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MASTER'S THESIS

Central Banking: Political Opportunism or Economic Necessity?

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Master Thesis Proposal

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Topic Characteristics:

My thesis is going to focus on the creation of central banks, and whether they are created due to politically motivated factors or if the mainstream views that free banking failed, and thus for required the state to create a currency and ensure a monopoly.

Currently, the mainstream view remains that central banks were created out of economic necessity, which would generally help to reduce transaction costs, prevent bank runs, and ensure that markets have a stable currency. Many of these statements in the recent financial crisis have begged questions on whether central banks are nothing more than political tools, rather than accountable and proper institutions that serve the market place.

To verify this issue, I plan on looking at historical periods, in the United States, Scotland, Australia, Sweden and Switzerland, which had a free banking era, and to verify their bond yields on government debt, before and after the transition. I will follow this with an expanded outlook at the central bank acts, which followed. And then I will conclude with looking at periods of financial stability/instability during the free banking era.

My goal is to see if there is a strong link between political motivations for nation planning, through verifying the yield of government bonds between both periods, as to establish whether governments wanted to push yields to a lower level, and thus finance large government programs. I also plan on gaining insight through the central banks acts which are prone to guidelines and reasoning, and whether there was any real motivation for the central banks, which resonated in the acts. And to finalize, by verifying if the economic necessity was truly the case, with understanding if the case that bank runs and other economic downturns were prevalent under the free banking system. The length of my data will fall upon diverse historical records of bonds yields, the central bank acts and historical texts focusing on the free banking era.

Working hypotheses:

1. Hypothesis #1: Central Banks were created for engaging in nation building, through using the central bank as a method to reduce bond yields and make it easier to finance spending.
2. Hypothesis #2: Central Bank Acts have no extensive reasoning for why central banks should be implemented.
3. Hypothesis #3: Free banking did not lead to economic instability
4. Other hypotheses:

Methodology:
Concerning the bond yields data, I will use a historical approach through gathering documentation on historical bonds yields from the diverse case studies I plan to analyze, in which I will compare those yields with modern yields and attempt to see if there is a positive or negative correlation between increased government spending and central banking era bond yields. I plan on acquiring the data from numerous books, but also from academic articles which have acquired a historical overview. Many of the modern data, I will be able to acquire from either statistical services or central banks from all my case studies. In analyzing the central bank acts of the countries in my case studies, I will look at the central bank acts, and I will acquire them through access to the diverse parliamentary websites. I plan to further verify the free banking era through a historical perspective, by analyzing a combination of books and academic articles from Lawrence H. White, followed by other academic articles that elaborated on the free banking era. I will rely mostly on historical research gathering and document analyses. I will also include case studies, which will include the United States, Scotland, Australia, Sweden, and Switzerland.

Outline:

1.Introduction

2.Theoretical backgroud and the review of world literature

3.Government Bond Yields (Free-Baking era vs. Central Banking era)

a. United States
b. Scotland
c. Australia
d. Sweden
e. Switzerland

4.Central Bank Acts

a. United States
b. Scotland
c. Australia
d. Sweden
e. Switzerland

5. Free Banking era stability of financial markets (bank runs & currency crises)

a. United States
b. Scotland
c. Australia
d. Sweden
e. Switzerland

6.Conclusions

7. Potential Bibliography/References

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DECLARATION:

I hereby declare that this thesis is my own work, based on the sources and literature listed in the appended bibliography. The thesis as submitted is 101 590 keystrokes long (including spaces), i.e. 53 manuscript pages.

Justin M. Donelle		Prague, May 18th, 2012
Name	**Signature**	**Date**

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1. Introduction

Political Science is a complex field. Not only is the discipline constantly influenced by people who have political agendas but nonetheless, political science should be conducted in an environment of changing minds. The political scientist must always conduct himself in a manner that challenges all aspects of society, by looking at the process of institutional creations by governments. The political scientist must have an open mind, and critically evaluate the motives and reasoning behind actions taken by politicians, and institutions. The political scientist must go to the furthest ends in attempting to solve policy problems, but to also acknowledge the need to understand profoundly economic theory, as it serves as the foundations for financing and shaping our current society. Without taking this diverse method to analyze society, political scientists will neglect the problems that face our society, and simply focus on utopian goals, which cannot be reached with theory alone and the belief of all beings being graceful and holly.

At the same time, economists must ensure to continuously increase their interpretations of government actions, and not simply accept government institutions as the ultimate solution to all problems. Economists must take into greater consideration the evolution of institutions and diverse laws or government monopolies, and not simply challenge the conventional view for a minority, but must look at all institutions and the political motivations behind their creation, to bridge a greater understanding on whether they were politically motivated or economically necessary.

This is essential in the current climate of great instability, with the world entering a period of slowdown, the United States saddled with a mountain of debt, and the European Union’s project of a common currency, the euro, being proven to be the greatest blunder in modern history. The root of the cause in many ways is attributed to too much debt, but yet, that is what our current monetary system does encourage, whether through inflation targeting or any other mean. Despite this criticism, and the multiple counter-arguments, it remains open to the real view of whether our current monetary system is unsustainable. As political scientists either blame a lack of government regulation, or the failure of capitalism, they seem to neglect the most basic analysis of business cycle theories. As well, they seem to lack the knowledge of how the central banks of today were created, and why the government needed a monopoly over a countries currency. Both of these neglects remain the real deficit in the field of political science.

My opinion remains that this problem has arisen from a drastic function of group analysis, and has lacked the focus of studying institutions and their impacts on citizens in economic terms. Too often, in political science it is easier to simply debate policies and group economic policy as a factor, and not understand what factors actually exist, or the normative actions of multiple individuals. Or in the terms of government monopolies, political scientists have tended to view them favourably, by either being employed by such institutions, or their source of knowledge, and reason to continue teaching or giving analysis. This basic analysis of the profession should constitute encouragement to tackle further issues. As Hayek famously said," The first need is to free ourselves of that worst form of contemporary obscurantism which tries to persuade us that what we have done in the recent past was all either wise or inevitable. We shall not grow wiser before we learn that much that we have done was very foolish" (Hayek, 1944, p.237). Hayek's point forms a great basis for understanding that in reality, many institutions and motives have been overlooked by political scientists and economists, and simply accepted as natural evolution of society.

In tackling this subject, one of the oldest and most profound institution that has rarely received any "mainstream" question among both political scientists and economists, is that of the government's monopoly on currency. Whether it be through the helm of the finance department's power to issue notes as it sees fit, or the modern central banks which attempt to seem independent, despite being rather politicized themselves as actors in society. As it must be noted, that some individuals have attempted to dismiss the need of a central bank, based on comparing currency to other goods and services, in which it would be possible to allow competition, as described in Hayek (1976). A further look at the historical aspects of stability was taken into consideration through multiple case studies by multiple economists such as Lawrence H. White, Steven Horwitz, Daniel Klein, and others. As while this great interest, it is astonishing that political scientists have not followed suit, and have instead simply focused on analyzing the independence of central banking policies from the arm of government. In spite of this lack of interest in analyzing the origins of central banks, looking at the motivations from politicians and their connection to the monopoly over money is exactly what I am going to do in this text. The aim of this research is to give an answer to the following three primary questions:

1. Has the monopoly over currencies been created for engaging in nation building?
2. Is there strong concrete reasoning behind the reason for implementing central banks, in the central banks' legislation?
3. Did the periods of free banking lead to such a drastic amount of economic instability, that a government monopoly was required?

At this point, the reader may still be in doubt about the relevance of studying the motivations behind the creation of central banks, by politicians. I therefore must express my own motivations for looking at this occurrence of a previous time. As social scientists, we are often kept interested in the present and ever continuing series of events, and natural evolution of society. It is this which is often exposed to being about solving issues that arise immediately and the most compassionately, while not taking into consideration the history of political legislature's actions, which could reveal many truths that have been buried upon in previous legislatures and systems of government. Frankly, we cannot simply reject previous developments and assume that they were an evolutionary approach, we must view alternative theories and reasoning for the problems we witness every day.

The current financial crisis which plagues Europe and the United States have chocked the world in many respects, while creating large social strains and instability. Leading economists to call for unconventional views, such as buying large quantities of debt from the housing market, to excessively buying government bonds in order to reduce the interest that diverse countries must pay, such as in Spain or Greece. The “mainstream” approach to central banking has been interpreted by economists as being a natural institution that should ensure the convertibility of banknotes, and ensuring that a society could have a universal accounting system for economic transactions, while holding that bank runs would be an essential danger, as well.

