notably Thatcher and Major) failed to see the benefits of removing monetary policy from the space of political competition. A further dimensionality problem undermined the position of the advocates of reform. Many observers viewed central bank independence as a step towards Europe, always a divisive issue within the Conservative coalition.[128]

This analysis of the paths not taken stresses the role of Tony Blair as a founding father of central bank independence. The conventional wisdom is that the decision was Brown's and that Blair was simply notified of the change, rather than seriously contributing to it.[129] However, the incoming Prime Minister could have emulated its predecessor and vetoed the proposal. By acquiescing to Brown's strategy, he played a key role in the process of institutional formation. According to Rawnsley, Blair liked the boldness of the plan and enthused by the political dividend of winning the instant approval of the City.[130] The reform was also consistent with many of Blair's declared aims: appealing to the radical centre, disciplining the Labour party through modernization, and strengthening the centre of government.[131]

This discussion reveals the limitations of evolutionary accounts of institutions based on relative price shocks or policy learning. There is a tendency to see bank independence as the end of a continuum that started with the 1992 ERM debacle. Yet nothing was *inevitable*. As Peston argues: 'if the Tories had won the 1997 election,

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cheerfully noting that there was 'not a snowball's chance in Hades' that I would agree, he merely chipped away at me by adding to the Bank's authority without conceding full independence' (682).

[127] Lamont, *In Office*, p. 325.

[128] And indeed the idea that central bank independence would be a step towards EMU was an important theme in media reports during May 1997.

[129] Peston, *Brown's Britain*, p. 68. See also Keegan, *The Prudence of Mr Gordon Brown*.

[130] Rawnsley, *Servants of the People*, p. 31.

[131] Peter Riddell, 'Blair as Prime Minister', in Anthony Seldon, ed, *The Blair Effect* (London: Little, Brown & Company, 2001), pp. 21-43.

they would not have given independence to the Bank'.[132] The making of central bank independence in Britain stresses that, using Douglass North's language, institutional change requires both *intentionality* and *comprehension* of the issues. The evolution of relative price shocks and ideas created opportunities for change. But crucially, those opportunities were seized by the decisive action of a group of strategically-oriented politicians. On the other hand, some groups that would eventually profit from the institutionalization of discipline failed to take decisive steps to promote change, probably because they did not perceive the ultimate benefits of the reform.

The following anecdote highlights the importance of intentionality. Having made the decision about Bank of England reform very soon after the election, Brown, who had only quite recently been converted to the independence cause,[133] called Lamont to reveal his plans. When Lamont picked up the phone, he heard Brown saying: 'we have decided to take your advice'. Lamont commented that 'it wasn't my advice of course, *it was their own decision*.[134] He probably felt intellectually satisfied, but politically outplayed. The Conservatives enforced the monetarist paradigm in Britain, but ironically failed to deliver one of its flagship institutions. Ultimately, they were outmanoeuvred by their political opponents. By deciding to play the CBI card, New Labour unambiguously signalled their competence on issues of economic management and thereby radically reshaped the structure of the economic policy game.

The parliamentary debate over the 1998 Bank of England Act suggests that Brown's bid to manipulate dimensionality was successful. The Conservatives looked disconcerted. Mr. Lilley claimed that: 'controlling inflation by interest policy is a technical matter than cannot simply be handed over to a group of experts. It involves considerable discretion, and that discretion affects people's livelihoods, their jobs, the value of their savings, the viability of their businesses and the burden of their debts'.[135] Former Chancellor Ken Clarke argued that 'hitting the inflation target can

[132] Peston, *Brown's Britain*, p. 148.
[133] Brown's determination to implement this reform was reinforced by a conversation he had with the Chairman of the US Federal Reserve, Alan Greenspan, on 20 February 1997. See Peston, *Brown's Britain*, p. 128. On the role of Greenspan, see Keegan, *The Prudence of Mr Gordon Brown*, p. 156.
[134] Lamont, *In Office*, p. 326, emphasis added.
[135] House of Commons, *Hansard*, 11 Nov 1997.

be damaging to the levels of unemployment and growth'.[136] Clifton-Brown complained that 'bankers are always cautious. The proposal is therefore likely to be deflationary'.[137] Surreally, the Tories were favouring discretion and concerned about the implications of the reform for growth and unemployment. The heresthetic manoeuvre definitively turned the world upside down.[138]

In order to maximize support, herestheticians engage in the 'strategic use of rhetoric'.[139] This proved to be the case during the Bank of England reform. While most nonpartisan commentators cited the experiences of New Zealand, the US and above all Germany to illustrate the potential payoffs of independence, Brown preferred to frame the reform as 'a British solution to meet British needs'.[140] He also claimed that 'this is a long-term policy for long-term prosperity'[141] and that 'the new monetary arrangements will form part of our wider strategy to improve the performance of the British economy in the long term'.[142] So much for the long term. As Lord Keynes reminded us, in the long run we are all dead. What about the short-term gains of this institutional reform? Herestheticians would prefer not openly talk about them. But they are vitally important nonetheless.

Gordon Unbound: the politics of self-binding revisited

Self-binding? No, binding others!

