enthusiastic economists, including Kevin Dowd, David Glasner, Arthur Rolnick, George Selgin, Roland Vaubel, and Juerg Weber. The two books which form the basis for this review article, *The Experience of Free Banking*, edited by Kevin Dowd (London: Routledge, 1992), and *Free Banking: Theory, History and a Laissez-Faire Model*, by Larry Sechrest (Westport, Conn.: Quorum Books, 1993), are examples of this rapidly growing genre. Advocates of this approach are, of course, keen to make associated policy proposals. Nevertheless, in keeping with the focus of CRITICAL REVIEW on historical and theoretical issues, I shall concentrate here on the free-banking theorists' historical analyses of the performance of earlier free and central banking systems, rather than debating their policy preferences.

Following a brief general introduction by Dowd, and a much longer and comprehensive comparative survey by Kurt Schuler of historical experiences of more or less free banking episodes around the world, *The Experience of Free Banking*, henceforth *EFB*, provides nine chapters on particular historical occasions in various countries, from Australia to the United States, via Colombia, Foochow, and Switzerland, by some eight authors, including White, Selgin and Weber. Sechrest's book, *Free Banking*, henceforth *FB*, extends and develops the analysis and arguments of White's initial work, and even more closely bases itself on Selgin's 1988 book, *The Theory of Free Banking*.[6] Most of Sechrest's book consists of (comparative) analysis of how a "free," fractional-reserve banking system, with its note and deposit liabilities convertible directly into a specie (gold) base, might work as compared with the present central bank/fiat money system, or alternative approaches, such as the 100 percent reserve base (Rothbard-Mises)[7] model, or the Yeager-Glasner[8] indirect convertibility, constant unit of account model. In addition, two historical chapters examine the extent to which Scotland's pre-1845 experience and U.S. free banking between 1837 and 1863 could be described either as "free" or successful.

The inherent strength of the free banking case arises from two main arguments. The first is by analogy, an application of a more general argument to the special case of banking. Free competition, within an infrastructure based on, and circumscribed by, the general rule of law, provides under most (normal) circumstances the most efficient, reliable, and stable basis for our economies. What, then, is so different about the business of banking, or of particular aspects of banking, such as note issue, that there is a need for a central bank to monopolize note issue, to control and set the short-term money market rate, and to impose a variety of additional regulations, such as reserve and liquidity requirements, capital adequacy requirements, and so forth, on banks? The second main argument is that central banks have, too often for comfort, made a hash of their job of running the monetary system, either in terms of the macroeconomic objective of price stability or of the microeconomic objective of maintaining a healthy and efficient banking system.



Free banking authors typically argue that experience with central banking compares relatively poorly with that of prior historical episodes of free banking. As Schuler notes (*EFB* 36–37), however, free banking had been superseded by central banking regimes virtually everywhere by about 1914. This leads to the question, which I shall discuss at greater length below, why free banking was abandoned if it was so beneficial and good where it occurred? Furthermore, the present trend is in the opposite direction—to give central banks *more* autonomy and independence from politicians, on the grounds that inflation has been due to the subservience of central bankers to politicians with a short time horizon (an election to win) and/or an exaggerated concern with unemployment. In the United Kingdom, for example, there has been a high-level Roll Committee Report,[9] a recent House of Commons Select Committee Report,[10] and an independent Member's Bill before the House, all recommending greater independence. The Maastricht protocols for the proposed European System of Central Banks are based on the need for central bank independence, both at the level of the European Central Bank and for the national member central banks. The tide has been running in the same direction in New Zealand, South Africa, and Latin America (e.g., Mexico and Chile).

Given these circumstances, free banking is not (yet) taken very seriously by central bankers or by other practitioners, and its advocates are (to be brutal but truthful) viewed as a small fringe sect of academic economists. This has, in fact, been their image since the effective conclusion of the British monetary debate with the passage of the Bank Charter Act in 1844.