The inflation game: targets, practices and the social production of monetary credibility[1]

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Abstract

In recent years, central banks have continued to preach inflation-targeting even as they have pursued a wide range of unorthodox inflation-management policies. As the disconnect between discourse and practice grows, there is a growing risk of a serious credibility gap. This paper seeks to shed some light on these dilemmas by looking backwards, focusing on the 'Great Inflation' in Britain in the 1970s and early 1980s and the successive failures of Labour's incomes-policy and the Conservatives' monetarist experiment. These historical experiences suggest that for inflation policy to work it needs to be both understood as and *made* credible—which means that key actors need to not only learn that this is how the inflation game works, but also put into place a whole range of supporting *practices* that reflect and reproduce this conviction. In spite of the many claims by economists and central bankers to the contrary, quantitative targets do not in fact anchor inflationary expectations—social practices instead play that crucial anchoring role. At the same time, these cases both underline the particular dilemmas associated with a reliance on hard quantitative targets in times of social instability—lessons that do not bode well for our present moment.

Introduction

As central bankers have sought to tackle the risks of global financial collapse and deflation over the past decade, they have been placed in a rather perverse role: effectively throwing out the rule book—as they pursued one policy experiment after another—even as they continued to pay homage to its overriding authority. As a Buttonwood column in The Economist drily noted,

> Ben Broadbent, the deputy governor of the Bank of England…. batted away a question about the lopsided nature of the British recovery with 'Look, what we do, our target is inflation.' Indeed, it is. How's that going? …. Since the start of

> 2008, the Bank has been outside [its] target range in 47 of the 96 months, almost exactly half the time. A Premier League football manager would be sacked with such a record (Buttonwood 2016).

In consistently missing their targets, central banks run the risk of producing a credibility gap, in which the discrepancy between the promised target and economic reality begins to erode confidence in a bank's declarations, and thus its authority.[2]

Economists' conventional response to this kind of credibility gap is to argue for a stricter adherence to monetary rules—an approach that has been advocated by monetary hawks who have been critical of central banks' creative efforts to get the economy going. As the risk of deflation has begun to recede in recent months, and something closer to normal inflation levels may finally be on the horizon, those hawks have begun to press ever-harder for a more consistent return to a 2% inflation target.[3] Yet, I will argue in this paper, this response to the current dilemma faces a more profound problem: such hard targets only work to produce credibility when the inflation-management order possesses broader social and political legitimacy—a situation that is far from certain just now.

By looking back at British efforts to manage 'the Great Inflation' in the 1970s and early 1980s, this paper seeks to shed some light on the current challenges facing monetary policy by examining the conditions under which credibility gaps have emerged in the past. Both Callaghan's Labour Government and Thatcher's Conservatives ultimately faced significant credibility gaps in their efforts to manage skyrocketing inflation. These gaps, moreover, ultimately led to the failure of their respective policies—incomes policy in the 1970s and the monetarist experiments of the early 1980s. Why did these two radically different inflation-management strategies fail? And what can they tell us about today's monetary dilemmas? In seeking to answer these questions, I develop three major arguments: first, in spite of the many claims by economists and central bankers to the contrary, quantitative targets do not in fact anchor inflationary expectations—social practices instead play that crucial anchoring role. Second, the centrality of social practices means that the credibility of any given inflation policy ultimately depends on its legitimacy. Third, when the legitimacy of a given inflation-management order is under attack, it is not at all clear that a move to harder targets will bring the kind of stability and credibility that its advocates promise.

What then is monetary credibility and how is it produced (or eroded)? Once we look beyond the current context and examine earlier efforts to manage the value of money, it becomes clear that there is nothing inherently credible about a quantitative rule or target as a way of managing inflation. For monetary rules to work they need to be both understood and *made* to be credible—which means that key actors need to learn that this is how a given inflation game works and put into place a whole range of supporting practices that reflect and reproduce this conviction. In other words, in order to understand past and present credibility gaps and the possibilities for resolving them, we need to take a different, *practice-based* approach to monetary rules and see them as part of a wider, profoundly social, inflation game.

Such an approach to monetary credibility means building on and moving beyond both rational expectations and constructivist analyses in different ways. Since the 'rational expectations' revolution of the 1970s, most economists see economic rules as institutions that create incentives and thus either foster or undermine economic growth and stability. Because they start from the presumption that economic agents have rational expectations, based on an efficient use of all available information, what determines whether rules are credible is whether they are the ‘correct’ (market-friendly) ones and whether they are effectively enforced (Blackburn and Christensen 1989). If these requirements are in place, then it is assumed that monetary rules can work quite simply, signaling a government’s commitment to a particular policy and enabling market actors and the public to respond rationally (Kydland and Prescott 1977). Yet such a perspective does not help us understand the present situation, in which both the rules and the underlying norms are supposedly ‘right’ but credibility remains in doubt.

An alternative approach to the role of monetary rules would be to borrow from constructivist scholarship that has examined the central role of the ideas and narratives that give meaning to the signals that economic institutions and actors produce: telling us, for example, that inflation is dangerous, austerity is necessary, or unemployment is too high (McNamara 1998, Blyth 2013, Braun 2017). Such an approach brings further agency into the picture and also avoids the rational expectations assumption that some rules are necessarily better than others, allowing us to see how the logic of economic management changes over time. Yet, even if the constructivist approach does offer a thicker conception of the social character of economic rules, it remains at the level of discourse and ideas. And it is not at all clear that a change in the ideas underpinning the current rule-base monetary order would be enough on its own to resolve the current credibility gap.[4]

Rather than focusing narrowly on information or ideas, this paper suggests that we can best understand past and present credibility gaps by seeing monetary rules and the wider phenomenon of inflation policy as social *practices* that are informed by and work to reproduce particular shared monetary meanings. Although this paper is thus inspired by the rich literature on the everyday practices of the international political economy (Aitken 2007, Seabrooke and Hobson 2007, Langley 2008, Best and Paterson 2010), it also seeks to make a new contribution by drawing on the practice turn in social theory, particularly those theorists, like Ann Swidler, who have drawn on Wittgenstein’s later work to rethink the relationship between rules and social practices (Swidler 2001).[5] A practice-based approach is particularly useful for examining inflation-management policy, because it is a domain where subjective belief and concrete actions are closely intertwined. When we dig a little deeper into target-based and other efforts to manage the value of money, we find a multitude of underlying and connected practices needed to both make the policy *work* and make it *credible*, ranging from the ritualised performances through which governments signal their policies’ credibility to the everyday practices through which workers, business owners and families respond to and act upon their faith (or lack of faith) in the current value of money. Together, these practices both reflect and create social agreement around a given inflation-management policy—either reinforcing its legitimacy or signaling, and hastening, its decline.