'I am cutting the politicians and the politics out of setting interest rates'
Gordon Brown, *The Sun*, 7 May 1997

Economists tend to emphasise the welfare gains of institutional precommitments. However, they rarely discuss the political rationale of voluntary self-binding. Why, and under which conditions, a self-interested politician willingly sacrifices freedom

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136 House of Commons, *Hansard*, 11 Nov 1997.
137 House of Commons, *Hansard*, 11 Nov 1997.
138 The Tories sought to limit the damage by claiming that independence was the first step towards EMU. According to a Conservative MP: 'The fourth, and in many ways most important, reason for the change is to prepare the way for Britain to enter a single European currency managed by a European central bank that will be wholly independent of any form of democratic control'. Sir Tapsell, House of Commons, *Hansard*, 11 Nov 1997.
139 William Riker, *The Strategy of Rhetoric* (New Haven: Yale University Press, 1996).
140 Gordon Brown, 'The Chancellor's Statement to the House of Commons on the Bank of England', 20 May 1997. Printed in the *Bank of England Quarterly Bulletin*, 37(3), August 1997.
141 Brown, 'The Chancellor's Statement to the House of Commons on the Bank of England'.
142 Gordon Brown, 7/5/1997.

of action in favour of technocratic institutions? Politicians adopt precommitment strategies *only if* they can realize effective political profits.

Gordon Brown and his advisers claimed that the new institutional arrangements would enhance significantly the 'credibility of UK monetary policy'.[143] Credibility is an elusive concept though. It is partly about promoting macroeconomic consistency by realigning inter-temporal incentives. But credibility also has important political dimensions. After all, the strategy of Ulysses applied to the design of monetary institutions is 'to entrust economic policy to persons that will not be tempted by the Sirens of partisan politics'.[144] This means that the pressures undermining the credibility of economic policies stem from the dynamics of public opinion and the demands of intra-party coalition-building. Governments are not unitary actors. And they are constantly faced with severe common-pool resource problems.

There are two competing arguments about the political dimension of credibility. On the one hand, Bernhard suggests that bank independence sought to increase cabinet stability by removing intra-party conflicts over monetary policy.[145] On the other hand, King claims that the British case does not provide support to the coalitional hypothesis because 'only a few leftists remained in the Labour party… [so] Blair and Brown did not fear a threat from Labour backbenchers against their policies'.[146] In the light of the empirical evidence, Bernhard's case carries greater weight. The heresthetic move was perceived by it proponents within the Labour Party as a political weapon for enforcing policy changes and party discipline in a coalition moving right. King's position is not entirely consistent with the large scholarship on the cognitive and political underpinnings of New Labour. A consistent view emerges from this literature that Blair and Brown were *obsessed* with exorcising the past and strengthening the grip of the core executive. As Philip Stephens clearly put it:

'The failure of his party's past loomed large. Brown had seen too many Labour Chancellors lurch from profligate post-election boom to fatal pre-election bust. Stability, rules, discipline, prudence, transparency: the mantras were more than election slogans. They were the means by which the New Labour government would exorcise the past. The party, as Blair would often remind his colleagues, had never secured two full terms in office. It had foundered

[143] Brown, 'Letter from the Chancellor to the Governor'; Brown, 'The Chancellor's Statement to the House of Commons on the Bank of England'.
[144] William Nordhaus, 'The Political Business Cycle', *Review of Economic Studies* 42 (1975): 169-90.
[145] Bernhard, *Banking on Reform*.
[146] King, *Epistemic Communities and the Diffusion of Ideas*, p. 112.

instead on the rocks of successive economic crises. Stafford Cripps in 1948, James Callaghan in 1967, Denis Healey in 1976- all had been humiliated by the financial markets. The sterling crises in those years had been symptom as much as a cause of the failure of self-discipline. Subsequent elections defeats were proof that the Labour way of governing had been bad politics as well as bad economics'.[147]

Since 1994, the architects of New Labour promoted radical programmatic, organizational and symbolic changes aimed at signalling an unmistakable break with the past.[148] Moreover, they endorsed a reckless politics of accommodation, even at the risk of overshooting the position of the median voter.[149] Notwithstanding its large parliamentary majority, the newly elected leaders wanted to avoid the fate suffered by past Labour governments. Andrew Rawnsley's books show that Blair and Brown were obsessed with proving their competence by pleasing the markets and finding ways of enforcing internal discipline. This thinking shaped the politics of central bank independence. As Ed Balls confessed:

'Establishing and retaining credibility is important for any central bank or government – but particularly for a new government from a political party which has been out of power for almost two decades and which has seen substantial changes in its party constitution and policy in a short space of years'.[150]

Self-binding is the dominant narrative in most accounts of bank independence in Britain. As an article put it, 'by tying his hands to an independent monetary policy, Mr Brown should be able to avoid those perennial financial crises that have bedevilled previous Labour governments'.[151] Tying *his* hands? Actually this was not an act of self-binding in an *intentional* sense. Moreover, this self-binding rhetoric is at odds with conventional views regarding Gordon Brown's decision-making style. Brown had a determination to maximize his authority at the expense of others.[152] This apparent paradox regarding Brown's behaviour can be resolved by realising that governments are not unitary actors, but coalitions of conflicting interests and ideas. Once we move from the logic of individual to collective choice, precommitment strategies are about binding others, rather than acts of self-binding. By formally tying

