



Sir John Houblon
Governor (1694-97)

The Houblon-Norman Fund



Montagu Norman
Governor (1920-44)

The Houblon-Norman Fund was established by the Bank of England in 1944 on the 250th anniversary of the Bank's foundation. Later this year the resources of the Fund will be increased by £500,000 as a permanent celebration of the Bank's tercentenary. This will enable the Fund to continue to award fellowships to researchers of high calibre and to increase the number of such fellowships. This article⁽¹⁾ describes the history of the Fund and the type of fellowships which will be offered in the future.⁽²⁾

Origins

During 1943 and early 1944 the Bank of England considered various proposals to mark its 250th anniversary. Many came under the general heading of education, and the origins of the Houblon-Norman Fund can be traced back to a suggestion that the Bank should establish a charitable endowment to fund research studentships for the study of banking, especially subjects relevant to central banking. The Bank recognised the importance of research and that it could not fail to be interested in—and often influenced by the results of—research into monetary and business conditions, even though it had by that time made little overt contribution to such research.

There was considerable discussion of the scope of research which the Fund should support, the amount of the endowment, and the title of the Fund. It was agreed that the scope of research should be defined widely, since there were no recognised limits to the interests of central banks and to ensure that an adequate choice of candidates would always be available. The Foundation Trust Deed of the Fund, dated 27 July 1944, states that the objects of the Fund are:

‘to promote research into and disseminate knowledge and understanding of the working, interaction and function of

financial and business institutions in Great Britain and elsewhere and the economic conditions affecting them, and to this end: (i) to facilitate any relevant studies or research by the award of fellowships, the making of grants in aid of expenses, or otherwise; and (ii) to promote the dissemination of knowledge acquired by such studies or research by making grants towards the expenses of publishing their results, or otherwise’.

The amount of the Fund was set at £100,000, which was intended to provide an annual income of around £3,000 and to fund around ten awards each year, of which perhaps three might be fellowships. The Fund was to be invested by custodial trustees, but recommendations for making awards would rest with an expert advisory committee. Although more frivolous suggestions included ‘The Old Lady’s Stocking’, the title of the Fund was chosen to honour the first Governor of the Bank, Sir John Houblon, and the then outgoing Governor of the Bank, Montagu Norman.

Sir John Houblon, the grandson of a Huguenot refugee, had already achieved eminence as a merchant in the City of London when, in July 1694 and at the age of 66, he became the first Governor of the Bank of England. Because of his standing and reputation, he was able to attract public support

(1) Prepared by C B Briault in the Bank's Economics Division.

(2) Researchers interested in applying for Fund Fellowships should request further details from The Secretary of the Houblon-Norman Fund, Economics Division, Bank of England, Threadneedle Street, London, EC2R 8AH.

for the Bank and for its role in funding the national debt. His skill and adroitness were necessary to guide the new Bank past the crises and threats posed by rival institutions during its early years. He maintained confidence in the new Bank when, for example, during the Great Recoinage of 1696, it was temporarily obliged to declare its notes inconvertible because of the inability of the Royal Mint to produce enough coins. The achievements of Sir John and his fellow Directors were described by Lord Macaulay in his *History of England* as a 'deep and solid foundation' upon which 'was to rise the most gigantic fabric of commercial prosperity that the world has ever seen'.

Montagu Norman was perhaps the only other Governor to leave such an indelible mark during the Bank's first 250 years. Having joined the Court of Directors from the merchant bankers Brown Shipley in 1907, he became Deputy Governor in 1918 and served as Governor for an unprecedentedly long period from 1920 until ill-health forced him to retire in 1944, just a few months before the Bank celebrated its 250th anniversary. During his governorship, not only did the Bank present a different face to the world with its rebuilt Threadneedle Street head office, but its philosophy changed, moving from being a national bank with commercial constraints into a central bank. It was Montagu Norman who propounded the notion of the central bank as an institution at the heart of a nation's finances, acting *pro bono publico* and independently of political influences. It was also largely through his initiative that the Bank for International Settlements was established in Basle.

Lord Keynes, who was then a member of the Court of Directors of the Bank, commented favourably on the proposal to found an endowment for research, observing that 'apart from points of detail, the general conception of the proposal seems to me to be altogether admirable'. The public announcement of the Fund at the end of July 1944 was welcomed by *The Economist* as 'a handsome gift to the nation . . . Facilities for economic research are a necessary element in the long-term reconstruction of British finance and industry. Carefully administered and allotted, the Fund cannot fail to prove money well spent.'⁽¹⁾

History

Since its establishment in 1944, the Fund has been kept under continuous review by the Trustees, the Advisory Committee and the Bank itself. During the early years, most of the discussion of the Fund focused not only on questions relating to the investment of the original endowment, but also on who should receive awards, how large these awards should be and the appropriate scope of research.

