Introduction

Some government policies are costly. Others are unsuccessful. Rarely are they as unsuccessful and costly as they were for the Bank of England on Black Wednesday. On that day, in an attempt to defend the pound, the Bank spent in a few hours as much as the annual GDP of Bulgaria and Croatia combined. But it was all in vain. The United Kingdom abandoned the peg, along with the idea that it could one day join the euro.

In this book, I explore the various crises the pound went through over the last half century, from the end of the war to 1992, when Britain left the European Monetary Union. After the war, the pound was still the second most important currency in the world. Today, it is the fourth most important if we take the pound's use as a reserve currency. I explore the exchange rate crises that accompanied this loss of importance for the British currency in the international monetary system.

From after the war to 1992, the pound was almost always pegged to another currency. The dollar from 1945 and the Deutschmark after 1987. The various pegs meant that the foreign exchange rate dealers at the Bank were busy managing the exchange rate. This book tells their story. I ask one question: How did the Bank of England manage the currency?

The main argument in this book is that the Bank of England progressively lost control of sterling. In 1952, the Bank was still the largest player on the market. It could sway sterling in one direction or another. But as the 1967 crisis unfolded, the operations were more difficult. During the 1976 International Monetary Fund (IMF) crisis, the Bank showed that it could not devalue the pound discreetly without generating a large-scale currency crisis. In 1992, losses were so heavy and abrupt that the United Kingdom abandoned exchange rate management altogether. After this upsetting event, the United Kingdom decided to let the market, rather than the state, set the currency's value.

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During the Bretton Woods period, American policymakers thought that a crash in sterling would drag the dollar down with it (as I show in the first chapters). By the end of the period, this was no longer the case. The pound had lost its relevance. The United Kingdom was left to its own devices. Managing the pound became more difficult. This became apparent in 1976 when international support from the IMF came at a high political cost. The United Kingdom appeared to be begging for support. By 1992, the pound was no longer important enough for German policymakers to want to keep the United Kingdom in the exchange rate mechanism (ERM). Britain was pushed out of the future euro project without receiving German support to stay (as I show in Chapter 14).

Exchange rate management matters. Still today, most countries are on fixed exchange rate regimes. This forces them to intervene frequently on foreign exchange market. Many emerging economies and some advanced economies such as Denmark and Switzerland intervene on foreign exchange markets. Here I analyse the challenges raised by foreign exchange interventions. Taking a historical approach makes it possible to enter into a world that is mostly secret. Still today, central bankers rarely communicate about interventions. By looking at history, I show what happened behind closed doors.

Many monographs delve into sterling's management, analysing decisions by the government. This is not one of them. The focus here is in the interaction between the Bank of England and currency markets, not the government. The Bank of England, the main character in our story, never decided the value of the pound. The government took that decision. Remember that the Bank only became independent in 1997. And even today, setting the exchange rate management is the responsibility of the government, not the Bank. Here I look at the operational side of exchange rate policy, focusing on the executors, not the deciders. The Bank still had agency in its exchange rate management. It is this agency that we will analyse.

In this book, you will meet the very people who tried to manage (or possibly manipulate) the pound. These men (as they essentially were all men) are depicted in the middle part of the book. Despite the haircuts, which changed with passing fashions, these were very much operational people. While today's central banks are populated by economists with PhDs using (often overly) complicated models, these dealers were experts in day-to-day transactions and market animal instincts. They were essentially currency traders, but instead of generating profit, they aimed to stabilise the pound at the level the government wanted it to be. We will get to know them quite closely, reading their letters and memos. We will even eavesdrop on their phone conversations. Part of this book relies on transcripts of telephone conversations between the New York Fed and the Bank. They give concrete flavour to abstract international negotiations.

One of these dealers, Roy Bridge, was a bank official for over forty years. A colourful character, Bridge was at the very centre of British exchange rate management. In the first chapters, we will try to better understand him and his thought processes. As the years progressed, the field professionalised and people like Bridge became rare. Management at the Bank now mostly had a formal training in economics. One of these economists, William Allen, was working in the dealing room. Today, Allen is an economic historian. He was kind enough to read through parts of this manuscript to distil his knowledge, and correct some of my shortcuts and flawed explanations. He also provided a minute-by-minute description of Black Wednesday.

Beyond the Bank, this book also has its fair share of heroes and villains. Civil servants who at times helped or hindered international cooperation. Charles Coombs was a key force in the golden age of central bank cooperation during the Bretton Woods period. He increased communication and cooperation between the Bank of England and the Federal Reserve. He was a firefighter, preventing the international monetary system from collapsing. Bundesbank President Schlesinger is also important in our story. We will get to know him better when delving into the 1992 ERM crisis. He was a force against monetary cooperation. He sealed the fate of the pound, ending almost two centuries of fixed exchange rates.

Several other monographs cover related topics. My work is in dialogue with the official history of the Bank of England by Harold James, but with a narrower focus on exchange rates and further quantitative analysis.[1] This story is also in conversation with Catherine Schenk's work on the decline of sterling, but again here the focus is more quantitative and less on the sterling area which Schenk analyses.[2] My analysis also complements and updates the 1983 history of sterling crises by Alec Cairncross and Barry

[1] Harold James, *Making a Modern Central Bank: The Bank of England 1979–2003*, Studies in Macroeconomic History (Cambridge: Cambridge University Press, 2020), https://doi.org/10.1017/9781108875189.

[2] Catherine Schenk, *The Decline of Sterling: Managing the Retreat of an International Currency, 1945–1992* (Cambridge: Cambridge University Press, 2010).

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Eichengreen, adding the missing history from 1967 to 1992, and updating their analysis with new archives, data and literature.[3]

But first, let us look at the pound after the war. Sterling was still the second most important currency in the world as the story begins. The Bank was instrumental in setting the exchange rate.

3 Alec Cairncross and Barry Eichengreen, *Sterling in Decline* (Oxford: Wiley-Blackwell, 1983).