As the title of this paper suggests, we can think of any coherent set of inflation-management practices as a kind of inflation game. Yet, it is not a game in the narrowly rationalist or strategic sense; although there are rules of the game, they are profoundly social, historically specific, and can be challenged, eroded or replaced under the right conditions. The inflation game of the mid-1970s was dramatically different from that of the early 1980s, which was again very different from the one in play today. Looking back in time, to see how these different inflation games worked—and why they ultimately failed—can help us to understand both the dynamics and the challenges of monetary credibility today.

In this paper, I first take a look at the inflation-control practices that dominated the early and mid-1970s, which relied heavily on active fiscal and incomes (or wage and price control) policies; their failure in the late 1970s, played an important role in the Conservatives' election. I will then focus at greater length on the experience of Margaret Thatcher's government when it first came to power in 1979 and attempted to put a rule-based inflation game into place— an attempt that also ultimately failed, as the government gave up on targeting the money supply and relied instead on extremely tough fiscal cuts and a painful recession in order to bring inflation down. I will go on consider the more recent past, reflecting on the kinds of social practices needed to sustain the 'golden era' of rules-based monetary policy, as well as the tensions that have emerged since the 2008 global financial crisis.

The first historical case of the incomes-policy approach to inflation is significant because it reminds us of just how differently inflation management used to work in Britain and elsewhere. The second case is important because it not only represents an attempt to put a very different, monetarist inflation-management strategy into place, but also because its failure is a crucial part of political economic history that has downplayed by many scholars of political economy, who have instead tended accept mainstream economists' claims that there is a relatively linear path between the early monetarist experiments and the present 'new monetary consensus'.[6]

In spite of their considerable differences from one another and from the present moment, the two historical cases examined in this paper were both defined by a credibility gap with significant echoes today. In the 1970s, the Callaghan government faced a disconnect between a largely unchanged credibility narrative and *declining* social legitimacy, a tension that has important parallels with today. When Thatcher came to power in 1979, her attempt to put into place a rules-based game faced a credibility gap because her government had not yet achieved *sufficient* legitimacy to raise interest rates as far as they would have to go.

These two historical examples warn us that the present inflation game faces a double dilemma as policymakers face both the declining legitimacy of the current game and struggle with insufficient legitimacy to put in place an alternative. And while today's central bankers may be once again tempted to heed the seductive promise of hard targets as a way of avoiding difficult political decisions and negotiations, historical experience should warn us that targets particularly vulnerable in times of political instability, as the very visible failure of attempts to them all too quickly turn legitimacy gaps into credibility gaps.

The social life of monetary rules

Although contemporary economic theories about monetary credibility do not advertise their reliance on social dynamics, even the most narrowly rule-based approach hinges on the assumption that the key function of policy is to foster particular kinds of stabilising expectations, placing perception and public confidence front and centre. It was Robert Lucas's (1976) enormously influential critique that first insisted that economists develop this more dynamic conception of the economy, in which economic agents' reactions to economic policies can alter their effectiveness. Thus, for example, a tax cut intended to stimulate demand could backfire if the public recognised the potential effects on the government's finances, and therefore perceived it as a temporary reprieve that would ultimately have to be paid for. Where economists had previously focused on the problems of market failure, and had therefore identified an important role for government in correcting them, the Lucas critique pointed to the ways in which even the best-intentioned of government policies could have unintended and often pernicious effects.

Inspired by the Lucas critique, contemporary economists are generally highly skeptical of involving elected officials in the process of monetary policy-making, arguing that politicians will promise price stability when running for election but will actually pursue inflationary policies, since the economic growth that such policies enable (at least in the short-term) will be more likely to get them re-elected. The solution that economists have proposed (Kydland and Prescott, 1977) is to insulate monetary policy from direct political oversight, not only by creating independent central banks but also by constraining central bankers through quantitative monetary rules such as inflation targets. The very act of publishing these rules and targets, they argue, will communicate the broad trajectory of monetary policy, allowing market actors to form appropriate expectations in response and enabling the broader public to see whether central banks are sticking to their mandate. Of course, these economists do not see all rules as necessarily credible: only the right rules, those promising to keep inflation at a very low level, will ultimately be credible.

This insistence on the 'right rules' reminds us that while there some social insight present in these economic theories, it is of a rather curious sort. Lucas, Kydland, Prescott and others all draw on the idea of rational expectations (Muth 1961), which assumes that the market actors who are reacting to policymakers' policies are blessed with a 'correct' model of the economy (i.e. one that is consistent with current economic ideas).[7] So, while governments are now seen as fallible, markets are not. Although this makes conventional economic theory and policy 'safe' once again from the potentially destabilising insights of a more social conception of the economy, it does so at considerable cost in the real world.

Although most orthodox economists have relied on this very thin conception of the 'social' dynamics of a market economy, another economist and practitioner, Charles Goodhart, came closer to identifying the genuinely social dynamics around economic policy—and in doing so, raised important questions about whether rules are in fact the quick fix that many economists believe them to be. 'Goodhart's Law' states that the very act of targeting a particular statistical regularity, through a rule or target, will tend to lead to its breakdown over time (Goodhart 1984). Such regularities tend to break down due to both public reactions to the rule and to policymakers' own responses (as they adjust other policy variables to compensate, for example) (Chrystal and Mizen 2001). Goodhart's insight tells us that the social dynamism of the economy does not end simply because someone has devised a rule. In fact, the very act of doing so necessarily continues to interact with that wider social world.

Although I am drawing here on a very different set of theoretical tools to unpack the dynamics of anti-inflation policies and their effects, in some ways this paper can be seen as thicker sociological elaboration of the logic of Goodhart's rule—tracing the various social practices through which inflation-management policies are produced and eroded over time, and explaining how it is that hard rules in particular can be vulnerable to credibility gaps in times of social dislocation.

From constitutive rules to anchoring practices

Once we drop this assumption that some inflation policies are more correct than others, we can begin to identify a range of historically credible inflation games, many of which were not dependent on quantitative rules. The gold standard of the nineteenth and early twentieth century was another rule-based order designed to limit a government's influence over economic policy and minimise inflationary pressures by anchoring the value of a currency to a country's stock of gold. Yet between the failure of that order and the recent return to a rule-based monetary system, some rather different inflation games were in play. Government efforts to manage inflation during the post-war era included the interventionist Keynesian bureaucrats of the 1950s and 1960s who sought to trade off inflation and unemployment levels through the judicious use of the Phillips curve model, and the incomes policies of the 1960s and 1970s that relied on wage and price controls to directly regulate the level of prices.