During the Fund's first twenty-five years some 250 awards were granted. Of these, only eight were for fellowships—three were awarded in 1946, but no more than one in each of the next eight years (no fellowships were awarded between 1955 and 1981). The amounts awarded for fellowships were

generally in the region of £500–600. Most of the grants were for smaller sums, averaging £200 over the first ten years and £400 over the next fifteen years, but ranged widely in amount from £20 to £1,600.⁽²⁾ The costs of administering the Fund were borne by the Bank, and have been ever since.

Most of the awards were made to graduate research students at universities; but a small number went to more established academics who already held lectureships or professorships. In the 1940s and 1950s recipients of awards included senior academics such as Professors Ford and Hyde, together with a number of younger academics who were at the early stages of careers in the area of monetary and financial economics, including Stuart Wilson, Brian Tew, George Clayton and John Fforde, who later joined the Bank and subsequently became one of its Executive Directors. Awards were also made, particularly in the earliest years of the Fund, to researchers without any university affiliation, including school teachers and staff of the Bank of England. Although not laid down in the Trust Deed, the Advisory Committee had expressed a preference in 1945 to make awards to British-born subjects, with fellowships restricted to those normally resident in the United Kingdom. This rule was generally applied, although some exceptions were made, in particular for candidates born in Commonwealth countries who were studying at British universities.

As is clear from the size of the awards at the time, the Advisory Committee was prepared to make substantial grants for large research projects, some of which involved overseas travel. But there was also a more difficult consideration which has remained a concern throughout the history of the Fund: to what extent should the Fund make larger awards to attract candidates of the highest possible calibre? The Trustees agreed at an early stage that the Advisory Committee should have the discretion to make recommendations on this basis, but there were few cases where this proved to be a major consideration in granting an award.

The Trustees also confirmed, in 1948, that the scope of the Fund should be interpreted widely. At that time many of the best candidates applied for awards to finance research in the field of economic history, a trend which continued until the early 1970s. Almost half of the awards made until 1970 were for research in economic history, whereas less than a quarter were for topical research in banking and finance. This probably reflected the overall disposition of economic research at the time, with economic history being a long-established subject, whereas what would be regarded today as mainstream microeconomics and macroeconomics were very much in their infancy. Although the bias of awards towards economic history became an increasing cause of concern, it was recognised that these research projects tended to be among the cheapest to finance (awards in this area were, on average, lower than those granted for other fields of research), the quality of applications received

(1) *The Economist*, 5 August 1944, page 182.

(2) On the basis of the retail price index, an award of £200 made in 1950 would be broadly equivalent in real terms to awards of £300 in 1960, £450 in 1970 and £1,600 in 1980.

for such research was high, and for much of this period there was a dearth of other sources of finance for research in economic history, so the Fund was virtually the only recourse for researchers in this area.

Most of the research projects which were accepted were clearly related to central banking, such as 'The development of the London money market', 'The extent and impact of hire purchase in the United Kingdom' and 'The economic effects of index linking in the money, bond and insurance markets'. Perhaps inevitably, however, a small number of the research subjects appeared to be less relevant, including 'The history of ley farming in the Midlands in the 16th, 17th and 18th centuries' and 'Rural England in the feudal age'.

In the early 1960s the size of the Fund became an increasingly important issue as it became clear that the Fund's income was not keeping pace with the growing demands upon it. In particular, the general standard of applications was improving and there had been significant increases in academic remuneration (which had been increasing somewhat faster than the national average), the cost of travel and the amounts required for the subsistence of researchers pursuing their studies at home and abroad. The Fund could therefore no longer promote research on the scale contemplated at its foundation, even though full advantage had been taken of the wider investment powers allowed by the Trustee Investments Act 1961.

As a purely temporary measure to ensure that the Fund's work continued at a level which the Trustees considered to be the minimum appropriate, the Bank agreed to make a subvention to the Fund of £2,000 a year for five years from 1964. But it was soon recognised that a more substantial injection of funds was required, and in 1967 the Bank increased the resources of the Fund by £50,000. This enabled the Fund to continue making around ten awards (all in the form of grants) a year. The recipients continued to be a mixture of eminent academics (including Professors Jewkes, Laidler, Phelps Brown, Sayers and Titmuss, as well as Thomas (later Lord) Balogh, Michael Posner and Dick Sargent) and younger research students.