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[147] Philip Stephens, 'The Treasury Under Labour', in Anthony Seldon, ed, *The Blair Effect*, p. 186.
[148] Anthony King et al., eds, *New Labour Triumphs: Britain at the Polls*, Chatham, NJ: Chatham House; Philip Gould, *The Unfinished Revolution: How the Modernisers Saved the Labour Party* (Abacus, 1998); Paul Webb, *The Modern British Party System* (London: Sage, 2000); Heath et al., *The Rise of New Labour;* Thomas Quinn, *Modernising the Labour Party: Organisational Change Since 1983* (London: Palgrave Macmillan, 2004).
[149] Hay, *The Political Economy of New Labour*.
[150] Ed Balls, 'Open Macroeconomics in an Open Economy', *Scottish Journal of Political Economy*, 45 (1998): 113-32.
[151] *The Independent*, 7 May 1997.
[152] Stephens. *The Treasury Under Labour*, p. 188.

his hands, Brown really intended to bind others.[153] Following Elster's logic, he formally bound himself merely for the purpose of creating a constraint that would also limit the freedom of action of others.

Then, whose hands? The markets and the media supported the move because they fully understood that the reform aimed at binding politicians, including sectors of Brown's own party. The Chancellor did not hide this intention. In several speeches, he argued that 'interest rate decisions will be free from any political influence' and that 'we must remove the suspicion that short-term party political considerations are influencing the setting of interest rates'.[154] In a speech at the CBI national conference, Brown pleased the audience by saying that: 'the perception that monetary policy decisions have been dominated by short-term political considerations has grown. I believe we are agreed it is right to take these decisions out of politics, and to free them from short-term political pressures'.[155] Stephens also highlights that 'at the core of Brown's approach was the conviction that Britain's sad record of postwar economic mismanagement showed that politicians could not be trusted'.[156]

Which politicians were targeted by the strategic move? *The Sun* pointed, maliciously, to Old Labour: 'Brown's brilliant bid to defy Lefties'.[157] An article in *The Guardian* also argued that the reform 'cuts the new government adrift of all the Old Labour expectations like public sector unions expecting favours. In future the chancellor will be able to say it's not within his power to make special cases: the Bank rules'.[158] In the same line, Mr Lilley claimed: 'they want to remove any influence from Labour Back Benchers, whose demands for higher spending and laxer policy have wrecked every previous Labour Government'.[159] Another Conservative MP stated:

'The Chancellor and his senior colleagues must hope that the change will provide him with a defence against his Back Benchers, who will not be as cringing in their parliamentary behaviour as they have been so far. When things start to go wrong on the economic front, as undoubtedly they will in the nature of things, and when unemployment starts rising, as

[153] It is also worth stressing that structural inflation (and hence interests rates) in major capitalist economies was much lower in the late 1990s. This means that the issue of who controls interests was less contentious than in the past. This factor might have also affected Brown's decision. Balls sacrifices were actually trivial.
[154] Gordon Brown, 'Chancellor's Speech at the Mansion House', 12 June 1997.
[155] Gordon Brown, 'Chancellor's Speech at the CBI National Conference, 10 November 1997.
[156] Stephens, *The Treasury Under Labour*, p. 186.
[157] *The Sun*, 7 May 1997.
[158] *The Guardian*, 7 May 1997.
[159] House of Commons, *Hansard*, 11 November 1997.

undoubtedly it will at some point in the cycle, I hope that Labour Back Benchers will not allow themselves to be bought off with the excuse that the measures causing unemployment are not in the control of the Government but are the responsibility of the hard-hearted people on the Monetary Policy Committee of the Bank of England.'[160]

Stories about left-leaning Labour MPs' discontent over the reform attracted some attention, mainly during the debate of the Bank of England Act. In the House of Commons, Diane Abbott complained that: 'It was remarkable to see a Labour government elected in triumph with the biggest majority since the war, within days…hand over one of the most important levers of economic policy to an unelected quango'.[161] According to Mr Austin Mitchell, the institutional choice implied that:

'The Government are now giving up power to an oligarchy whose interest point in the opposite direction of those of the people.'

The Old Labour issue has probably been overstated. The politics of interest rate setting in Britain is uniquely complex.[162] We should remember that Thatcher and Major (not exactly Lefties), concerned about the reaction of small businesses and people with mortgages, were too willing to accommodate demands for lower interest rates.[163] In the US and even in pro-stability Germany, politicians and central bankers have also engaged in fierce arguments about monetary policy.[164] We should also remember that governments face pervasive collective action problems which compromise sound public finances. One journalist argued that 'the chancellor has armed himself with a potent new reason to resist demands from spending ministers'.[165] The intellectual master of the reform was fully aware of the importance of protecting the Chancellor from civil servants and other ministers. In his now famous *Euro-Monetarism*, Balls argued:

'No one has mastered the art of boom-bust economics better than the British Treasury…Power to set monetary policy remains in the hands of government ministers and unaccountable Treasury civil servants who seem to be able to live on despite their errors, while hapless Chancellors take the blame'.[166]

[160] Sir Peter Tapsell, House of Commons, *Hansard*, 11 November 1997.
[161] House of Commons, *Hansard*, 11 November 1997.
[162] On this important issue, see Elgie and Thompson, *The Politics of Central Banks*.
[163] See Lawson, *The View from No. 11*; Lamont. *In Office*; Thatcher, *The Downing Street Years*; Major, *The Autobiography*.
[164] Bob Woodward, *Maestro: Greenspan's Fed and the American Boom* (New York: Simon & Schuster, 2000); David Marsh, *The Bundesbank: The Bank That Rules Europe* (Mandarin, 1993).
[165] *The Economist*, 5 October 1997.
[166] Balls, *Euro-Monetarism*, p. 16.