These post-war strategies for managing inflation were not rule-based in the narrow sense used today: they did not rely on a simple set of quantitative rules to govern economic actors' expectations or to build credibility. Yet, there were still 'rules of the game' underpinning government efforts to manage inflation through fiscal policy, price controls and wage negotiations with unions—a set of collective understandings and social practices that most participants recognised and followed.

Much has been written about the human propensity to follow (and break) rules, by anthropologists, sociologists, philosophers, and even a few international relations theorists. In this paper, I am setting aside the broader debates on this issue and drawing on those who, following the later Wittgenstein, have suggested that interpreting and following rules is itself a social institution (Wittgenstein 2001). This means that, like language, rules can only be understood in the social context or community in which they are developed and followed (see also: Schatzki 1996, Bloor 1997, Barnes 2001: 18).

If we apply this conception of the social character of rules to the case at hand, it reminds us that the social context of any given system of monetary rules is crucial. It is easy to take for granted the idea that monetary targets and other quantitative rules are credible. Yet, those targets only work as effective 'rules of the game' as long as economic actors perceive them as credible. Given that quantitative rules have not always been the most common way of managing inflation, and that the economic ideas supporting rules as credible have not always been widely accepted, we cannot assume that economic actors automatically know that they are an effective way of managing inflation.[8] In other words, consumers, investors, employers and workers had to develop a common social understanding that quantitative rules were the rules of the game—and put that understanding into practice—before they would actually work as such.

How then do economic actors today know that targets are a credible way of managing inflation? One possible way of answering this question is to suggest that actors know that targets are credible because there is a constitutive rule in existence that says that this is so. If we see the interpretation of rules as a social, institutional process, then one way of understanding how we decide collectively how to apply and interpret rules is by seeing them as nested, or hierarchical, with constitutive rules playing the role of a kind of meta-rule. As Ann Swidler explains, 'A constitutive rule says that something will count as something in a particular context'—here, that targets count as credible (Swidler 2001: 98).

Yet, Swidler goes on to suggest that, on its own, the idea of constitutive rules remains socially thin and unconvincing. How does a given constitutive rule emerge and become an accepted part of everyday life? Swidler's answer is to suggest that we look beyond particular social rules and their meanings and examine the practices that inform them and give them shape. In the background of any social rule or convention is a multitude of enabling practices. Of these various kinds of practices, Swidler is particularly interested in certain more salient, ritual forms that she suggests serve as 'anchoring practices': such practices, she suggests, 'play a crucial role as repeated ritual confirmations that something is indeed what it is' (Swidler 2001: 98).

Swidler looks at several examples, including the central role of pride parades as an anchoring practice that produced a new constitutive rule defining 'identity' as the key marker of membership in the lesbian and gay community in San Francisco, and the role of different kinds of payment schemes that evolved in British and German textile firms from the seventeenth through to the early twentieth century as a practice that enabled very different labour relations in each country. Although pride parades and textile piece-work may seem far from the subject of monetary policy, given the highly social character of money and of efforts to manage its value, the concepts of constitutive rules and social practices are in fact enormously useful as analytic lenses. In this paper, I will therefore draw loosely on the concept of constitutive rules and, in particular, on the idea that such rules can only be understood in the context of the social practices that make them possible.

The practices of the inflation game

What are the practices that make up inflation-control policy? And how do we go about understanding how these particular practices work to enable—or limit—monetary credibility? In order to answer that question, I am going to suggest that we consider breaking down the various social practices that go into creating an inflation-management order into several interlinked categories. Together, these categories of practice both define and enact a given constitutive rule, and thus reproduce the social agreement around a given inflation-management order.

Although powerful ideas alone may not be enough to ensure a policy's success, a range of different rhetorical practices do nonetheless play a key role. These include efforts to formulate and mediate the narratives that provide some basic guidelines for how the inflation game should work, and more ritualised declarations of political economic actors' intent and political will. Economic theories play an important role in providing *credibility narratives* about how the inflation game works, outlining what causes inflation and how to manage it (Holmes 2014, Schmidt 2014, Beckert 2016). Such narrative practices work to define the constitutive rule—telling key actors that, because of its particular causes (monetary, wage-driven, demand-driven), a given policy (quantitative rules, incomes policies, fiscal policy) is the best way to manage inflation credibly. In order to be effective, such narratives do not necessarily have to be accurate, but they do have to be widely accepted.[9] They therefore have to be translated, or mediated, to a wider audience through newspapers and other forms of popular media, think tanks and popular culture. In addition to these background narratives about the major causes of and solutions to the problems of inflation, efforts to manage money also rely on ongoing *public rituals and performances*—such as the kinds of formal announcements of interest rate decisions that have become so familiar with in recent years, or the White Papers on 'counter-inflation' efforts that were so crucial in the 1970s. Such rituals are key means by which political economic actors communicate both their intentions and their political will to pursue a given policy direction.

While these discursive practices provide a narrative framework for understanding the inflation game and communicate the intent of key political economic actors, in order to have concrete effects, they also have to be translated into a whole host of technical practices designed to manage the price level and *operationalise* the constitutive rule. As I will discuss below, these practices have taken many forms in past years, including fiscal policy to stimulate or repress aggregate demand, voluntary and statutory wage controls, as well as quantitative targets for the monetary supply, borrowing limits and inflation. In some cases, governments and central bankers have also sought to work quite directly on public perceptions and actions: Wilson's Labour government, for example, set up a 'Counter-Inflation Publicity Unit' to try to shape public opinion and practice, while today's central bankers have become quite astute at assessing and trying to shape public sentiment (Holmes 2014).[10] If we understand these kinds of technical procedures as social practices, we can see the vital role that they play in reproducing the social meanings underpinning any given inflation game—simultaneously signaling and producing credibility.

Yet even the most persuasive narratives and efficient techniques will not work if they are not accepted and translated into *everyday actions*. Whether the inflation game revolves around monetary rules or price controls and wage negotiations, there is a large group of people—consumers, workers, businesses, domestic and international investors—who must receive and react to those efforts to manage inflation, and whose resulting actions also play a crucial role in determining its success or failure. By demanding a wage increase for fear of inflation or hoarding their money under their mattresses for fear of deflation, people have the power to undermine even the most vigorous government efforts to manage the value of money.

Even before we examine how these categories of practice might apply in concrete cases, this brief overview already underlines a few key dynamics. Ideas and their communication play a vital role in any money game because of the importance of fostering stable opinions. At the same time, such ideas do not float freely, but must be embedded in particular techniques, embodied through ritualised performances, received, interpreted and acted on by workers, employers, consumers and investors. Analysing inflation-management policies through a study of social practices allows us to appreciate the complex imbrication of the material and the ideal in the production of monetary credibility.

