

## Review for Central Banking

Ulrich Bindseil, **Central Banking before 1800: A Rehabilitation**, Oxford University Press, 2019, 322 pages

Many of us raised in the Anglo tradition had the impression that the Bank of England had been the first central bank. With a bit more time and some slightly less superficial perspective, we became hazily aware that the Riksbank had been founded 26 years earlier (although still missing the fact that the Riksbank was not even the first Swedish approximation to a central bank – Stockholm's Banco, the first issuer of modern banknotes, had operated for a decade previously). Ulrich Bindseil's new book decisively corrects all those impressions.

Bindseil's day job is Director General of Market Operations at the European Central Bank. But in this book he has made a significant contribution to the literature on the history of central banking, making a persuasive case that many of the other early institutions - dating back as far as the *Tauli de Canvi* that operated in Barcelona from 1401 to 1453 – deserve the label of “central bank”. Of the 25 institutions he reviews - including in a detailed annex which will surely be a standard future reference source – that were founded before 1800, ten were founded well before the Riksbank, and most operated into the 19<sup>th</sup> century. Most of them operated in major commercial centres in what we today know as the Netherlands, Germany, and Italy.

Survivorship bias probably mostly accounts for the gaps in general historical knowledge of central banking. Had the Hamburger Bank (1619-1875) or the Bank of Amsterdam (1609-1819) survived as the central banks of Germany or the Netherlands there would be a rich tradition of scholarship, and conferences etc sponsored by those central banks. And although, for example, the Bank of Scotland survives within the Lloyds Banking Group, its history was mostly as an independent commercial bank - albeit a note-issuing one in Scotland - not the central bank it was initially founded as. The Bank of England's pre-eminence in the historical memory, of course, is easily explained by the dominant place it, and the UK more generally, played in the world economy and financial system for decades. But, as Bindseil notes, the founding of the Bank of England itself reflected intense debate in England over decades, including pamphlets and papers reviewing many of the other “central banks” - from places that mostly then had more extensively developed financial markets and banking systems - that are reviewed in this book.

But part of what Bindseil also does is to review what it means to be a central bank. Relative to much of the literature, Bindseil de-emphasises the lender of last resort function (“useful for society...not a necessary element of central banking”), noting that other agencies can and have fulfilled that role (divertingly, he quotes from Tacitus on the Emperor Tiberius's extensive zero-interest term loans to counter the Roman financial crisis of 33 AD). On the other hand, he emphasises two points: first, that the key feature of central banking is “the issuance of highest quality, quasi risk-free financial money accepted for settling all other financial claims” (which need not, and often did not, include banknotes as we now know them), and secondly that all these early institutions were set up with an explicit public policy mandate, often including a desire to lower effective interest rates.

We typically, and perhaps inescapably, interpret central banking history through a lens in which (almost) every country now has its own central bank. Bindseil tends to take for granted the benefits of central banking, and in his brief mentions tends to be dismissive of the US experience in the 19<sup>th</sup> century, largely without a central bank. It is well to remember that in 1910 – little more than 100 years ago - three of the four countries with then the highest real GDP per capita did not have a central bank, but those are comparisons for a different book.

Bindseil ends the book with a section on the universal challenges (fifteen of them) that he sees central banks as having faced. He sees a “striking continuity” in many of those issues from the fifteenth century through to today. In places it is a bit of a stretch, and he is perhaps keener to emphasise the similarities than the profound differences. Countercyclical macroeconomic stabilisation, for example, just wasn’t the focus in earlier centuries, even if there were incidental benefits from the activities of these early ‘central banks’ But among the items on his list of similarities, others have perhaps an even deeper resonance right now, amid the coronavirus economic and financial crisis, than they would have when the book was published just last year. Among them, issues around the appropriate asset composition of a central bank’s balance sheet, as well as the never-ending questions about the appropriate extent of central bank independence, especially when goals aren’t clearly defined and accountabilities not clear, that Paul Tucker so ably canvassed in his book a couple of years ago.

Other scholars will probably quibble at the margins about points Bindseil emphasises, but that process itself is how knowledge and understanding advance. Perhaps my only quibble is that it is evident that from the text the author isn’t a native English speaker: the book isn’t hard going at all, but in places Oxford’s editors could usefully have made suggestions that would, at the margin, have improved readability.

All in all, Bindseil’s book is an excellent resource and - in the words of his title – rehabilitation, and will surely be a standard reference point for years to come for anyone wishing to understand where and how central banking began to emerge.

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