Brown not only faced pressures from party insiders and spending ministers, but also demands from interest groups. One of his biographers explained that 'his study of twentieth-century had convinced him that good policies and ideas were often derailed by interests groups and the pressures of the moment…This conclusion permeated his entire strategy'.[167] The group around Brown knew that pressures would not not only be exerted by the unions, who tend to be the usual suspects. Business interests could also exert strong pressure on Chancellors. Richard Lambert, CBI's Director General, repeatedly demanded the Bank of England to keep interest rates as low as possible to support economic activity.[168] The new Chancellor had strong reasons for trying to bind vested interests through political manipulation. In doing so, he was also constraining the Tories, which would find it more difficult to strategically use their influence over market actors to bully the Labour government.

Interest group dynamics were also important because a commitment to increasing productivity was one of the pillars of New Labour's political economy[169] and CBI would be inextricably linked to the politics of wage bargaining.[170] *Euro-Monetarism* provided an interesting discussion of Britain's poor record of wage restraint. Balls argued that wage restraint should be a central element of a non-monetarist economic policy. He stated: 'the independent central bank should pay, and state that is paying, particular attention to the rate average earnings inflation in setting monetary policy. If employers and workers ignore the public interest and push settlements higher, then the Bank would have to raise interest rates'.[171] In his 1999 Mais Lecture, Brown outlined New Labour's approach to industrial relations:

'The Bank of England have to meet an inflation target of 2.5 per cent. The target has to be met. Unacceptably high wage rises will not therefore lead to higher inflation but higher interest rates. It is in no one's interest if today's pay rise threatens to become tomorrow's mortgage rise. So wage responsibility - to rescue a useful phrase from a woeful context- is a price worth paying to achieve jobs now and prosperity in the long term. It is moderation for a purpose.'[172]

[167] Keegan, *The Prudence of Mr Gordon Brown*, p. 245.
[168] *The Times*, 25 July 2006.
[169] Ed Balls, 'Open Macroeconomics in an Open Economy'; Gordon Brown, 'The Conditions for High and Stable Growth and Employment', *Economic Journal*, 111 (2001): 30-44.
[170] Torben Iversen, Jonas Pontusson and David Soskice, *Unions, Employers and Central Banks* (Cambridge: Cambridge University Press, 2000).
[171] Balls, *Euro-Monetarism*, p. 23.
[172] Gordon Brown, 'The Conditions for Full Employment', The Mais Lecture by the Chancellor of the Exchequer, 19 October 1999.

Constraining? No, enabling!

'Central bank independence liberated the Treasury'

Ed Balls, *Delivering Economic Stability*

Binding others was clearly a powerful incentive in the calculation of the founding fathers. But the institutionalization of discipline involved other political benefits. According to Elster, precommitment is justified 'because, rather than merely foreclosing options, it makes available possibilities which would otherwise lie beyond reach'.[173] This is Schelling's old lesson: in bargaining, weakness is often strength. Robert Peston, in his authoritative *Brown's Britain,* brilliantly captured this strategic dimension of the institutional move. He argues:

'Brown's eureka was to recognize that *less is more*, that to give up some responsibilities - notably the control of interest rates, but also important areas of financial regulation, such as oversight of insurance companies – would reinforce the powers that matter'.[174]

Peston's remarks refer to the paradox of institutional precommitment. As Holmes argues, a voluntary abdication of power can be power-enhancing. Self-binding institutions are not only constraining; they are also enabling.[175] Brown was not necessarily persuaded by the constraining, but he was surely keen on the enabling. Ironically, he bought some real freedom by sacrificing some formal powers. One effect of the reform was 'to give Brown and the Treasury greater independence from Downing Street and far greater authority over other departments'.[176] As Lee put it, 'by ceding responsibility for monetary policy to the Bank of England's Monetary Policy Committee (MPC), the Treasury was given the space and opportunity to intervene, in a way unprecedented in peacetime, in economic and social policy. The creation of the MPC made possible the new developmental role for the Treasury'.[177]

The empowerment of Brown's Treasury through 'constrained discretion' was not only rhetorical.[178] It had real effects. One government official argued that 'independence strengthened the Treasury's hand more generally in respect of

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173 Elster, *Ulysses Unbound*, p. 226).
174 Peston, *Brown's Britain*, p. 76.
175 Holmes, *Precommitment and the Paradox of Democracy*.
176 Peston, *Brown's Britain*, p. 76.
177 Lee, *Best for Britain?*, p. 73.
178On the politics of constrained discretion, see Ben Clift and Jim Tomlinson, 'Credible Keynesianism? New Labour Macroeconomic Policy and the Political Economy of Coarse Tuning', *British Journal of Political Science* 37 (2006): 47-69; Brian Burkitt, 'Constrained Discretion: New Labour's Third way for Economic and Social Policy', *International Journal of Social Economics,* 33 (2006): 4-10.