Doing so also involves moving beyond simplistic binaries of structure and agency: it requires us to pay attention to the ways in which such practices can coalesce and reinforce each other over time, creating relatively stable games in which narratives, performances, techniques and normalised expectations all reinforce one another, as we saw during the Great Moderation, for example. Yet, such a framework also allows us to see how such virtuous circles can be destabilised, either through intent or by accident, as one or more of the interconnected practices that give shape to the constitutive rule begin to conflict with it or with one another. At such moments, the very direct link between perception and monetary value can precipitate rapid change, as fears of the rise of inflation can translate into a self-fulfilling dynamic.

The social character of the money game also has important implications for power and legitimacy. Because the value of money depends on a certain level of social agreement, it cannot be determined by fiat, but instead depends importantly on broader political legitimacy. That legitimacy in turn depends in part on exogenous factors, like the OPEC oil crisis in the 1970s, or changing global economic conditions, which can dramatically affect people's economic fortunes. Yet, as Kathleen McNamara (2015) has noted in her study of the source of the European Union's authority, the legitimacy of a given political and economic order also depends on it being accepted as a social fact, which is in turn the result of ongoing concrete and symbolic practices. Social practices thus both reflect legitimate authority and play a crucial role in producing (or eroding) it on an ongoing basis. Those processes moreover do not float freely but are instead driven by a range of different actors—including governments and their agents, as well as market actors, workers, consumers, the voting public and the media. This does not of course mean that these actors are all equally powerful—far from it. Instead, in order to understand the salience and impact of their different practices, we need to pay attention to the underlying power relations in any given time and place.

Finally, if monetary credibility is a social practice, then so is a credibility gap. It is not simply a disconnect between the right theory and actual practice, as rational expectations economists would suggest, nor between discourse and practice, as constructivists would argue. Instead, this kind of gap emerges within the social practices that sustain and reproduce that credibility—and can appear anywhere within the web of interconnected anchoring practices. If that gap is large enough and sustained long enough, it can spread, eventually undermining the coherence of the constitutive rule and undoing the logic of the inflation game itself.[11]

The post-war inflation game: demand management and incomes policy

From the 1940s through to the late 1970s, the inflation game in most western countries was defined by a different constitutive rule than we see today, in which credible inflation-management was identified with a strong and active government that would use its discretionary powers and work collaboratively with unions and businesses to manage the inflation level.

This inflation game was underpinned by its own *credibility narratives*. In the 1950s and 1960s, many economists, following Keynes' lead, saw inflation as related to excess demand: too much demand in an economy relative to existing capacity would tend to translate into higher prices rather than growth. As inflation rates began to escalate in the 1960s and 1970s, there was also a growing belief that some of the pressure on prices was also due to 'cost-push' factors, including the vastly increased price of oil, following the shocks of 1973 and 1979, and the pressure of wage demands.[12] In the early years of the Wilson and Callaghan Labour governments, there was considerable effort taken to popularise this particular theory of inflation (and the resulting need for wage restraint) through the Counter-Inflation Publicity Unit.

When, in the 1970s, policymakers found themselves confronting stagflation,[13] they developed a range of *operational practices* to reign in what they described as a 'wage-price spiral'. Chief among these techniques were incomes policies, which set a ceiling on wage (and often price) increases through a combination of government targets and corporatist negotiations with major labour and business organisations, such as the Trades Union Congress (TUC) and Confederation of British Industry (CBI) in the UK.[14] There were a great many variations of this practice in Britain throughout the 1970s, ranging from compulsory limits, like those of the Heath Conservative government, to voluntary, TUC-mandated guidelines, like those of the first round of the 'social contract' established by Wilson's Labour Government.[15]

Even when monetary targets were not central to inflation-management policy, *ritual declarations* of other kinds of quantitative targets or ranges did play a role, including wage and price increase limits during the era of incomes policies; each round of the 'social contract' under the Labour governments of Wilson and Callaghan, for example, was initiated by a White Paper that set out and justified the terms. Such public declarations of inflation and wage targets combined with the theatre of public meetings with TUC officials to communicate the existence (or absence) of agreement among the key parties, thus reinforcing (or eroding) the credibility of the government's efforts to get inflation under control. During the 1970s, when the social character of inflation-management and the importance of agreement were so much more visible, it was not only governments and their agencies who mattered in such performances. As one *Times* editorial noted, the very fact of the TUC's meetings with government at Downing Street in the Fall of 1972 revealed 'the trade unions dealing with the government as equals, if not as a group more powerful than the Government itself' (Editorial 1972).[16]

The success or failure of the post-war inflation game did not only hinge on public declarations and actions. It also ultimately depended on the *everyday actions* through which workers, employers, consumers and investors acted out their confidence or lack of confidence in the credibility of the government's efforts to manage inflation. There were times in the 1970s, such as the early days of the Labour Government's social contract, when there seemed to be enough general agreement to make wage controls stick. The unions, whose successful strikes had previously played an important role in precipitating the Heath government's defeat, were initially broadly supportive of the contract, which relied on their capacity to enforce the wage limits (Beckett 2009: 289-292). Yet, by the second year, wages increased by just 9% while inflation was close to 18%, effectively forcing a real wage cut on workers, and eroding support for the policy; by the end of 1977, the important TGWU membership had voted to oppose the social contract in favour of 'a return to unfettered collective bargaining' (Beckett 2009: 435). The social contract's capacity to keep a lid on inflation depended on unions' willingness to not just believe in the policy's chances of success, but also to act accordingly by accepting lower wage settlements.

A credibility gap emerges

As the various practices underpinning the incomes-policy inflation game became disconnected, credibility gaps emerged between several of the key anchoring practices—with serious political consequences. In the late 1970s, even as the Labour government moved rightwards in its economic policy, the same credibility narrative, focused on cost-push inflation, was still widely accepted in policy circles, and the same basic operational practices focused on wage and price controls remained in effect. Yet, for those controls to work, the rest of the anchoring practices needed to play their part—and it is here that the trouble began. As workers and union representatives confronted declining real incomes, they began to lose faith in the government's promise to bring inflation down: public opinion surveys revealed that 'most think [the incomes policy] is 'unfair' and that it will collapse'.[17] As unions began to publicly challenge the government's efforts to reign in wages, workers started to demand settlements above the government guidelines.