Central banks can be a rather difficult issue to trace due to the lack of historical records from legislatures dating back, sometimes from hundreds of years. Despite this issue, it does none the less require the most available and probable data to be studied in detail. To achieve this research, firstly, I will analyze the theoretical background surrounding the reasoning given for the creation of modern central banks, or the better understanding for why a state would desire to have a monopoly over a currency. To make it a more solid and comparative analysis, I will use case studies from countries that experienced a free banking period sometime through their history, most notably the United States, Scotland, Australia, Sweden, and Switzerland. Secondly, I will analyze the yields on government bonds, in which I will make a comparison between the yields observed under the free banking era to those of the central banking era, and then I shall look for differences between both periods, and whether there was a motivation that could be in play to help lower bond yields. Thirdly, I will take a thorough analysis to the legislation surrounding central banks, and I will look at the intentions given in the legislation as to whether there were clear reasons behind their creation. The expectation is to see that central banks were not simply created for the pure pleasure of politicians, and as to whether they can give rise to any ideas to foster the government or implement any strategies for society. Fourthly, I will take a historical analysis by looking at a comparison between the central banking era, and the free banking era, for sign of financial instability, bank runs, currency crises, and business cycles. The comparison will hopefully help to take a greater analysis as to whether the action of implementing central banks were correct, or more towards asking whether any of the concerns that modern economists argue, truly live up to their criticism of competing currencies. Verifying as to whether central banks should be rethought, and help to grow the interest of political scientists in targeting and evaluating these diverse institutions that they help to create. Finally, I will finish with a general conclusion on the entire motivations for the creation of central banks, and whether the legislation truly lived up to its desired intents. I hope that I may conclude with interesting answers which can help put a new face on whether there were any indications that creating central banks were simply based on political motivations, or if they were truly demonstrated to be economically necessary.

2. Theoretical Background

In this chapter the diverse views on the ownership of currencies will be analyzed, through the motivations and reasoning that have been given in favour of such arrangement. The purpose is to provide a background and current set of views that diverse scholars hold over the use, necessity, opposition to a currency monopoly. In the first section of this chapter, we will analyze the Marxist school and its revolutionary aspect. In the second section the chartalist school and its natural monopoly over money. In the third section the neo-mercantilist school and its use for money as a tool for the state. In the fourth, the pragmatic mainstream approach of accepting a monopoly and influencing its policy. And finally in the fifth section the free banking school and its rejection of a monopoly over currencies.

2.1. Marxist School

The Marxist school has contributed to a substantive portion of political science literature with concerns to political economy. The Marxist school has normally contributed to constant class struggles, which it has criticized the "capitalist mode of production". However the diverse differences that the Marxists point out, must be taken into consideration when understanding Marxist positions as their basic interpretation of class struggles and rejection of capitalism is based on the core difference of their economic understanding of human action, which is the theory of labour value. The theory is a theory which states that any commodity made, is only worth the amount of labour associated with producing or obtaining said commodity. The theory differentiates between the neoclassical view, which argues that the value of a product is determined by tastes, technology and endowments. A different argument among economists, however, it must always be considered when understanding Marxian positions.

When viewing Marxian theories on money, and state monopolies, the effective beginning remains in reviewing Karl Marx's original writings on the subject. Marx's interpretation of an optimum currency in many ways was glued to the understanding that paper-based money was nothing more than a fraudulent form of commodity, which had virtually no labour value placed on it (Marx, 1992, p.26). Marx argued that under the current system, prices were applied to commodities, such as gold which in the end would only lead to surplus value under the capitalist system (Marx, 1992, p.210). This explanation from Marx could be presented as an excellent case against monopolizing money, and instead supporting barter transactions, of simply trading one good for another. Since the labour would be applied by individuals to the items, and trade to them among others.

Despite his objections to such type of system, he seemed to change his stance further in life. When arguing with the social democratic party of Germany. In his arguments against the party's recent policy platform, he argued that all people in society should receive a certificate from society, which would demonstrate how much amount of labour he has given to society in producing diverse items (Marx, 1999). This drastic change, most notably a "certificate from society", is transformational, as it gives way for the creation of a fiat money system, which would be permitted to redistribute and ensure the exchange of goods and services, through the natural monopoly powers granted to the state, or as he viewed it more, that of society. This contrast shows an advancement in Marx's thinking, since in the *Communist Manifesto*, he wrote as one of the planks that, "Centralization of credit in the banks of the state, by means of national bank with state capital and an exclusive monopoly" (Marx, 2000, p.20). The elaboration seems to expand his call for centralization, not only of financial institutions such as banks and any investments funds; he called for a greater monopoly over credit. In which a monopoly over a currency or as he may prefer to call it otherwise, "certificate from society".

As society advances, Marx viewed that capitalism would destroy itself, and a utopian socialist state would come about. Marx's understanding and motivations for such ethics, was for equality, but also to advance changes in social relations (Graziani, 1997, p.27). The constant revolutionary, and push towards a new system of egalitarianism, if it can be applied, would be the ultimate goal of Marx. Which such a revolution would happen through multiple changes in society, which having complete control over credit and a currency, or the financial system, it's clear that implementing a monopoly, or a modern central bank would go hand in hand with his objectives or having supreme control over all areas of the medium of exchange.

2.2. Chartalist School

The chartalist school was created out of the work of economist Georg Friedrich Knapp. The main theory of the school is based in the premise that money is clearly a government monopoly. The schools arguments largely began on the premise that legal history should be a for application of monetary policy, in which people would simply accept that by law, most notably tender laws, is a socially recognised exchange-commodity (Knapp, 1924, p.2). Knapp's argument in favour is the essential demonstration to use the system more as one of following the will of government legislation. However, Knapp explained further that when exchanging commodities, one could exchange corn for silver, in which silver would become an exchange-commodity, or one could either exchange corn for other items such as meat (Knapp, 1924, p.3). In essence he leaves it open that barter or a system of exchange, such as money could be used, despite he keeps in thought that governments have a role to play in the currency markets. He explained the reason for defining into law, as being a "socially" recognized exchange-commodity (Knapp, 1924, p.4). This form of currency would therefore be socially accepted by the majority of individuals in society, for their accounting purposes, and help to put an end to barter, as expected would happen in the long-term. Despite his consideration for metal commodities as a possible means of exchange, he criticized the use of metals, since they could easily be used in producing diverse items (Knapp, 1924, p.30), for example a car or even metal roofing. This sets the stage for the state intervening and maintaining a certain level of control, by ensuring that a common accepted medium of exchange , as he described it as a "customary means of payment" (Knapp, 1924, p.10), which compared to gold or silver, was simply not possible, since individuals could define the metals as being possible to use for creating diverse items, instead of simply being an accounting-style mean, to ensure that prices are properly reflected, not just on labour or value. He argued that under the previous system, value was the sole judgement, since there would always be an issue when the state would change the tender laws to embrace silver, instead of copper or corn (Knapp, 1924, p.11). This defined the chartalists' through defining the state as the necessary accountants. The issue of taxes comes into play when Knapp (pp.52, 1924) argued that the acceptability of money would be a key issue for any state to have, since it has the need to tax and fund services. The essence is that Knapp was truly the leader of the chartalist school, and left it to be further interpreted.

Moving forward to modern day, the tenet of Knapp's views has been augmented. As of today, the shift has come with Post-Keynesian economics, or more generally the strand of neo-chartalists', the rightful airs of Knapp. The central tenet of neo-chartalism is based on the premise that the government imposes a tax liabilities payable in its currency of issue (Febrero, 2009, p.532). It is thus followed by the demand for the government's currency, as tax-payers offer goods and services for sale, asking for the currency in exchange (Tcherneva, 2005, p.7). And the final tenet, which is that government issues currency, then, spends, in exchange for the goods and services it desires (Febrero, 2009, p.525). The primary difference can be seen in the essential component of governments to hold all control over the currency through the central bank, which leads the supply of currency, and is reduced to being the government's "piggy" bank. The difference, despite minor, is primarily that of having the political power to control all money, and view the government as the sole regulator of transferring money. The central bank is therefore the largest and most important tenet to achieve this entire purpose.

Both differences between chartalists' and neo-chartalists', is relatively minor. In which both can be seen to be systems in which they both agree that the government needs to issue a monopoly-based currency which can function as a medium of exchange, which is only for exchange. With the specifications that it also be the only currency that can pay taxes, to fund the governments expenses. It also keeps in mind that the government must create a demand for the currency at the same time; otherwise it may not sustain itself. In brief, it remains overall an accounting tool, and a way of stabilizing the government's expenses.

2.3. Neo-Mercantilist School

Mercantilism has traditionally been a way in order to benefit society, by erecting barriers to trade, and concentrating on the nation-state. With a change in aspect, from mercantilism, to the modern definition of neo-mercantilism which seeks economic benefits over war. The issue of currencies has been lacking in debate, through the perfect examples throughout the world.

In the case of the *Massachusetts Land Bank of 1740*, it was argued that populist inflation among farmers (Rothbard, 1963, p.284). The case demonstrated that despite the high debts and inflation, the benefit was seen through the defence by the lenders and debtors, such as businessmen and politicians, who received engaged in inflationary pressures to the market by inflating debts away (Rothbard, 1963, p.284), Granting unsettled frontier land to speculators, who then sold these lands at a far higher price (Rothbard, 1963, p.284). Both of these were clearly beneficial, despite inflation would normally be returned into the economy, which the government would be able to reduce its overall debts, and thus finance more promises, the speculators were also able to gain a foothold and gain higher revenues, despite high inflation that would eventually wipe away the value, they could spend the money before the inflation destroyed the value, while diminishing the resale value of the land. However, even for this sort of class-based elite, it also offered businessmen something far more beneficial. With the constant inflation, it helped to give a subsidy to home manufacturing, by allowing bank debts to be repaid in certain manufactured commodities (Rothbard, 1963, p.284). Allowing such policies were rather beneficial, with a monopoly over currency, the individuals were simply forced to suffer, while business owners also benefited with the added reduction in the currency which helped to increase exports abroad.