economic policy, fiscal policy, public spending and the minimum wage. In the old days, the Treasury sanction was not a credible threat. But suddenly we were in a position where we could say: If you do that and it is perceived as imprudent, well the Monetary Policy Committee might raise interest rates. It's out of our hands'.[179] In the same line, Ed Balls observed that 'far from weakening the ability of the Treasury to ensure public spending discipline, the risk that the Monetary Policy Committee might respond with a rate rise has proved a useful and effective deterrent to profligate departmental proposals on more than one occasion'.[180] One analyst put it this way:

'previous Labour governments had felt captured *by* the Treasury, Brown *captured* the Treasury'.[181]

In the same vein, Rawnsley argues that Gordon Brown 'was less interested in operating the levers of macro-economic management than any previous incumbent in the Treasury, and independence for the Bank would be both a confidence-building marker with the markets and offer more freedom to devote himself to the structural, social and employment reform that really engaged the new Chancellor'.[182] Peston also shows that 'there have been other examples of Brown and the Treasury being empowered by the imposition of rules or reforms that appeared to limit their own freedom' - notably the golden rules and the five tests for the single currency.[183] Heresthéticians know that binding commitments can play positive roles, ultimately enhancing policy capacity. Balls and O'Donnell clearly knew this too:

'Central bank independence liberated the Treasury. Handing over the monthly process of decision-making on interest rates…created the time, space and long-term credibility for the Chancellor and senior Treasury management to concentrate on other levers of economic policy and the Government's wider economic objectives.'[184]

We might risk falling into the functionalist trap, explaining the emergence of a given institution on the basis of its results. However, some evidence suggests that Team Brown fully understood *ex ante* the strategic benefits of delegation. In his 1992 Fabian pamphlet, Ed Balls defended independence by emphasizing that a more transparent, accountable and predictable monetary policy would enhance credibility, meaning that 'a Labour chancellor would be free to concentrate on many other

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[179] Cited in Peston, *Brown's Britain*, p. 77.
[180] *The Observer*, 8 August 2004.
[181] Keegan, *The Prudence of Mr Gordon Brown*, p. 247.
[182] Rawnsley, *Sevants of the People*, p. 32.
[183] Peston, *Brown's Britain*, p. 77.
[184] Balls and O'Donnell, *Reforming Britain's Economic and Financial Policy*, p. 92.

aspects of policy'.[185] According to one commentator, Ball's explicit message to Brown was:

'You should make the Bank independent. *You should lose control in order to gain control*'.[186]

Remarkably, the founding fathers did not try to hide this fundamental dimension of institutional reform. On the contrary, they were unusually candid about the enabling implications of 'making Labour credible'.[187] It is often forgotten that Balls's earlier writings aimed at denouncing the perils of a *rigid* rules-based approach to monetary policy. His central argument was that both the domestic and European brands of monetarism, which sought to link inflation expectations to intermediate monetary targets and to a one-size-fits-all German monetary policy respectively, were economically and politically misconceived.[188] Both Brown and Balls rejected the simplistic idea that governments could achieve credibility by tying themselves to fixed monetary rules.[189] They also contended that 'the answer is not no rules, but the right rules'.[190] Thus a post-monetarist path to stability should allow for both discretion and flexibility. As Brown repeatedly argued:

'In an open economy the *discretion* necessary for effective economic policy is possible only within a framework that guarantees the public interest is met, one that commands public trust and market credibility.'

'In the era of open capital markets, it is only within a credible framework that governments will command the trust to exercise the *flexibility* they require'.[191]

Many commentators have failed to understand the cognitive and motivational nuances of this institutional choice. The institutional designers were not seeking to buy credibility by tying themselves to the mast of a strict binding commitment, as advocated by Giavazzi and Pagano. On the contrary, Balls was concerned with finding ways of 'escaping the straitjacket of ERM and EMU', including its deflationary effects.[192] Similarly, they were not uncritically embracing the central tenets of neoliberalism. They were rather interested in building *flexibility* into the system. In a lecture in which he denounced the 'failures of monetarism' and the

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185 Ed Balls, *Euro-Monetarism*.
186 Cited in Keegan, *The Prudence of Mr Gordon Brown*, p. 156, emphasis added.
187 Ed Balls, 'Where Next After Euro-Monetarism?' *Fabian Review* 105 (1992): 7-8.
188 Balls, *Euro-Monetarism*; Balls, 'Where Next After Euro-Monetarism?'
189 Balls, *Euro-Monetarism*; Brown, 'The Conditions of High and Stable Growth and Employment'.
190 Brown, 'The Conditions of High and Stable Growth and Employment'.
191 Brown, 'The Conditions of High and Stable Growth and Employment', p. C34., emphasis added. See also Balls, 'Open Macroeconomic in an Open Economy'; Balls, 'Delivering Economic Stability'.
192 Balls, *Euro-Monetarism*. See also Ed Balls Interview in *The Independent*, 8 September 2010.

rigidity of the Stability and Growth Pact, Balls declared that a clear pre-commitment to credible institutional arrangements should 'allow the necessary flexibility so that policy can respond in the short-term to surprise economic events'.[193] Brown's economic framework was less about constraining and more about enabling than is often assumed. Indeed, the *constraining* element of the much-discussed 'constrained discretion' concept was only incorporated by Balls following a suggestion made by Mervyn King.[194] This is hardly surprising. While the central banker was interested in constraining politicians, the economist political operator was keen on buying flexibility through pre-commitment.