These growing tensions were made significantly worse by the government's declaration of a tough numerical wage target. Although the target was the subject of considerable internal debate—both in the bureaucracy and later in cabinet[18]—Callaghan's government ultimately announced in its 1978 White Paper that the government would keep both wage and inflation to just 5% (when the previous year had seen inflation at 8% and wages at 14%).[19] This was an action that not only infuriated the unions, but also had little chance of matching reality, which ultimately saw inflation rising to 12% by the end of Labour's mandate (Holmes 1985: 125, Nelson 2004: Table 1, Beckett 2009: 437-438). As successive unions began to resist their employers' efforts to stick to the 5% wage guidelines, another round of strikes began. The images of hospitals closed and garbage piling up were used by Thatcher's Conservatives to paint a picture of a country falling apart in the context of the 'Winter of Discontent', an image that they translated into their electoral victory in the spring of 1979.[20]

Thatcher's attempt to change the inflation game

Although the Conservatives had ultimately relied on a combination of demand-management and incomes policies to managing inflation under Edward Heath in the early 1970s, the Party moved dramatically to the right under Thatcher, who vigorously rejected this strategy. Instead, she came to believe that inflation could only be managed through quantitative monetary rules. Together with the inner circle of her administration, Thatcher set out to put her convictions into practice once she was elected, seeking to radically change the inflation game in the UK. Yet she faced a political and economic context in which only a few of the necessary social practices and political relations were in place to support this new constitutive rule for monetary credibility.

Attempting to change the inflation game

The Conservative government did have a coherent and reasonably persuasive *narrative* outlining an alternate theory of the causes of inflation and the necessary solutions: monetarism, a theory whose revival by Milton Friedman in the 1950s and 1960s that ultimately provided the theoretical basis for the Thatcher government's early experiments with monetary rules. Friedman had famously argued that 'inflation is always and everywhere a monetary phenomenon'—in other words, that it was caused by an excessive growth in the supply of money in relation to economic output (Friedman 1970). Friedman's theory suggested that the key to controlling inflation was therefore to limit the growth of the money supply.

Monetarist ideas had gained in influence in the 1960s and 1970s in the UK, in part through the Treasury's significant dealings with the International Monetary Fund. Conservative think tanks, including the Institute of Economic Affairs and the Centre for Policy Studies, also played a key role in spreading these ideas among key governmental players, inviting them to informal lunchtime talks and seminars with Friedman, Friedrich Hayek and others (Beckett 2009: 272-276). A number of influential British economists combined Friedman's ideas with the insights of the rational expectations revolution, arguing that the key to controlling inflation was not just to limit the growth of money but also to limit government influence over that growth by publicly adopting a quantitative rule. The logic behind this particular inflation game was essentially the same one that is widely accepted today: once economic actors, including businesses, investors and wage earners, understood that the government was committed to a given rate of expansion in the money supply, then they would adjust their inflationary expectations (and wage demands) accordingly.

Although the members of Thatcher's inner circle, who maintained tight control over the development of economic policy, generally supported this monetarist approach, there was also considerable *dis*agreement not only in Cabinet, but also in Treasury and at the Bank of England.[21] From the very beginning of discussions about the new policy, Sir Douglas Wass, the Permanent Secretary of Finance asked 'does the quantification of your commitment add significantly to the strength and credibility of present policy and improve its chances of success?'[22] Such concerns about the credibility of a quantitative rule were also echoed by the Governor of the Bank of England, Gordon Richardson, not only in the early stages of planning the policy but well into its implementation.[23] Wass was also highly skeptical of the rational expectations-based assumptions of certain economists at the London Business School regarding the ease with which the new monetary rule would translate into lower inflation without recessionary consequences, characterising them as 'implausible to the point of incredibility'.[24]

As one would expect of a policy designed to shape the public's expectations about future prices, *ritualised performances*, particularly public declarations about the government's plans and political commitment to achieving them were also central. The Conservatives were very aware of what Treasury staff described as 'presentational' issues. In November of 1979, for example, as the government was facing pressure to increase interest rates in the face of a deteriorating monetary situation, there were detailed discussions about how to present the increase in order to avoid the perception that their policy was not working.[25] In a follow up note after one particularly tense meeting, Secretary of Finance, Nigel Lawson, suggested:

> We have a theoretical choice between playing down and playing up; between saying that everything is more or less on course, that we have simply had one month's freak figures, but that these do require an adjustment as was implied by our already-stated determination to adhere to monetary targets etc; or on the other hand dramatizing the situation in order to demonstrate our determination to adhere to our declared targets and root out inflation come what may, and to affect expectations favourably by the very drama of what we are doing.[26]

This note beautifully illustrates the government's acute awareness of the importance of the form and style of their declarations, as well as of the dilemmas that they were facing as they continued to miss their monetary targets.

The Thatcher government's efforts to create a new constitutive rule for monetary credibility also confronted very practical *operational* challenges. The chief operational practice that the government relied on was the publication of a set of quantitative economic targets, which was eventually formalised as the Medium Term Financial Strategy (MTFS) in March 1980. Earlier governments had already experimented with monetary targets before, in an unpublished form in the early 1970s, and as a published target in the context of the IMF's 1976 bailout package. Yet whereas both of these earlier efforts were combined with fiscal and incomes policy, this was the first time that the government's inflation-fighting strategy was designed to rely exclusively on monetary targets—a bold policy wager that sought to cut through the social and political messiness of endlessly renegotiated wage policies through a simple quantitative rule.

Making this rule-based inflation game work, however, proved to be more difficult than originally anticipated. As later research has shown, one of the key variables driving monetarist models, the velocity of money, began to decline, making it extremely difficult to control the money supply. It turned out that many of the deregulatory policies adopted by the Thatcher (and the Reagan) government, changed the social culture of money use. For example, allowing banks to pay deposit-holders interest on chequing accounts altered consumers' preference for holding cash. Removing all exchange controls and deregulating much of the financial industry, as Britain did, also allowed financial institutions to circumvent many of the Bank's efforts to control £M3 by moving funds offshore and using foreign currencies. (Backhouse 2002: 321; Elgie and Thompson 1998: 62). Yet, the very narrow conception of the social contained in the rational expectations framework did not allow for such complex feedbacks among different policies and the publics affected by them.

For a rules-based approach to work, a wide range of different actors beyond the government and the central bank would have to accept the idea that quantitative monetary targets were a credible way of reducing inflation, translate that belief into their expectations about the future price level, and *act* accordingly. This next step was particularly crucial among wage earners and union leaders, who had responded to a long history of ratcheting inflation by demanding ever-higher wages to keep pace. In the end, simply declaring a given target turned out not to be as effective in influencing expectations—or wage demands—as the Conservatives had hoped. In January of 1980, for example, British steelworkers went out on strike for the first time in fifty years to demand a 20 percent increase in pay (BBC 1980).