The policies advocated from the Massachusetts experiment, are clearly demonstrated throughout the world. By applying such a perspective, we can take into consideration the case of China. China's shift has been from a drastically isolationist approach, to one which is more mixed, by attempting to adhere to world liberal values, while ensuring a strong state protection (Holslag, 2006, p.136). These can be seen with China's manipulation of its currency to promote exports (Holslag, 2006, p.136). The effect of this is the beneficial aspect of having a central bank and monopoly, to control and plan its policies in accordance with the maximum return for the state, instead of the individuals in a market environment. In essence, with China, the case is not as much as the nation-state identity, to ensure that the Chinese have a higher way of life, or to give into special interest. The greater issue is to ensure that china's communist regime remains in power, by keeping people working, and enjoying moderately higher standards of life, compared to before the Deng Xiaoping revolution. China's particular case remains one of power for the special interest group, also known as the Communist Party of China. The entire economy is focused on giving some market-based approaches, while ensuring that it can also gain large reserves of foreign currency.

The issue of foreign currencies remains one of China's powerful methods of controlling many countries. By ensuring that their currency is kept artificially low, they can garnish large foreign reserves, in many cases the United States currency, which is often seen as the largest power that China hold over. As well, the Chinese have been very large on buying United States Treasury bills. Both these factors lead to a strong political connection, one which could lead to China threatening the United States to maintain a pro-Chinese policy, through either a threat of highly inflationary policies, through emptying their foreign reserves, or creating a possible run on Treasury Bills, which would most likely be stopped by large asset purchases from the Federal Reserve. However, the Federal Reserve's policy would be to buy bonds, which would simply lead to high inflation. This new system of currency manipulation, combined with large investments in foreign countries, makes state's like China clearly beneficiaries, and bring new meaning to currency wars, or even bond wars.

Neo-mercantilism is an ever evolving trait, specifically for countries with strong interests in having politicians and special interest manipulate currencies and government policies, to make large beneficial effects on themselves. It also leads to a new method of also holding influence in the world, in a way that shelter's the openness and transparency that is normally required from one country to another or from one market participant to another. It is primarily about manipulating people to retain loyal, and keep power.

2.4. Mainstream Pragmatism

Throughout this research, the search for motivations behind central bank implementation is the primary question. However, it must also be considered as to why some of the mainstream may prefer to simply alter policy prescriptions at the central bank, instead of advocating for another system. Whether they support a government monopoly over the currency, or if they support free banking as will be discussed later, many choose pragmatism and simply acknowledge the difficulties in attempting to change the system. Since the system of most modern central banks is based on a government monopoly over currency, it requires naturally to of had been passed by legislatures, could be constitutionally or legislatively protected. Both options often required convincing not only politicians, but the general public. Neither to say, changing public opinion can be rather difficult when multiple outcomes could be explained, and as the general public will join diverse camps, and simply be eliminated until one or the other is accepted. Which leads to the pragmatic approach, in essence, the basic concept of any normative economic theory, is to seek the grand utopian vision for monetary policy, which is simply labelled, stability. The following will divide into three main sections the diverse sets of policies which the mainstream has attempted to implement through their pragmatic approach, while having great doubts about the usefulness of a central bank. The first will be to look at monetarist money targeting. And the second will look at the modern inflation targeting regime.

2.4.1. Monetarism

The theory of money truly began to question scholars in the late 70's, after pre-Keynesian policies of constant monetary increases were leading to out of control inflation, constantly rising prices. In which came the rush towards monetarism, with the powerful analysis of historical events, from the soon to be famous, Dr. Milton Friedman. Milton Friedman as most economists, saw the problem of rising prices as a great destabilize of economic progress, in which Friedman followed through with researching the cause. In his publication, *A Monetary History of the United States*, he concluded that there was a strong correlation between changed in the rate of growth of the money supply, which lead to create rising prices (Friedman, 1963, p.676). Friedman argued throughout his career that inflation was always a monetary phenomenon, which required policy makers to pay attention to it, and to reduce their obsession with unemployment and questions of insufficient demand in the economy (Friedman, 1963, p.676). Friedman demonstrated that he has professed a strong new method for stabilizing the economy; however, he came to have different views on what became labelled as a central bank admirer.

Friedman's test over central banking policy was seen as extreme, in certain cases. Despite having the opportunity to drastically stop the expansion of credit for political reasons, or the belief in shock therapy for economic reasons, he argued that he preferred the gradual way, in which the economy would adjust (Friedman, 1983, p.5). Friedman was generally pragmatic in that sense, in which he desired a clear balance, since people took time and had expectations for the future, as some had already been made. Friedman went on further to explain that he favoured a constant rule of money growth, whether or not it was desirable, he viewed that markets would come to accept it, since it would be rule-based, which would level the playing field for all, and politically it would be far more palatable (Friedman, 1983, p.5). This was truly the demonstration of Friedman that it was difficult to have markets accept things, but more importantly, to have strict rules passed, which must go through the political process. Friedman explained that his motivations for the rule-based growth would need to have legislation passed to change institutions or implement a specific rule, as economists were very poor predictors of political feasibility (Friedman, 1983, p.5). The political pragmatism of Friedman was truly a deception of his true views about central banks and government monopolies in the currency market. Friedman moved on later on life to accept that a government monopoly on currencies was unnecessary, in which he argued against it later on, but he viewed that as previously argued, politics played a far too great obstacle in removing the monopoly (Friedman & Schwartz, 1986, p.41). Despite his rejection of opposing a currency monopoly, he did have a great influence on monetary policy, and the view of economic stability. In a way, he also came to contribute to the reasoning for competition, most notably the monetarist theories of constant money growth, and its effect in the long-term.

2.4.2. Inflation Targeting

Inflation targeting has been a major overarching policy at central banks throughout the world. The policy is to target inflation, in essence to keep it at a stable level, in which markets can adjust and continue growing the economy. The method to achieve this is to target a basket of goods, in which the bank reads the aggregate changes in prices, and changes its interest rate in response to prices. For example, if prices were to rise too sharply, and overreach the bank’s target, the bank would proceed with raising rates, which in turn would force people to spend less. If prices were to fall too sharply, the central bank would apply the same policy, however, in the inverse, by lowering rates, in an attempt to increase aggregate demand in the economy. Many countries have adopted this policy, such as Australia, Canada, Finland, Israel, New

Zealand and Sweden (Bernanke & Mishkin, 1997, p.1). In many ways it has been argued that when setting interest rates, or the targets, Bernanke & Mishkin (1997, p.16) argue that there should be flexibility in the method of reaching the target, by allowing the central bank to have the freedom to target the most reasonable level of inflation, and to respond to any chocks that might occur, such as oil crises like the intensity of the 1980's.

In many ways this is an evolution from monetarist thought, and a move towards looking at alternative policies, instead of alternative institutions. There was also a move towards more independence, despite not being free to have the central bank in control of a small group of people, but it did seek to encourage a greater independence over day to day operations (Bernanke & Mishkin, 1997, p.21). The method of achieving this was through voluntary agreements between finance ministers and the central bank governors. The goal was to ensure accountability, but to remove the politically motivation for generally inflationary monetary policy (Bernanke & Mishkin, 1997, p.21). Naturally, having a monetary policy that was based on funding the state was seen as an evil, in which politicians could easily monetize debt, which would create high inflation and lead to the destruction of savings. In essence, it was to change the possibility of having politics involved in monetary decisions. Despite the change in policy, both were seen as natural airs to monetarism, which sought to remove the political aspect out of monetary policy, and restore a low-inflation or no-inflation environment.

The issue, despite targeting inflation, came to be a constant evolution. The evolution was seen as accepting the basic institution of a central bank, and the monopoly over money. Despite the more independent central banks, it still left the problem of competing views among academics, which would generally lead these banks. It was demonstrated to be simpler to target a zero percent inflation target, in the intermediate, than to call immediately for free banking (Selgin, 1997, p.14). George Selgin is a well-known free banking supporter, which has constantly argued against a government monopoly on money. However, despite his case for free banking, which will later be discussed. His general conclusions were to simply accept that political forces would make it virtually impossible to achieve free banking, and instead, tried to shape the next step. Selgin argued that targeting nominal gross domestic product (NGDP), would be more beneficial, since it would solve issues he saw in not permitting prices to rise or fall, since as productivity increased, prices would fall, resulting in a benefit to society (Selgin, 1997, p.64). Despite his case, he argued that even if such a policy would be worth arguing for, it was not politically popular among academic to implement such a policy, as he therefore concluded that targeting a zero percent inflation target, would be far more palatable in the intermediate, by allowing some prices to rise far lower than otherwise would of happened under the 2 to 3% inflation target, people could at least have greater savings and not endure higher than necessary inflation (Selgin, 1997, p.64). This is a growing change among academics, which despite perhaps being opposed to the current monetary system, they see if politically difficult to change, due to it being controlled by legislative acts, which would require either constitutional change or legislative change. As legislation can take some time to gain approval of a parliament, it can be even more difficult to amend a constitution, for example the Canadian constitution[1]. It therefore leads academics and general economists to find more pragmatic approaches, and simply use the tools that are currently available, such as the central bank and attempt to implement policies that are more palatable to politicians and the market.

[1] The Canadian Constitution simply holds that it is up to the federal government to have responsibilities over the issuance of currency. The comparison was to draw attention to the problems that have risen over provincial and federal jurisdiction, as for taxation reasons, it has also been a drastic failure in attempting to alter any powers. Most notably the failed Meech Lake Accord, which demonstrates the difficulty of amending such guiding documents.

