

unhonored in their own countries, free banking economists have blamed the blindness of their colleagues.

Central Banking and State Self-Interest

Central banks have, in virtually every case, been established by a formal act of government, though in a number of countries this has involved bifurcating an existing main (though again often government-owned) commercial bank which already had been undertaking some quasi-central-banking activities. The fact that central banks are, in this sense, government artifacts is one reason for the Hayekian view that, by the same token, they cannot be part of the natural evolutionary order. Even worse, much of the incentive for governments to found such banks, at least in the early years of central banking (say before 1850), was financial self-interest. Initially the government benefited by requiring its chartered bank to invest most of its capital in government bonds. Furthermore, the chartered bank was often required, as in the case of the Banque de France, to hold interest rates down, which would reduce the interest burden on government debt; and in times of war and other crises, the government would look to the bank for relatively cheap loan finance, irrespective of the condition and proportion of its specie reserves.

If one should date the end of free banking in England to the founding of the Bank of England in 1694, then seigniorage would have been the main explanatory cause (out of Schuler's three). In fact, however, Schuler dates the end of free banking in England and Wales to 1844 (and in Scotland and Ireland to 1845). He places the greatest emphasis on the end of commercial banks' freedom to increase their issue of bank notes.¹² This progressive centralization and monopolization of note issue was *not*, however, usually done in order to increase government revenue through seigniorage. With the Bank of England being privately owned, and the fiduciary issue limited, the Bank Charter Act was not seen as having much, if any, impact on government access to resources, and the discussions concentrated on theory rather than seigniorage. That was also true for most of the other central banks established before 1914, such as those in Germany, Switzerland, and the United States, as Schuler, of course, recognizes; but he claims, unconvincingly, that seignor-

age was the main cause of the abolition of a plurality of note issue in Italy (1894) and Sweden (1901).¹³

Thus the basic case for the monopolization of note issue in central banks had been established by 1914 under gold-standard conditions in which considerations of seigniorage were usually either second-order or nonexistent. Moreover, the Brussels and Genoa Conference resolutions in the early 1920s, which Schuler (*EFB* 36) cites as important in generating support for central banking, were passed in the hope and expectation of a quite rapid restoration of the gold standard. Once the gold standard collapsed again in the 1930s, and a regime of fiat money became generally established, seigniorage became, once again, significant as a potential source of revenue. But during the decades in which central banking became the dominant system for monetary management, roughly 1844–1935, in my view it is difficult to claim that seigniorage, or government cupidity for resources, played much of a major role in such discussions and development.

Accordingly, much of the concern about the role of central banks as mechanisms for raising funds for government, e.g., via an inflation tax, comes either before 1850 or after 1945. But in the earlier periods the government's chartered bank was, and behaved, more as a (grossly) privileged competitive commercial bank than a modern-day noncompetitive central bank. Much of the criticism of the malign effects of the Bank of England and Banque de France on the growth of strong, self-sufficient commercial banking systems in England and France before 1850¹⁴ was not on the grounds that these banks acted as a modern central bank would, but on the grounds that they did not. Many free-banking studies, such as Nataf's paper on free banking in France in the period 1796–1803 (*EFB* ch. 7), comparing conditions before (better) and after (worse) Napoleon's establishment of the Banque de France, as well as some parts of the now numerous exercises comparing the state of commercial banking in Scotland¹⁵ (better, but see Sechrest, [*FB* ch. 5] for some qualifications) and England (worse) before 1845, are of only tenuous relevance to the current debate; central banks, commercial banks, and financial markets have, after all, changed and developed since 1844!

At several points in both books, the case for the superior historical performance of free banking systems rests on a comparison of the gold standard plus free banking against fiat money plus a cen-