The enabling features of institutional commitment may be the key to understanding some of the tensions associated with Brown's chancellorship. Earlier assessments of his policies put the emphasis on *prudence*.[195] In its first term in office, New Labour broadly honoured its pre-election budget pledges and introduced the so-called golden rules establishing that over the economic cycle the government would only borrow to invest and that public debt would be held at a stable level.[196] The enactment of CBI was also supposed to induce budget discipline. This new macroeconomic framework enforced tight budgets in the early years. However, over time the corset was loosened and then removed altogether. In *History of Modern Britain*, Andrew Marr remarks that 'perhaps the most striking aspect of Brown's running of the economy was the stark, dramatic shape of public spending. For his first two years he stuck fiercely to the promise he had made about continuing Conservative spending levels…Then there was an abrupt and dramatic shift and public spending soared, particularly on health…So there were the lean years followed by the fat years, famine then feast, squeeze then relax'.[197] Fiscal policy was 'tight in the first years of New Labour but loosened significantly in subsequent years'.[198] This fiscal cycle led to the *prudence for a purpose* narrative.[199] As one commentator put it:

[193] Balls, 'Stability, Growth and UK Fiscal Policy'.
[194] Balls, 'Open Macroeconomics in an Open Economy, p. 120.
[195] Keegan, *The Prudence of Mr Gordon Brown*.
[196] Stephens, *The Treasury Under Labour*.
[197] Andrew Marr, *The History of Modern Britain* (London: Macmillan, 2007), p. 534.
[198] Malcolm Sawyer, 'Fiscal Policy under New Labour', *Cambridge Journal of Economics*, 31 (2007): 885-99, p. 8.
[199] Peston, *Brown's Britain*. See also Stephens, *The Treasury Under Labour*.

Indeed, the early [fiscal and monetary] restraint was 'to allow Brown, over time, to spend more than if he had splurged initially and then had been forced to tighten his belt, which had been the fate of his Labour predecessors at 11 Downing Street'.[200]

As in many other historical experiences, the institutionalization of monetary discipline involved a critical fiscal dimension. Opening financial opportunities was one of the cornerstones of the strategy of constrained discretion. As Ben Clift and Jim Tomlinson have lucidly argued, New Labour's decisive pursuit of market credibility 'was expressly concerned to create some space for fiscal activism'.[201] The mechanism was the following: as potential owners of government bonds thought inflation would be lower, they started paying more for government debt, freeing up the Chancellor to spend more while keeping taxes down.[202] This implies that, by strengthening monetary and fiscal governance, New Labour ended up creating conditions for a huge increase in education and health spending. Again, this is not a functionalist speculation. A Labour MP made the following point in the parliamentary debate:

'Gavyn Davis, the chief economist at Goldman Sachs, has estimated that, if yields on long bonds fall eventually by a full point, the Government's funding costs will be reduced by about 3.5 million. The sum could be invested in the economy and could be used for extra public spending. A fall in bond yields would also reduce the cost of investment for private investment for private investors, and hence boost the economy in that way'.[203]

Back in May 1997, most analysts assumed that an independent central bank implied a more prudent fiscal policy. As one newspaper remarked: 'the chancellor is more likely to follow a sensible fiscal policy if he has good reason to expect monetary policy will not accommodate it than if he can make it do so'.[204] However, the Bank of England reform ended up giving Brown 'more freedom to tax and spend'.[205] In the context of enhanced credibility, both public and private borrowing soared, compromising financial sustainability. Eventually, New Labour policies came full circle, from prudence to increasing public and private imprudence.[206] The paradox of constitutional commitments squares the prudence and the prudence-for-a-purpose

[200] Peston, *Brown's Britain*, p. 152).
[201] Clift and Tomlinson, 'Credible Keynesianism? p. 67. For an alternative account of this process, see Colin Hay, 'Credibility, Competitiveness and the Business Cycle in Third Way Political Economy', *New Political Economy* 9 (2004): 39-56; Colin Hay, 'What's in a Name? New Labour's Putative Keynesianism', *British Journal of Political Science* 37 (2006): 187-92.
[202] This important point was suggested to the author by Hugh Ward.
[203] Ruth Kelly, House of Commons, *Hansard*, 11 November 1997.
[204] *Financial Times*, 7 May 1997; *The Times*, 7 May 1997; *The Independent*, 7 May 1997.
[205] Marr, *The History of Modern Britain*, p. 532.
[206] Lee, Best for Britain?, p.70.

narratives. It has been suggested that Brown was able to be a real socialist because he previously won the confidence of the financial markets.[207] In the logic of heresthetic, he could afford to do it because he previously reshaped the structure of the political game by manipulating the monetary constitution. But prudence for a purpose was not an *unintended* consequence of the institutional move. It was the natural implication of the successful implementation of an enabling precommitment strategy. As Brown once claimed: 'this extra public spending comes not at the expense of prudence but because of our prudence'.[208] Gordon was not bound, but unbound!