2.5. Free Banking School

As the call for government monopolies or pragmatism, the generally argument against central banks, or the greater precision, an opposition to government control over currencies, has come from the Free Banking School[2]. The main charge for such a case from modern economists has generally come from Hayek's *Denationalisation of Money*, in which he argued for the competition of currencies and set the stage for modern economists to interpret such a policy. Hayek began looking at diverse problems, since his general argument tended to be competition in the market place, Hayek began to suspect that such a policy could perhaps be applied and lead to a no-inflation environment. It was argued that free trade in money would be far more beneficial, since it would permit individuals to choose the most beneficial currency, in which as through generations of tradition and experience, would be the currency which preserved savings the most, and was the most widely accepted (Hayek, 1976, p.106). Hayek understood that markets were the main driver of an economy, in which having competition always arose to the most effective allocation of resources, since it would be free from government manipulation and operations, since many government operations had faded to function correctly, most notably monopolies on telecommunication markets can be seen as a fine example, in which when markets were allowed to operate in a competing environment, prices would be reduced and the quality and innovation of entrepreneurs would spur growth and advancement.

To return to this application towards monetary theory, and in context, Hayek also saw the dangers arising, most notably that of today's case over a European currency. Hayek viewed the European currency as a dangerous creation, which would be managed by a supra-national authority (Hayek, 1976, p.23). Understanding the dangers of such anti-competitive

[2] The "Free Banking School" is used to denote all economists who are affiliated with the free banking alternative. Many members of diverse primary schools of economic thought have come to support such a system, most notably Austrians and Chicago school economists; it remains not a universally accepted theory by most mainstream economists.

policies, he argued that it would be better to accept a national currency, than to bind into an international one (Hayek, 1976, p.24). Hayek's interpretation is a great insight into today's problems of using economic tools for the purpose of reaching political goals, through unification. In many ways, it can be argued that Hayek saw what could become a dominant oligopoly of currencies, in which innovation in market would be reduced, through the constant problem of national currencies and their legal tenders laws which forbid other payments, it would leave not only personal choice, but also innovative policies from banks to try to find the ultimate solution. Hayek's insight also lead the charge against government interference, as accepted by Bernanke or Friedman, he saw it as the ultimate danger, in which politicians could use the monopoly over currency for their advantage. He looked at historical tradition in which history has been largely inflationary, by which governments have continuously used the supply of money as a tool to achieve their desires (Hayek, 1976, p.24). However, where the true foundation of free banking comes to bear, are the dangers that were associated with keeping currency in the hands of government, as it would lead to the destruction of civilization (Hayek, 1976, p.83). This problem can be seen today, as Greece is on the verge of default, mass chaos is happening with violent protests, which have gone further by spreading to most European countries. The case for why politicians should look at monetary policy cannot be better explained through the explanation of Hayek's warnings, and the free banking advocates, since when politics plays an important part in deciding how the medium of exchange is allocated, people will be in the debts of inflation, without an alternative, other than to return to a barter economy.

Despite the large criticism of political involvement, there is a way in which political reform could happen, and would be a great reason for political scientists to verify the validity of these institutions, and policies. The free banking supporters have argued often for either shock therapy, or incrementalism. Most notably, a plan was developed by Selgin (1998), to drastically reduce regulations on commercial banks, and freeze the money supply, thus allowing the markets to adjust and not be in danger of being manipulated. The method of freezing the money supply, in an incremental way, has been argued by Selgin, to simply have the Federal Reserve announce that it would no longer issue rediscounts, after a certain date (Selgin, 1988, p.140). It further went on to look at the repeal of the Glass-Steagall Act, in the United States, which would allow banks more freedom over their management and operations, followed by eliminating government deposit insurance companies, and switching towards private alternatives (Selgin, 1988, p.141). The incremental repeal is a way in order to move from having the government and taxpayers is forced to save these companies, to having both the currency and private banks hold ultimate liabilities for their actions, and be forced to compete in the highest of standards.

The main interest that helps to understand monetary policy to political scientists, in which once knowing how monetary policy operates and the instruments of inflation, political scientists can see the greater impact of policies and how the market is truly a democratic negotiator. Without understanding how the market functions, political scientists simply grasp that prices raise and chaos occurs or inequalities begin to be demonstrated. However, without focusing on bridging the problems that arise, and policy prescriptions, they remain obsessed on criticising globalization or neo-liberalism for problems in economies and among society; it must be a mixed approach. Free banking economists have moved towards explaining the dangers historically, and in theory. They have implemented great strives into explaining how money is nothing more than a medium of exchange, which can and should be provided by the market, instead of a monopoly which guarantees political opportunism, instead of true desires for the long-term, no inflation.

3.0 Historical Bond Yield Analysis

One of the most common factors which can help politicians to either gain power or seek re-election is the tool of government debt. As politicians constantly seek to gain re-election and enjoy the benefits for either rewards for the ‘status’ of being a politician and holding such power or to satisfy their need for monetary remuneration. By looking at government bond yields over a long period, it can paint a larger picture of the motives from politicians and the benefits of lower bond yields. As it has been shown with regards to the financial crisis started in 2008, the United States Federal Reserve and the European Central Bank have engaged in numerous market operations to ease pressure on bond yields, which helps to reduce the rate at which politicians can borrow or pay back their debts, since high bond yields would signal either higher inflation predictions or an increase of risk with regards to lending to a government which may never pay their debts. To engage in constructive analysis, the following countries bond yields will be analyzed through the scope of a period of free banking and the modern centralized era of banking.

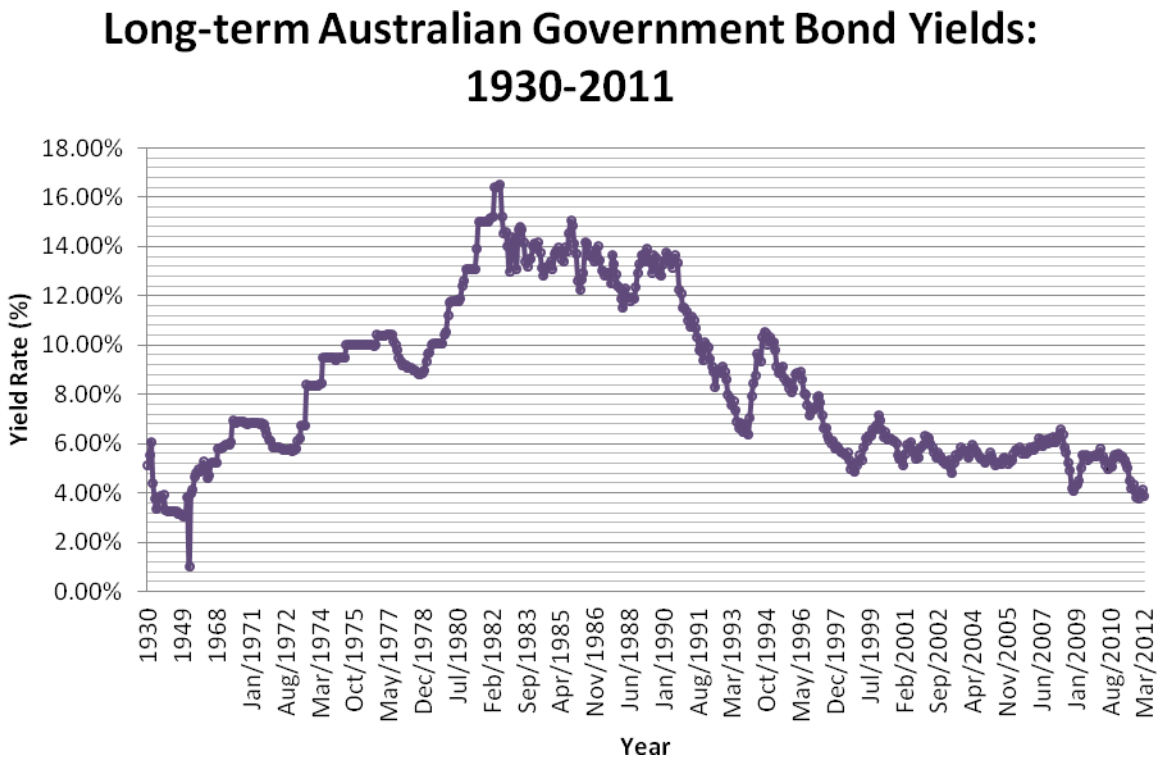
For analyzing the following research, Scotland will not be analyzed due to a lack of bond rates.

3.1 Australia

Australia remains an interesting case for an analysis of bond yields, primarily due to its uniqueness in which it began as a colony and later transformed into a sovereign state, built on a federation model. To understand the analysis one must take into account that during the colonial rule, the colonial government did engage in numerous bond auctions, also known during that time as ‘Colonial Consol’, all were initiated in London, which permitted the colonies to engage in large investments in public infrastructure (Di Marco et al., 2009, p.6). The easiest of such borrowing was gradually decreased through the increase of economic activity, or government revenues, which came to reduce the need for the colony to borrow excessively large sums of monies from London (Attard, 2007, p.169). The question remains as to how much spending was possible under such a system, since the private sector held a free banking system, in which currency was privately issued by banks and had certain interest rate regulations from government (Homer & Sylla, 2005, p.587). It existed due to the limited amount of British Sterling, and permitted banks to keeps a rough average of 8% interest rates during 1920, and a higher rate of 10% during 1928 (Homer & Sylla, 2005, p.587). The issue of bond yields was clearly debated with regards to having access to credit, in which private markets offered a higher yield on government debt, most probably the issue of not having much confidence in the government. Understandably, this lack of confidence could be seen, since the government had roughly 60% of GDP dedicated to government debt by 1885 (Di Marco et al., 2009, p.7), and with a growing intensity of accumulation, no private bank would be attracted to such a reckless pattern of spending. Since London offered a lower interest rate, it demonstrated how governments benefited from a lower rate, and was able to seek a lower yield on financing multiple projects, often for political purposes of stabilizing the economy or maintaining allegiance to the British Empire, which could logically be interpreted.