The credibility gap

In the midst of this political and economic turmoil, it is not surprising that the government found itself confronting a significant *credibility gap* in its anti-inflation policy. On the face of it, this was primarily a numerical gap, caused by the fact that the government continued to miss its targets. Yet, as the Governor of the Bank of England noted in February of 1981, this gap between what was promised and what was delivered raised more significant problems for the MTFS' credibility:

> The original idea of the MTFS had been a progressive strengthening of expectations of lower inflation, as the Government's targets were met, the fact that the targets had not been met now made credibility that much harder to sustain with new numbers.[27]

The very quantification of the rule, which was supposed to make it more credible, ultimately made it much less so, as Wass and Richardson had both warned.

The credibility gap that Thatcher faced thus bore similarities and differences from Callaghan's dilemma a few years earlier. While the Labour government's problem had been the deterioration of the popular legitimacy of their incomes policy which translated into a growing refusal by workers to sustain it through their wage settlements, Thatcher's government never managed to create a coherent inflation game in the first place. In spite of a great deal of talk about monetarism, there was not sufficient internal agreement among institutional actors on the credibility narrative; the government never quite got their operational practices to work, and they failed to predict the social feedback that occurred among their various deregulatory initiatives. While there were thus failures to anchor key credibility practices at all levels of the system, the most important of these was the failure to translate this new approach to inflation into everyday practices. Not only was the public not convinced of the credibility of this new inflation game, but they retained the power, through organised labour, to put that skepticism into practice. Working people thus acted on their fear of rising prices (a fear confirmed by escalating inflation rates, which ultimately reached 21.5 percent) by demanding higher wages and by mobilising their power to strike when those demands were not met.

By March of 1981, it was clear that the country was facing the most serious recession since the Second World War, as GDP fell by 6 percent and the unemployment rate nearly doubled to 10.4 percent (Backhouse 2002: 323). How could the government resolve the credibility gap in these difficult circumstances? One obvious solution—proposed by some of the harder-nosed economists who had advocated for a strict monetary rule—was for the government to stick to its targets come what may, and raise interest rates as high as was necessary to force monetary expansion down.[28] Yet, as other commentators have noted, in spite of Thatcher's insistence that 'the lady's not for turning', she was not willing to raise interest rates high enough to make the monetary targets work, because of the cost to businesses. In the discussions surrounding the increase in official interest rates to 17% in 1979, she was extremely reluctant to provide approval.[29]

In the end, the Thatcher government resolved the credibility gap by changing the game altogether—giving up on monetarism and relying instead on a very different strategy: adopting a radically deflationist budget in March of 1981, even the face of a terrible recession, and ultimately squeezing inflation out of the economy that way. While this move presented a rupture with the economic status quo (which saw Keynesian reflation, not deflation, as the best response to a recession) it was not the monetarist revolution that the government had set out to begin. Far from moving to a rule-based approach to monetary policy, in fact, the Thatcher government turned out to be a relatively active government in its relations with the Bank of England (Elgie and Thompson 1998: 63-65).[30]At the same time, by plunging the country into a brutal recession, the government was successful in seriously, and ultimately permanently, damaging the power of labour unions in the country—a move that would later make the adoption of a target-based inflation game much more feasible.

The golden era of inflation targeting?

What can these historical experiences with inflationary instability tell us about the uncertainties that we face today? After all, what is initially striking about these cases is their considerable differences from our recent past. Between the mid-1980s until the 2008 global financial crisis, the contemporary rule-based inflation game seemed to work flawlessly. The credibility *narrative* that I discussed at the very beginning of this paper—which assumes that to be credible, monetary policy should be rule-based and as free from discretion as possible—was widely accepted by both central banks and governments around the world. The constitutive rule articulated in this narrative was reinforced through a series of, by now familiar, *ritual performances* by central bankers of their diagnosis of the economic condition and the resulting interest rates that they had arrived at in order to achieve their inflation target. Such declarations signaled both their future plans and their commitment to maintaining a low-inflation target. The very fact of their independence from direct political oversight also signaled the elected government's commitment to this plan.

This general agreement about the rule-based inflation game was *operationalised* through a series of technical practices, ranging from the widespread adoption of central bank independence to the increasing convergence of monetary authorities on inflation targeting, the use of simple rules like the Taylor rule, and the increasing emphasis on communication and transparency.[31] This particular inflation game was also effectively translated into everyday practice, as a wide range of economic actors, including workers, investors, and financial institutions came to expect that the low inflation environment would persist, and came increasingly to identify that policy outcome with the success of the rules-based approach.

Yet, this inflation game did not work primarily because the *rules* acted as an anchor to economic actors' expectations, but rather because key *practices*—and the social and political relations that made them possible—themselves acted to anchor the credibility of the rules-based inflation game. If we take a second look at each of the inflation-management practices discussed above, we can see the thicker, more complicated social dynamics that anchored monetary policy. Even as the credibility narrative and ritual performances promised the effectiveness of an apolitical rule-based approach, central bankers were actually far more discretionary and inventive in their approach, as Alan Greenspan (2004) himself has admitted. Alongside the official operational practices of simple rules and transparent communications, moreover, central bankers pioneered a growing number of sophisticated micro-techniques designed to monitor, map and ultimately shape individual inflationary expectations and behaviours, as Douglas Holmes (2014) has shown. At the everyday level, workers' willingness to accept promises of low inflation was also clearly the product of wage repression in a social and political context in which workers' capacity to demand higher wages was dramatically reduced in comparison with the 1960s and 1970s (Montgomerie 2008, Economist 2009, Nathan and Nathaniel 2016). The credibility that this seemingly apolitical, rule-based order enjoyed thus depended on an enormous amount of active political work.

All of that political effort has not been enough, however, to make the rules-based inflation game work in the years since the 2008 global financial crisis. Although central bankers played a crucial role in keeping the global financial system from collapse and in fostering some moderate recovery, they were only able to do so through a series of radical experiments—including massive bailouts, quantitative easing and negative interest rates—many of which were designed to actively stoke inflation, in order to avoid the greater evil of deflation.

The next few years will reveal the full impact of these disruptions on the credibility of the current inflation game, but even now the effects can be felt—manifesting themselves above all as a growing disconnect between a largely unchanged credibility narrative[32] and an increasingly inconsistent set of supporting practices. Central bankers and governments alike have treated the unusual policies that they have been forced to adopt as temporary and exceptional interruptions rather than as a more profound change in the current rule-based order. While there have been discussions and proposals of changes to the current rules—a higher inflation target, for example, or the addition of further targets focused on growth and employment—such ideas remain very much at the margins for now.