To sum it up, the making of central bank independence in Britain was underpinned by typical New Labour strategic thinking. The attempt to institutionalize a 'post-monetarist approach to economic policy'[209] was based on a peculiar reading of the evolution of economic ideas and changes in the world economy.[210] It was also based on an explicit attempt to move beyond 'the old methods of old left or old right',[211] squaring the circle between the seemingly irreconcilable Friedman and Keynes.[212] In this framework, achieving credibility and stability were not aims, but only means to an end. Gordon Brown repeatedly argued that central bank independence was not the government's main objective. Tellingly, he began his Mais Lecture by saying: 'my first words from the Treasury, as I became Chancellor and announced the independence of the Bank of England, were to reaffirm, for this Government, our commitment to the goal first set out in 1944 of high and stable levels of growth and employment'.[213] In other words, traditional values in a modern setting.

[207] Peston, *Brown's Britain*, p. 149.
[208] Brown, 'The Conditions of High and Stable Growth and Employment', p. C35. See also Gordon Brown, 'Chancellor of the Exchequer's Budget Statement', 21 March 2000; Gordon Brown, 'Chancellor of the Exchequer's Budget Statement', 7 March 2004.
[209] Gordon Brown, 'The Conditions for Full Employment'.
[210] See David Coates and Colin Hay, 'The Internal and External Face of New Labour's Political Economy', *Government and Opposition*, 36 (2001): 447-71.
[211] Gordon Brown, 'Speech by Gordon Brown at the James Meade Memorial Lecture', 8 May 2000.
[212] Clift and Tomlinson, *Credible Keynesianism?*.
[213] Brown, 'The Conditions for Full Employment'.

Conclusions and implications

'Looking at historical situations or tempering formal models through empirical analysis is the best way to understand ourselves and the world in which we live.'

Norman Schofield, 'Constitutional Political Economy', p. 299

This article combines theory and historical narratives to explain a seminal constitutional change in contemporary Britain. The main argument is that Gordon Brown's surprise decision to change the British monetary constitution in 1997 was an act of political manipulation in a Rikerian sense. Conceptualizing the Bank of England reform as a heresthetic move throws new light on the motivations of New Labour. The political strategists deliberately removed an unpleasant issue from party politics in order to signal governing competence and enforce a new model of political economy. But we have observed that the institutional choice was not self-binding in an intentional sense. Indeed, Brown adopted a pre-commitment strategy to bind others, including members of his own government and powerful interest groups. Similarly, the reform was not driven by the logic of constraining. On the contrary, the institutionalization of discipline sought to achieve in-built flexibility through constrained discretion, enabling the Chancellor to achieve important economic and political goals. All these findings are well grounded in extant empirical evidence to date; but they are also subject to revision in the light of alternative interpretations of available evidence or the emergence of new evidence.[214]

Theories of endogenous institutions are still underdeveloped,[215] probably because there is an element of contingency regarding the sufficient causes of rapid change.[216] Yet we can still identify patterns of political behaviour through the study of crucial instances of institutional development. This research confirms that there should not be a distinction between in-period choices (choices given rules) and constitutional choices (choices about the rules) as far as politicians' motivations are concerned. The

[214] As a case in point, the publication of Blair's memoir has activated a fresh debate about the paternity of the Bank of England reform. See, 'Blair, Brown or Balls?' *Left Next Blog*, 1 September 2010. Following Garnett, we believe that the uniquely rich collection of diaries and memoirs by the participants of the New Labour project should receive more attention from academics. Mark Garnett, 'New Labour's Literary Legacy', *British Politics*, 5 (2010): 315-336.
[215] But see Philippe Aghion, Alberto Alesina and Francesco Trebbi, 'Endogenous Institutions', *Quarterly Journal of Economics,* 119 (2004): 565-612; Avner Greif, *Institutions and the Path to the Modern Economy* (Cambridge: Cambridge University Press, 2006).
[216] Schofield, 'The Evolution of the Constitution'.

idea of a 'pristine design stage' is a myth.[217] If anything, incentives for political manipulation are higher during constitutional moments. Politicians can obtain substantive benefits by manipulating the mechanisms transforming preferences into outcomes. This implies that the concept of heresthetic has leverage beyond the sphere of electoral competition. This concept crucially induces us to focus on the intentions and beliefs of a small group of strategic-oriented politicians who consciously seek to profit from reshaping the structure of political games. Decisions over interest rates have massive distributive implications, not least in Britain. In this context, it is striking that the main proponents of price stability did not manage to make the Bank of England independent during the Conservative era. This further confirms that policy suppliers have a great deal of influence in the constitution-making process.

This article speaks to current debates about institutions and credibility, central bank independence, and the relationship between monetary and fiscal governance. The dominant story about the merits of self-binding and the credibility gains from depoliticizing monetary commitments may risk obscuring the politics of institutional change. Self-binding is a strategic hook aimed at outmanoeuvring adversaries. Politicians design institutionally binding credible commitments in order to bind others rather than themselves. Insofar as commentators have recognized the power of argument about e binding others, it tends to be made with reference future governments. This research suggests that binding others is also a strategic option to enforce the cohesiveness of ruling coalitions in a transition context. In the British case, Brown surrendered key policy tools with the objective of creating a constraint that would limit the freedom of potential challengers. Institutionalized commitments are also power-enhancing. Politicians, even the Gordon Browns of this world, are not interested in self-discipline, but in the political profits associated with the institutionalization of discipline. These two motivations – binding others and enabling – may help us understand why politicians delegate power to technocratic institutions, complementing explanations based on epistemic communities and depoliticization.