As poltical stability changed, and Australians sought to gain more independence, the country was merged in a federation. The new Australia came to gain control over it's debts, and most notably, it established a history of not adding debt until January 1st, 1911, when the first bond acutions occurred for the Commonwealth of Australia (Di Marco et al., 2009, p.7). A return to the decades of debt would resume, gradually. However, before such a return, the new Commonwealth of Australia ended private competing currencies in 1914 (Selgin, 1988, p.51). To see if there is a correlation between the end of competition among currenciees, one must verify if government bond yields moved in the lower yield rate which would naturally be easier to borrow money from.

Figure 1: Long-term Australian Government Bond Yields



Sources: Based on Reserve Bank of Australia 2012, and Homer and Sylla 2005, p. 589

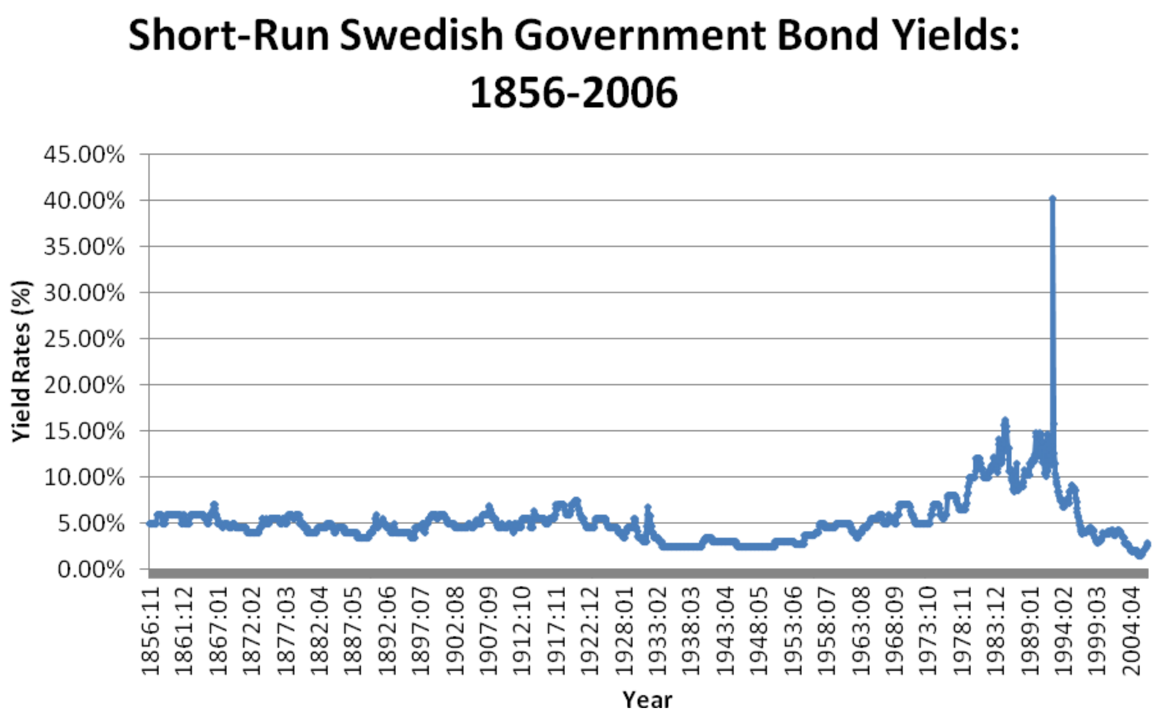
The effect of government monopoly over the currency can be seen to demonstrate a great change in the way that government operations operated and the monetary system was transformed. Figure 1 demonstrated from the 1930's to today, there was a gradual change in bond yields, which also represented a change in debt levels and confidence within the government's ability to finance the money that it constantly borrowed. Once interest rates fell from the roughly 8-10% mark (Homer & Sylla, 2005, p.587), bond yields continued to fall for roughly 30 years, in which this could demonstrate a decrease in government debt and an increase in the balance sheet for the government to reduce their liabilities. However the true question remains as to whether this perfect scenario is the reality, since government debt continued to increase after the first bond issuance in 1915. As bond yields continued to fall, the Commonwealth government continued to increase its debt load, while reaching a dangerous path in the early 1980's, when bond yields reached the high 16-17% range. The long-term effect of these yields clearly demonstrate that the government's control over the money supply and the ability to perform open market operations benefited politicians by being able to afford cheap credit, until the private bond market simply could not hold the government's heavy addiction to debt. Once yields peaked, it can be seen that they fell gradually due to the fear that the government may return to the high-spending history that it had suffered during and after World War 2. The lower yields from the1990's to today can be seen as a proper response to a more private and conservative system of bond yields, primarily due to the introduction of inflation targeting and a generally more independent central bank before such policy tools were introduced. After the 1950's, the tools for monetary policy changed, and moved from a government-oriented treasury, to one of market-determined and independent central banks focused on either the money supply or inflation. The new policy can be seen as an attempt at controlling inflation, while also being able to reduce the amount of government debt that is allowed, since markets would suffer less inflation and would restrict the ability of the government to borrow without paying a high yield, which naturally would be more apparent to the average individual.

Australia's bond yields can represent multiple things, as it would be naïve to not include the possibility that actors in the markets would simply start to have less confidence in government overall, after having suffered a world war and seen an increase in political opportunism, as government became more transparent and less government intervention was seen, most notably in diverse countries throughout the liberalization of the 1980's. The bond yields of Australia can paint a picture of multiple problems, over the long-term, but the short-term outlook after the monopoly over a currency can be seen with the lower rates that politicians could of paid in the 1930's, compared to the 1800's. Any politician with such a possibility to borrow at rates 4-6% lower would clearly be motivated to engage in endless borrowing to meet his election or re-election possibilities.

3.2 Sweden

Sweden had seen a drastic change over the past three centuries with regards to government debt and government control over currencies. For the comparison and analysis of yields and currency ownership, it is important to take into consideration that Sweden experienced a free banking period from 1830 to 1903 (Lakomaa, 2007, p.25). For the major part of the history of Sweden, the central bank, also known as the Riksbank was in control of the money supply, and provided the main financing of credit to the Swedish government. The following analysis will look at bond yields from 1856 to 2006, as the government only started issuing bonds in 1855 (Homer & Sylla, 2005, p.269). And a comparison to government debt accumulation will also be taken in consideration from 1719 to modern times, ending with the year 2003.

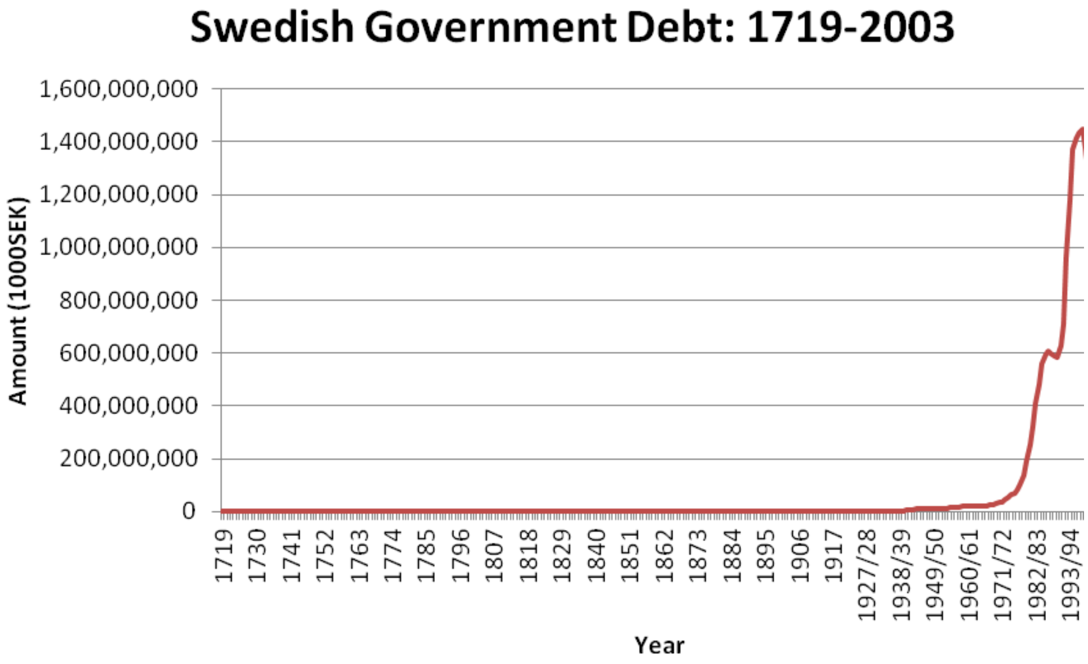
Figure 2: Short-Run Swedish Government Bond Yields: 1856-2006



Source: Based on Waldenstrom 2011

The changing pattern of bond yields in Figure 2 demonstrates an interesting pattern of stability from the beginning of the recorded times in 1856, up until roughly the 1930's. Such an observation would demonstrate that there was no difference between the free-banking era and up to 30 years after the introduction of a national currency. The only difference is that in 1897, there is a drastic movement in interest rates, rising past the 5% mark, while remaining above that mark until the 1920's, when a drop would continue for multiple decades. It begs the question as to whether economic necessity was truly in the best interest, since the market-era of free banking provided lower bond yields, in many respects, it was most likely that the government was held in a strong position to not attack the banking sector in large-scale debt through the Bank of Sweden, or else, there would be an attack on most individuals which would call out the government for such actions. In many respects it's needed to analyze government debt accumulation to verify if indeed such lower bond yields were caused by increased government borrowing.