As I noted at the very beginning of this paper, central bankers thus continue to talk as if inflation targets were still the only game in town, even as their actions clearly say otherwise. Although this refusal to admit the obvious may appear like a puzzle, it makes perfect sense once one sees monetary credibility through the lens of social practices: as something that is not produced through the publication of a target, but rather negotiated through a series of complex social and political practices that anchor the credibility of the current inflation game.

Central bankers have been required to practice a kind of doublethink in recent years. On the one hand, they are quite pragmatic and creative in their day-to-day efforts to manage the level of inflation in the post-crisis global economy. Yet at the same time they have no theoretical language with which to narrate these practices, since mainstream economic theory only gives them one way of understanding how inflation is created and managed—insisting that monetary rules are asocial anchors, while expectations are always rational. This initial dilemma is compounded by the fact that central bankers worked very hard during the Great Moderation to convince markets of this particular 'folk theory' of inflation management,[33] ultimately making it a powerful anchor for credibility. Changing the current inflation game—even modestly, by raising the inflation target or supplementing it with other measures focused on growth, for example—

therefore poses significant risks for central bankers. As one Federal Reserve working paper points out, even though there is good evidence to suggest that such changes would benefit the economy, they would backfire if financial actors believed that they would spark accelerating inflation, and acted accordingly (English et al, 2013). Central bankers have thus boxed themselves into a corner: they face a growing credibility gap as their inflation-targeting rhetoric loses touch with reality, but they are also afraid (with some reason) that they do not have sufficient legitimacy to make the jump to a new inflation game.

This same fear continues to play out even as we see the beginnings of a return to normal levels of inflation over the last few months, as pundits worry about the risks of returning to a 1970s-style spike in inflation (O'Brien, 2018). As this paper makes clear, such a return is unlikely given that workers simply do not have the same power to translate their expectations about inflation into the kinds of practices that would actually fuel meaningful wage increases. Yet, as Hay and Rosamond (2002) point out in their analysis of the power of globalisation rhetoric in European Union, if central bankers and policymakers act on this fear by ratcheting up interest rates, we will never know what would have happened if they had not done so.

Conclusion

This comparative historical study has demonstrated that, in order to understand how monetary credibility is produced, we need to flip the current economic orthodoxy on its head, seeing inflation targets not as the timeless and asocial anchors for economic actors' rational expectations, but rather as one among many possible constitutive rules for inflation games, which must ultimately be anchored through concrete social and political practices. By seeing inflation-management policy as a social process we can then begin to understand how a policy's credibility is dependent in the last instance on its political legitimacy.

This study of the 1970s, 1980s and recent years reveals that there are a number of different ways in which a legitimacy gap can translate into a credibility gap. The Callaghan government's incomes policy-based game unraveled when its legitimacy, premised on delivering a measure of real income gain to working people, was eroded. That erosion manifested itself in labour disruptions that effectively dismantled the key operational practices supporting the policy, and ultimately produced an electoral backlash that put the Thatcher government into power. Although Callaghan and his government hoped to use hard quantitative targets as a way of cutting through some of the messy negotiations with unions entailed by incomes policy, the *declining legitimacy* of the inflation game instead ensured that Callaghan's 5 percent wage target instead faced a significant credibility gap.

In the 1980s, in contrast, the Thatcher government sought to introduce an entirely new inflation-management order, in a context in which the necessary social power dynamics and practices did not yet exist. Although the new monetary and borrowing targets were supposed to avoid the messy political negotiations of incomes policy, they in fact came with huge political costs, requiring a higher level of interest rates than the Conservatives had a political mandate to impose. Their monetarist experiment ultimately collapsed in the face of a credibility gap driven by *insufficient legitimacy* to put the new inflation game into practice.

If the problem that produced the credibility gap of the 1970s was declining legitimacy, and that of the 1980s was insufficient legitimacy, then today's monetary policymakers are facing a double dilemma. They face *declining legitimacy* caused by the failure of this recovery to reverse decades of middle-income wage stagnation; by the growing irrelevance of their rules-based policy in the face of current political and economic conditions; and by their hypocritical refusal to acknowledge this disconnect and tackle the problems at hand. At the same time, like Thatcher, they have *insufficient legitimacy* (or at the very least lack the intellectual vocabulary) to make the leap to a new kind of inflation game.

These past experiences with credibility gaps provide some useful lessons as policymakers seek to move ahead in the present difficult context. Regardless of the siren promises of rational expectations theory, one should never assume that rules are an easy fix. Today, as in the past, part of the appeal of sticking to simple rules is the promise of avoiding difficult politics. And yet quantitative rules are no more a get out of jail free card today than they were in the 1970s and 1980s. Because market rationality is partial and profoundly social, rules do not provide an easy fix to the problem of the endogeneity of policy decisions. To make any inflation game work—whether it is rules-based or more discretionary—means actively fostering the right kinds of practices and creating the legitimacy that holds them together. Or, to put it more bluntly: 'It's the politics, stupid'.

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Notes

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2 A 'credibility gap' in monetary policy is traditionally defined as the gap between the central bank's stated inflation target and the markets' expectations of inflation levels. As I will argue further here, this paper is proposing a more complex conception of credibility gaps that focuses on the role of key social practices in producing and eroding monetary credibility.

3 There are monetary hawks (economists who are particularly opposed to loose monetary policy) in every country, as well as at international institutions like the Bank for International Settlements, an organisation that has frequently emphasised the need to raise interest rates in recent years.

4 In fact, as Braun points out, the Bank of England has recently refuted one of the central narratives about the nature of money (even as it has not changed its story about the effectiveness of inflation targets). So far, however, it does not seem that this

shift has resolved any of the more profound legitimacy challenges facing the Bank (Braun 2017).

[5] On the broader practice turn, see: (Schatzki, et al. 2001). In international relations, see: (Adler and Pouliot 2011, Best 2014, Best and Gheciu 2014: Ch. 1-2, McMillan 2017).

[6] For example, in his classic 1986 book, *Governing the Economy*, Peter Hall suggests that 'policy changed slightly' as a result of the difficulties in controlling £M3 (1986: 105), while in his influential 1993 article on policy paradigms, although he discusses the change in policy in some detail as an example of second-order change, he labels the paradigm that came to define the Thatcher and Reagan era as monetarism. Ironically, this has meant a general acceptance of the idea that there was a continuity in 'political monetarism', a phrase that was used in the early 1980s to obscure the U-turn in the Thatcher government's monetary policy. As a result, the literature has tended to understate the significance of the failure of the initial monetarist experiment in both the UK and the US, where the Federal Reserve stopped targeting the money supply in 1982.