[217] Elster, *Ulysses Unbound*; Pranab Bardhan, *Scarcity, Conflicts and Cooperation*, Cambridge, Mass.: The MIT Press, 2005).

Greater central bank independence has emerged in the last decades as the paradigm of good economic governance.[218] This monetary consensus should not be taken for granted though. Both the theoretical and empirical cases for independence are not uncontroversial. Works documenting an apparent association between CBI and low inflation are still undermined by causality issues, measurement errors, omitted-variable biases and sampling problems.[219] More importantly, the effects of central bank independence on inflation may be contingent on countries' underlying political and societal constraints.[220] The new monetary orthodoxy entails significant 'institutional paradoxes'.[221] Finally, the logics of delegation and democratic accountability are not easily reconciled.[222] These remaining uncertainties call for more in-depth and context-specific analysis of the evolution and implications of monetary institutions. This case study has shown that the cognitive and political underpinnings of central banking reforms are more nuanced than often suggested.

Economists assume that hard monetary commitments would enforce budget discipline. But history shows that institutional innovations aimed at controlling rulers' discretion may induce financial revolutions which relax the existing budget constraints of private and public agents.[223] In the worst case scenario, the politics of cheap money leads to a financial disaster. Examples are not in short supply. In Argentina, an ultra-hard monetary arrangement created the conditions for an unsustainable financial bubble which burst tragically in December 2001. In Greece, the combination of the single currency with independent national budget policies encouraged fiscal profligacy, leaving the country on the verge of financial

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[218]Christopher Crewe and Ellen Meade, 'The Evolution of Central Bank Governance around the World', *Journal of Economic Perspectives*, 21 (2007): 69-90; Marvin Goodfriend, 'How the World Achieved Consensus on Monetary Policy', *Journal of Economic Perspectives*, 21 (2007): 47-68; Alex Cukierman, 'Central Bank Independence and Monetary Policymaking Institutions: Past, Present and Future', *European Journal of Political Economy* 24 (2008): 722-36.

[219] Balls and O'Donnell, *Reforming Britain's Economic and Financial Policy*.

[220] Daron Acemoglu, Simon Johnson, Pablo Querubin, and James Robinson, 'When Does Policy Reform Work? The Case of Central Bank Independence', *NBER Working Paper* No. W14033, 2008.

[221] Michael Watson, 'The Institutional Paradoxes of the Monetary Orthodoxy: Reflections on the Political Economy of Central Bank Independence', *Review of International Political Economy*, 9 (2002): 183-96.

[222] John Freeman, 'Competing Commitments: Technocracy and Democracy in the Design of Monetary Institutions', in Bernhard et al., *The Political Economy of Monetary Institutions*.

[223] Daunton's fascinating history of taxation in Britain is also full examples of rulers seeking to exploit the enabling properties of credible commitments. See especially Martin Daunton, *Trusting Leviathan: The Politics of Taxation in Britain*, 1799-1914 (Cambridge: Cambridge University Press, 2001).

meltdown.[224] In the UK, the conscious pursuit of credibility through constrained discretion facilitated fiscal activism[225] and fuelled an unhealthy housing boom. The established thinking has typically argued that the problem was not the monetary frameworks, but too expansionary fiscal policies. Yet this article suggests that the softening of budget constraints were not *unintended* consequences, but intrinsic to the making of constitutional commitments. This argument may contribute to the debate about the contradictions and limits inherent in the New Labour project.[226]

I wish to conclude by saying that the crucial anomalies brought about by the current financial crisis should ideally encourage a rethinking of the role of institutions on economic policy-making.[227] Are monetary institutions really solving problems of credible commitment, or simply reallocating them?[228] Is there an institutional fix to politics? What are the limits of using external commitments to induce domestic discipline?[229] What is the role of institutional complementarities, including the interactions between monetary, fiscal and financial governance? All these issues must be seriously addressed in further research.

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[224] Martin Feldstein, 'Let Greece Take a Holyday from the Eurozone', *The Financial Times*, 17 February 2010. This analysis can be replicated to other European countries, as EMU institutions have failed to enforce fiscal discipline on a sustainable basis. See Mark Hallerberg, Jurgen von Hagen and Rolf Strauch, *Fiscal Governance in Europe* (Cambridge: Cambridge University Press, 2009),
[225] Clift and Tomlinson, *Credible Keynesianism?*
[226] See, e.g., Coates and Hay, 'The External and Internal Face of New Labour's Political Economy'; David Coates, 'Darling, It is Entirely my Fault: Gordon Brown's Legacy to Alistair and Himself, *British Politics*, 3 (2008): 3-21.
[227] Robert Skidelsky, *Keynes: The Return of the Master* (London: Allen Lane, 2009)
[228] Bennett McCallum, 'Crucial Issues Concerning Central Bank Independence', *Journal of Monetary Economics*, 39 (1997): 99-112.
[229] Dani Rodrik, 'The Inescapable Trilemma of the World Economy', Rodrik's weblog, 27 June 2007.