Figure 3: Swedish Government Debt: 1719-2003



Source: Based on Fregert and Gustafsson2007

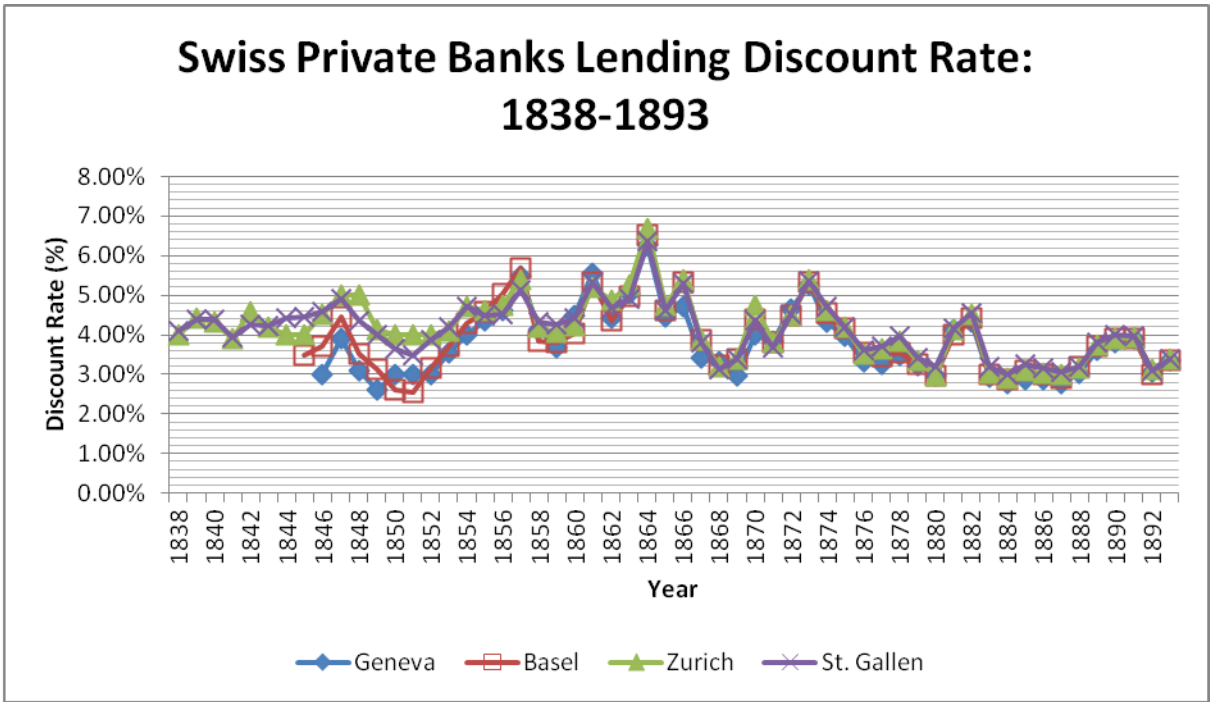
Based on the evidence from debt accumulation, it looks clear as government debt began to increase in the early 30's, in which time the government became an addict of borrowing money to finance its multiple electoral promises, or the results which would be the diverse welfare state policies. Although Figure 3 doesn't properly give eye to debt accumulation, it does demonstrate that from the 1930's to the 1990's, there was a drastic increase in debt accumulation, in many respect, an addiction of adding more and more debt at a higher to higher ratio per year. In many respects, the lower interest rates can demonstrate a growing amount of debt, and can question whether politicians had planed such events. In a realistic scenario, it could be seen as a gradual policy, since most private banks would have continued a tradition of conservative banking, while gradually having the government change the mentality of individuals and encourage the accumulation of debt. Since in any scenario, once individuals are set in a mindset that debt is dangerous and at the micro-level, the average voter would see what kind of debt they normally would face in a household, it is far less likely that they would be supportive or having the state increase debt, since it would naturally have to be paid-back at a high rate of interest.

The Swedish case truly gives wonder as to whether market forces were being the change in government currency, or if the low rates for bond yields under government control of the money supply would have helped to reduce rates and yield large spending promises. Since individuals respond to market prices far better than governments, it's understandable that individuals would have to change their habits and mindset, while governments would be forced to ensure that any such electoral promises merited debt-funding, often being issues such a infrastructure spending on large-scale projects such as new highways or airports. The other issue to be asked later, is whether the low bond yield was responsible for bringing about the decades of change, since individuals could become accustom to lower yields, in which banks would naturally be encouraged to lend at such low rates and assume a changing mindset in the household over what a naturally market rate should be, and whether it has become easier to acquire debt and to repay it.

3.3 Switzerland

The Swiss case comes from a different time in which government intervention and management was not the norm for most Swiss citizens, as politicians continued to follow. Switzerland for example began in the early 19th century to embrace a liberal approach to policy, most notably embracing free banking and allowing competing currencies at the cantonal level (Weber, 1992, p.187). This change after the war, allowed for full competition among currencies, and ensuring that no currency laws existed while capital could flow freely throughout Switzerland (Weber, 1992, p.187). When considering the analysis of bond yields, it's important to note that the competition forced government to borrow from private banks, while some cantons did own banks; they were nonetheless forced under the veil of competition to ensure proper operations and not finance large-scale debt.

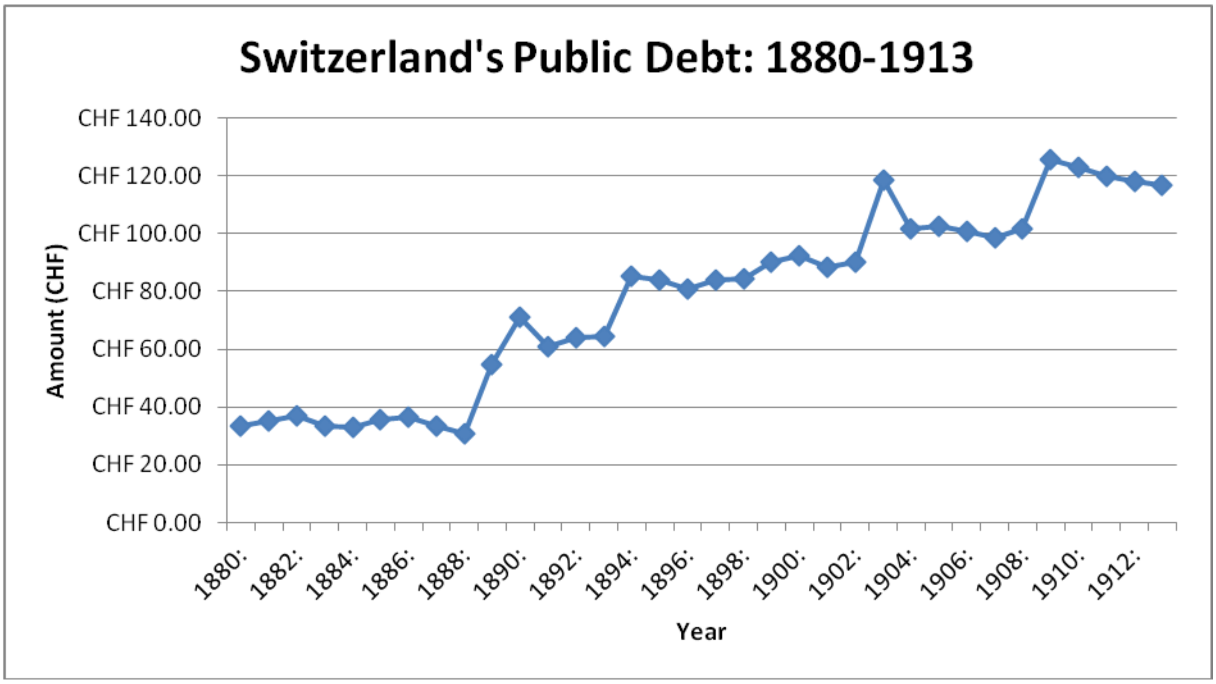
Figure 4: Swiss Private Banks Lending Discount Rate: 1838-1893



Source: Based on Baumgartner2007

As demonstrated in Figure 4, it can be noted that the rates that citizens would be forced to pay was rather conservative, since starting in 1848, rates were lowered and then were drastically increased over a number of years. The long-term effect was to generally have higher interest rates than was once offered under the former currency monopolies which allowed for a roughly 4% rate on borrowing. Under the free banking system, the rates we're roughly between 3% and 6.5%. Such rates would make borrowing rather expensive and would be very discouraging for any citizens to take, yet alone a government, which would be forced to endure large interest payments on debt. However, as it can be noticed later on, when the new national Swiss currency was introduced in 1881, rates fell the following year and continued to fall to reach a rough average of 3%. Such a reduction was kept for approximately 6 years, in which then rates roses to 4%, while then falling back into the 3% range. The introduction of a new currency permitted the lower rate, allowing markets to borrow cheaper credit with lower rates. In many respects, with a new monopoly, the government was free to engage in large-scale spending.