[7] The logic here is that although individual economic agents can make mistakes, the population as a whole will not continue to do so, since it is not rational to continue make mistakes once you recognise the error.

[8] In fact, various attempts to control inflation through rules were abject failures. In the British case, Duncan Needham chronicles a series of failed attempts to control the money supply in the UK through quantitative targets throughout the 1970s, as well as earlier unsuccessful efforts to make growth targets work in the 1960s (Needham 2014: Chs. 2-4).

[9] As Braun has argued the 'folk theory of money' that central banks and economics textbooks propagated during the Great Moderation was in many regards quite wrong—but it was very useful in supporting central banks' efforts to keep inflation in check (Braun 2017).

[10] British National Archives. T377/244. HM Treasury. Counter-inflation publicity campaign 1975.

[11] This particular case thus provides insight into how a given set of practices can change over time – a dynamic that tends to be overlooked in much of the practice literature. Here, my analysis confirms Kevin McMillan's suggestion that practices are intimately connected to one another, so that shifts in one can lead to significant changes in another, 'which might mean only that the coherence and constitutive relations among its elements disappear or are substantially rearranged', yet which can result in another practice's disappearance (McMillan 2017: Ch. 8).

[12] This new credibility narrative was also quite effectively mediated by the press; for example, *The Times* published editorials in 1972 and 1974 that made explicit reference to the cost-push theory of inflation. (Editorials 1972, 1974). For further examples of British (and American) media support for incomes policies, see: (Nelson 2004).

[13] Stagflation combined high unemployment and high inflation, breaking with the Phillips Curve trade-off between the two.

[14] Although inflation was tackled primarily through fiscal and incomes policy in the 1960s and 1970s, governments and central bankers also used a range of monetary policy techniques to manage the value and flow of money. By the early 1970s in the UK, the Conservative government and Bank of England relied primarily on qualitative controls and the Bank Rate (Elgie and Thompson 1998: 58).

[15] For an interesting discussion of the equivalent policies in the United States during this same time-frame, see: (Widmaier 2008)

[16] Reading through the some of the discussions in the Labour Government Cabinet and in the Cabinet Economic Strategy Committee, as well as internal correspondence in the Employment and Treasury Departments, it is very clear how concerned the government was with maintaining support from the unions, the TUC in particular (although they were also very cognisant of the potential impact of individual unions' settlements on the overall level of confidence in the government's targets). This concern rises and falls throughout the Labour government's tenure, and becomes acute in the late months of 1978, as the failure of the 5% target becomes increasingly clear.

[17] British National Archives. PREM 16/1334. Counter-Inflation Bulletin V – Data to Mid-June 1977, Prepared by Counter Inflation Publicity Research Unit, June 1977.

[18] Although the 5% figure had been floating around Treasury at least since December of 1977, the first formal Treasury draft of the pay policy included a range (4-7%) rather than a fixed target, an option that was ultimately dropped, for the single 5% target. That number, in turn, was the subject of considerable debate in Cabinet, with a minority of ministers warning (rather presciently) that 'The likelihood was that [the unions] would simply ignore the new policy and negotiate pay settlements well outside the proposed limits.' British National Archives. T377/349. Memo from MG Jeremiah to Mr Littler and attached draft: 'Pay after July: White Paper', 2 June 1978; CAB 128/64. Conclusions of a meeting of the Cabinet held at 10 Downing Street on Thursday 13 July, 1978. pp. 13-16.

[19] The Chancellor had, however, floated the idea of a 5% target as early as December of 1977, while, as Martin Holmes and other historians have noted, Prime Minister Callaghan had included a mention of this target in an interview with the BBC January 1, 1978. British National Archives. LAB 112/240/1. 'The Pay Scene: Memorandum by the Chancellor of the Exchequer.' Summary and commentary by GA Brand, 21 December 1977; (Holmes 1987: 125).

[20] A crisis that the Conservative Party, as Colin Hay (1996) has argued, narrated very effectively as a crisis of the state.

[21] As Duncan Needham notes (2014), monetarist ideas had made some significant inroads into the Treasury via the IMF's imposition of monetary targets in 1967 and 1976, and the Bank of England had experimented with efforts to control the money supply in the early 1970s, but they concluded that they were largely unworkable.

[22] British National Archives. T 388/184. Paper and synopsis to Chancellor on 'Medium Term Financial Targets' from Sir Douglass Wass, 29 August 1979, p. 2.

[23] British National Archives. T 388/231. A J Wiggans, 'Note of a meeting held at No 11 Downing Street on Monday, 23 February 1981.' HM Treasury, 24 February 1981.

[24] British National Archives. T 388/184. Draft covering note on ‘A Medium Term Financial Plan’, by Wass to the Chancellor, HM Treasury, 6 November 1979.

[25] British National Archives. T 386/525. Minutes of a meeting of Chancellor, Governor of Bank of England, Financial Secretary and others, HM Treasury, 5 November 1979.

[26] British National Archives. T 386/525. Nigel Lawson, ‘Reflections on Friday’s Meeting.‘ Memo to the Chancellor. 12 November 1979, p. 1.

[27] British National Archives. T 388/231. Note of a meeting held at No 11 Downing Street on Monday, 23 February 1981. HM Treasury, 24 February 1981.

[28] This was the view of several of the economists present at a seminar organised by the government on the idea of a medium-term strategy. British National Archives. T 388/184. Note of a meeting held 5 October in the Chancellor of the Exchequer’s office, HM Treasury. 12 October, 1979

[29] In fact, at one point she suggested that ‘Treasury might be showing excessive seal in their effort to demonstrate that they were sticking to a policy of monetary discipline.‘ British National Archives. T 386/525. Note of a meeting held at 10 Downing Street on Friday 9 November 1979. HM Treasury. 12 November 1979.

[30] Although they formally retained the MTFS until 1986.

[31] I provide a more detailed account of the evolution (and limits) of this transparency-based approach to central bank accountability in: (Best 2016). See also: (McNamara, 2002).

[32] Juliet Johnson and Vincent Arel-Bundock provide some fascinating evidence of the inflexibility of central bankers’ narratives in their current research project (Johnson et al. 2016). Andrew Baker (2016) has also examined the tendency of central bankers to engage in ideational ‘suppression‘—retaining a commitment to inflation targeting in the post-crisis context in spite of little evidence of its effectiveness.

[33] I am borrowing the phrase here from Benjamin Braun (2017)