In 1971 an internal review of economic research within the Bank marked the beginning of an important turning point in the role of the Fund. The Advisory Committee was asked to consider whether the Fund should change from awarding a large number of small grants each year to making fewer but larger awards, or even to offer only a single fellowship each year, tenable at the Bank of England, with the Bank providing a room and secretarial and computer facilities. This could be of greater benefit to the Bank in terms of the quality of research undertaken and the potential for interaction with economists and others at the Bank. Meanwhile, the establishment of the Social Science Research Council and the Nuffield Foundation—both larger than the Houblon-Norman Fund—had provided alternative sources of grants for academic researchers. The Fund was therefore in danger of being marginalised, but the

Fellowship scheme offered an opportunity for it to make a unique contribution that was not available from other grant-giving bodies.

The Advisory Committee conducted a major review of the Fund during 1972, and made two recommendations to the Trustees. These were the establishment of a Houblon-Norman Fellowship, tenable at the Bank for one year; and the maintenance of the grant awards, but with greater emphasis on more topical subjects and, where possible, in areas of more direct interest to the Bank. It was recognised that the Fund would require a further injection of resources to meet both of these recommendations.

Discussion of these recommendations among the Advisory Committee, the Trustees and the Bank continued intermittently throughout the next ten years. One reason for this delay was that the recruitment of contract economists by the Bank during the 1970s (including John Flemming and Rupert Pennant-Rea, who both subsequently returned to take up senior positions at the Bank) weakened the argument for a Fellowship tenable at the Bank. It was agreed, however, that the possibility of appointing a Fellow on the lines proposed by the Advisory Committee should be left open.

During these discussions, the Fund continued to award an average of ten grants each year. Ninety-seven grants were awarded between 1971 and 1980, averaging £600 each, although by the end of this period the typical grant had risen to between £1,000 and £2,000. The research subjects supported by these grants were much more closely related to central banking than was generally the case during the earlier years of the Fund, including work by Tony Courakis on 'The demand for financial assets by the UK personal sector' and by Brian (later Lord) Griffiths on 'The Dalton experiment of cheap money'.

The first Houblon-Norman Fellowship tenable at the Bank under the new arrangements was awarded in 1981 to Professor Marcus Miller to undertake research into 'The policy implications of efficient financial markets in an open economy with a non-clearing labour market'. The decision to make this award reflected the high calibre of the applications and it was agreed that a further Fellowship could be awarded the next year as part of the experiment with this new approach. In the meantime, the Fund continued to award grants, although these were fewer in number than before, in part because fewer applications were received.

Although no Fellowship was awarded in 1982, Professor Dick Sargent was awarded a Fellowship in 1983 to study 'Productivity, profitability and unemployment', and it was decided that from then onwards the Fund would only grant awards for Fellowships tenable at the Bank. Since then the Fellowship has been shared in some years between two researchers, for six months each. All of the Fellowships have been held by researchers with strong academic backgrounds, whose research subjects have been closely related to the interests of the Bank, including Professor

David Currie on 'Expectations, financial buffer stocks and private sector portfolio behaviour', Professor Colin Mayer on 'An international study of corporate financing', Professor Michael Artis on 'The operation and long-term credibility of the European monetary system' and Professor Peter Kenen, an American academic, on 'Macroeconomic policy co-ordination and exchange rate management'.

Future

As in the 1960s, the Fund faced increasing difficulties in the 1980s in meeting the cost of supporting the research of high calibre academics. In response to an earlier suggestion from Sir George Blunden, made when he was Deputy Governor of the Bank, the Trustees concluded in 1992 that they were in favour of an increase in the resources of the Fund to mark the Bank's tercentenary, and commented that such an increase should in part be used to extend the Fellowships to continental European academics. The Court of Directors of the Bank agreed in April this year that the Bank would make a contribution of £500,000 to the Houblon-Norman Fund to maintain the Fellowship programme and to support its extension to candidates from outside the United Kingdom. This doubling of the resources of the Fund represents a permanent means of celebrating the Bank's 300th anniversary.

Meanwhile, the Advisory Committee had been considering the difficulty of attracting high calibre academics to work full-time at the Bank for six months or a year, since this did not always coincide with the periods they could be away from their institutions. The Committee recommended in 1992 that there should be scope to award Fellowships for variable periods, albeit not normally for less than one month, nor longer than one year; that the period of time spent at the Bank need not necessarily be continuous; and that a distinction should be made between junior and senior Fellowships, with the senior Fellowships open to all nationalities and the junior Fellowships available to younger post-doctoral or equivalent applicants, with a preference that they should be British or EC nationals. As in the 1972 review, emphasis was also placed on encouraging interaction with Bank economists during the Fellowships, bringing benefits to both the Fellow and the Bank. The Trustees agreed to these recommendations which formed the basis for the three senior Fellowships granted for the academic year 1993-94, to Professor John Campbell to undertake research on 'Index bonds, inflationary expectations, asset pricing and monetary policy', Professor Richard Dale on 'The prudential regulation of securities firms within the single European financial market' and Professor Gary Gorton on 'Bank loan pricing and the monetary transmission mechanism'.