Figure 5: Switzerland's Public Debt: 1880-1913



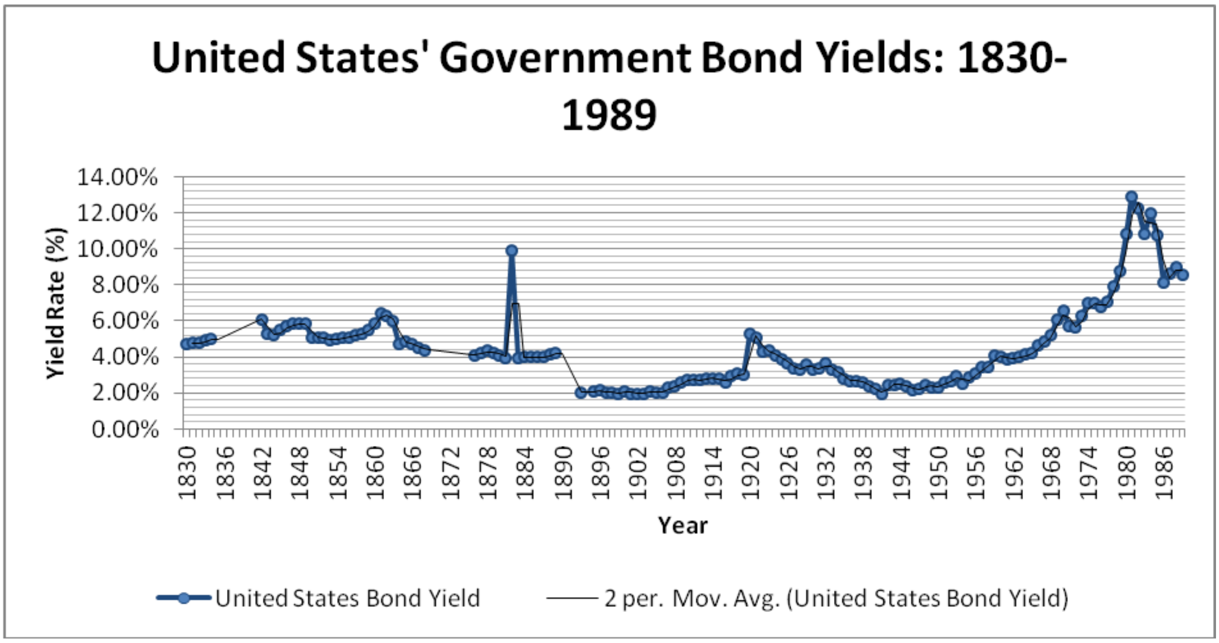
Source: Based on Flandreau and Zumer

It's clear that when the government ended free banking, rates on borrowing fell in some range close to 2% points lower than they would have been. As this happened, government borrowing increased over the next few years to reach an all time high in 1913. The ever growing amount of debt, and change for 7 years after the introduction of the new currency clearly demonstrates that citizens adjusted themselves to the rates as they were falling and most likely adjusted to the new environment while believing that this was the new norm. Under this, politicians took advantage of the lower rates and engage in large-scale expansion of spending; permitting them to engage in campaign promises and allows diverse social programs to come into existence. Clearly, politicians must have seen the benefit of such a system; otherwise it would have seemed foolish to engage in such a drastic overhaul of the monetary system. Although there were times throughout history in which the government did alter itself and reduce the amount of debt, in many instanced, the amounts reduced could simply be from the initial effect of economic expansion due to debt, and the long-term belief that the debt would be paid back. In many essences, following a wave of false economic growth built-on public debt. However, multiple reasons could explain the spending, which can only be interpreted through the lens of economic history, such as periods of war, which will be analyzed later in the paper.

3.4 United States

The ever evolving United States of America has seen drastic changes throughout its history, whether it be from wars to leading the world in economic development. There have been trails and errors throughout its history and many lessons have been learnt, and some are still left open to be learnt. The United States allowed state legislatures to issue bank charters, which was interpreted to mean that an institution could provide bank notes (Dowd, 1992, p.206). Under the free banking period from different states, the general national currency was introduced in 1863, after the civil war broke out, the government introduced the National Banking legislation to ensure that the government could ensure a stable currency and fund war efforts (Dowd, 1992, p.230). Analyzing government bond yields during this time and government debt is an essential step towards understanding the correlation between both, and the nature of government monopolies over currencies, primarily in the United States' context.

Figure 6: United States' Government Bond Yields: 1830-1989

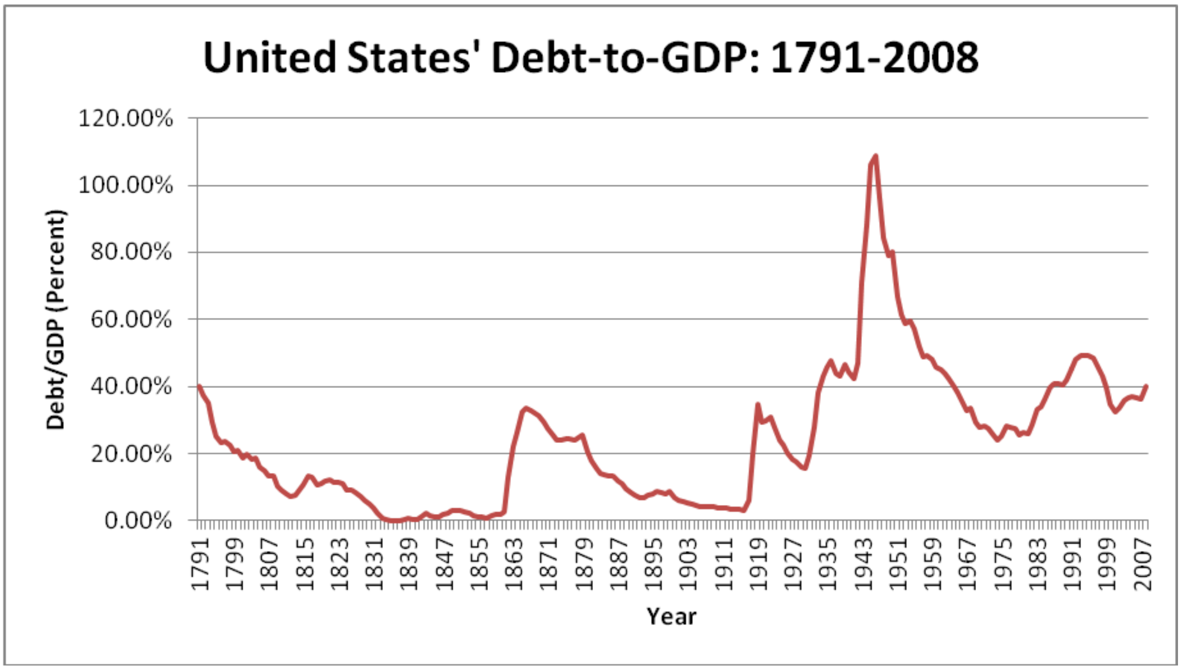


Source: Based on Homer and Sylla2005

During the time of free banking from 1837 to 1864, the rates were rather stable between 4% and 6%. The stability over 30 years was rather remarkable, in which the market was able to compete and ensure that proper standards were permitted. While if one takes into consideration when all competition from private or state-issued charter banks ended in 1913, a drastic increase in bond rate instability can be seen until the modern-era. The correlation between yields and government indebtedness has to now be compared.

United States debt has been drastically discussed recently, but the true question is whether the data supports the argument that a change in currency could create such a large different in debt accumulation. As Figure 7 demonstrates, when currency competition was suspended in 1963, there was a drastic increase in the national debt, most notably due to the war, which allowed the government to inflate itself in a war. While the civil war was winding down, the government returned the allowance of state-issued charter banks the right to introduce competing currencies once again, at a lesser level of freedom (Dowd, 1992, p.230), but nonetheless to a “freer” system than was existent for the few years of the war. The correlation with debt can be greatly seen, as when the free-banking era was discontinued and the national currency was introduced in 1913, the amount of debt continued the climb into the Second World War and continued until interest rates were drastically on the increasing scale, which encouraged government to reduce spending, and run budgetary surpluses to reduce the debt.

Figure 7: United States' Debt-to-GDP: 1791-2008



Source: Based on Henning2008

The effect of having a government currency can clearly be demonstrated in the United States’ history as an excellent case of where a government currency is introduced to ensure that all citizens obey the government’s monetary system and are forced to endure inflation, until barter systems are created. The applicable problem of having government owned currency can be seen for its effect of inflation, as the national currency’s re-introduction came at a similar time in 1913, when the United States was preparing to go to war,, while being able to inflate ones currency and destroy savings would be a far more interesting and soluble plan than engaging in raising taxes to unseen levels in the United State's history. The United States still remains the prime example of government politicians and their desire to engage in political opportunistic policies, whether it is state programs, or for nationalist reasons which wars are often fought.

4.0 Central Banking Legislation

In every country, the basis for every central bank resides in the legal powers that permits the monopoly over a currency, to be given to a specific institution. For any monopoly to be given, government legislation must be introduced, and naturally through any legislative process includes reasoning for introducing the legislation and the operations as to how the law should permit actors or institutions to act. By analyzing the follow central bank acts, it will help to shed light on the reasoning given for the introduction of central banks and the operational instructions. The diverse information that can be gathered from the legislation will gravely help to increase the understanding as to what the goals of the central banks are and whether they truly did follow such procedures, which will be explained later.

4.1 Australian Reserve Bank Act

Australia has a central bank which has been ever evolving over diverse times. Most notably, its modern interpretation and government have been vested in the Reserve Bank. The importance of the Reserve Bank remains great for the Australian economy, since it vest such powers over an entire currency and its powers to decide the countries system of accounts, as a medium of exchange.

Australia's Reserve Bank has been focused for a long-period on a basic set of principles, most notably defined in Section 10 of the *Reserve Bank Act*. The act gives the Reserve Bank the duty to engage in the stability of the currency of Australia, followed by the maintenance of full employment in Australia, and the economic prosperity and welfare of the people of Australia (Commonwealth Government of Australia, 1973). All of which are three overarching goals that remain extremely broad in scope. The stability of the currency is an extremely broad concept, primarily due to the fact that stability could be either interpreted as preserving the value of a currency or a stable exchange rate, or simply engaging in ensuring that the currency is continuously used in Australia. Stabilizing a currency can also be interpreted as being the stability of stable expectations over its movements, such as engaging in inflation targeting or even engaging in exchange rate fixations, both which help the currency remain relatively stable and predictable, compared to more liberal interpretations of monetary policy and the power of manipulating the supply of money in the economy.

The further interpretation of full employment can also be interpreted as an extremely difficult and subjective term to define, since the Reserve Bank could engage in monetary manipulation to encourage economic growth through increasing demand, although, it still doesn't have an extremely strong control over employment, since an economy's employment-level isn't simply related to monetary policy. In many ways, the full employment regime can also contradict the first duty of the bank in stabilizing the currency, which both policies can come in opposition to each other .The employment level can be adjusted, but the bank still gains a strong power, while permitting the High Court to not try individuals who would go abroad the duty, since it's already difficult to confine the Banks operational powers.

The last aspect of the central bank revolves around economic prosperity and the general welfare, which in many cases can either be interpreted as being a protection of economic purchasing power or the second of social stability through employment levels. When individuals seek to engage in prosperity, the accumulation of wealth remains the primary goal of most individuals with regards to satisfying their desires, generally known as the Economic Man (Hargreaves-Heap, 2008). The contradiction becomes rather political once individuals begin to smooth over bad economic policies on the fiscal side of government intervention, or natural market recessions which are naturally moral interventions where people can come to reject in favour of more emotional or political interpretations of society. When the bank engages in manipulation of either, it demonstrate a strong interference in the political arena, while neglecting the independence that a central bank normally would engage, compared to the private market.

The tools given to the Reserve Bank are rather numerous. The Reserve Bank has the power to receive money on deposit, to borrow money, to lend money, to buy and sell bills of exchange, followed by other powers to engage in loans (Commonwealth Government of Australia, 1973). And ever growing power, since the bank's power over engaging in buying or selling treasury bills permits it to funds multiple sources of the Australian economy, from the government to private sector individuals, or intermediary banks. With regards to governments, it's an interesting concept; as such activity permits politicians to constantly borrow money from the taxpayers of Australia, instead of borrowing funds from foreign countries, or conservative primate market banks.

The Australian central bank's legislation clearly rejects a clear and focused goal, it remains a more broad perspective of ensuring that the economy can engage in broad goals that all individuals want within society, such as stabilizing the economy or attempting to maintain full employment. The Reserve Bank has almost all powers that one would expect a standard bank to have, but the power to borrow money to the government, while debasing or being able to borrow the taxpayers dollar in this case can be seen as a back-door approach to governance, which any government would greatly appreciate.

4.2 Swedish Sveriges Riksbank Act

Sweden's Riksbank has served as the country's central bank for a long period of time; most notably it was introduced and operated with guidance from the Sveriges Riksbank Act.

The act set out diverse goals, all of which are far more technical and focused on monetary policy, while encouraging the separation of government intervention in the money markets.

The Riksbank Act laid out the main objectives of the bank, all of which are set to encourage the standard powers of a stable monetary system. The legislation gave the Riksbank the duties to ensure price stability, create a safe payments system, and engage in regulatory power s over the monetary system (The Riksbank, 2011). All three duties remain rather broad. The concept of price stability can be interpreted to describe multiple possibilities, whether price stability describes ensuring that prices remains stable over a period of time or if they are to rise at a stable rate in the long-term. The safe payments objective remains broad, since safe payments can be a very diverse way to make safe payments, as ensuring that payments were safe or secure is traditionally within the purview of the police to ensure. The regulatory powers clause leaves open the possibility of regulating any single aspect of markets, even the most remote and gray area remains a dangerous power to permit a central bank to engage in. It also is very questionable in its scope since it does not differentiate between many financial powers which normally should be permitted for private banks to experiment with.

It's a very dangerous precedent to devolve all legislative powers over monetary and financial affairs to an independent institution, without having day to day operations and accountability from politicians, it begs the question as to whether such an institution is far more dangerous than a supranational institution, such as the European Central Bank.

4.3 Swiss National Bank Law

For the great Swiss confederation, also known as the banker's country of the world is bound to the modern standing of the *Loi sur la Banque Nationale*. The Swiss National Bank law is focused on the economic stability of the country through a stable monetary system.

The Swiss National Bank(SNB) law gives a direct role to the central bank in exercising a monopoly over the Suisse currency, better explained as having the exclusive right to emit Swiss bank notes (Assemblée fédérale de la Confédération suisse, 2003). The bank's right over the currency is reinforced with specific duties. The diverse duties of the SNB are to primarily conduct monetary policy in the interest of the country, by ensuring stable prices (Assemblée fédérale de la Confédération suisse, 2003). A very broad goal, however the law does give certain limits on the powers of the central bank. The limits of power on the central bank ensure that its duties are to ensure proper liquidity of Swiss francs in the money market (Assemblée fédérale de la Confédération suisse, 2003). The banks also follows different limits by ensuring that proper cash distribution must be provided to the entire Swiss economy, while also facilitating the proper functioning of the payment system , including the management of monetary reserves, all of which contributes to the stability of the financial system (Assemblée fédérale de la Confédération suisse, 2003). The general guidelines do give the bank a certain amount of direction; however the guidelines are still very broad and lack any specific direction. Any central bank can engage in ensuring liquidity in the market although which amount of degree is critical. Ensuring that the cash distribution is the duty of any bank, to ensure that market actors receive proper amounts of cash to maintain a proper accounting system, although the issue that arises is again, to what degree? The other limits of the bank to manage monetary reserves remains an extremely broad definition, in which managing reserves is very subjective and questionable as to what function it should serve. The last limit for the SNB to follow, that of contributing to the stability of the financial system is one of the most broad definitions possible, in which the stability of any monetary system could fall if the central bank engaged in reckless monetary policy or if market actors, such as intermediate banks, were to collapse, in which the stability of the financial system could be increased through open-market operations but the value of savings could be destroyed with such issues, or even the drastic reduction of the exchange rate.

Despite the issue surrounding the definition of the duties of the central bank, there remains a great deal of interesting duties left to the SNB. The independence of central bank policy is protected under Article 6 of the law, in which it is guaranteed that the SNB cannot be forced to engage in policy by instruction of the Federal council, the federal assembly or other organisations (Assemblée fédérale de la Confédération suisse, 2003). A clear guarantee of independence over monetary policy is rather interesting, since it leaves the door open to ultimate police and a lack of clear accountability, as some may argue that the Federal Assembly should be able to adjust monetary policy as it believes just and correct. Despite the diverse limits and objectives of Swiss National Bank, there does seem to have a general idea of independence and attempt at performing a monetary policy based on stability and exclusion from the political arena, although, it still does leave the policies open to interpretation and communicable with the Confederation government.

4.4 United States Federal Reserve Act

The world's superpower has traditionally been strong militarily and economically. The financial power of the United States lies in the United States Dollar, which is managed by the United States Federal Reserve System. The United States Federal Reserve System receives its power from congress most notably written in the Federal Reserve Act. The Federal Reserve Act is an extensively written act which grants large amounts of powers into the Federal Reserve to conduct monetary policy.

The Federal Reserve act added multiple members to a special board which would oversee the Federal Reserve's goal of stable monetary policy. The Federal Reserve Board, as it is called, was created with a membership which consists of seven members, including the

Secretary of the Treasury and the Comptroller of the Currency, followed by five members appointed by the President of the United States (United States Congress, 1958). The commitment to ensuring an independent monetary policy is apparent with the enactment of such a board, while ensuring that some accountability is offered through the interaction of the Secretary of the Treasury and the President's power to appoint members. Moving in a general direction of separation of power is a clear demonstration that removing the Federal Reserve from the political arena of day-to-day operations which normally could be manipulated to be used for financing government expenditures. Naturally, an interesting separation of power, and commitment to independence.

The Federal Reserve Act also gives way to one of the most important powers any central bank can have over debt or other monetary policy. The power to engage in open-market operations is stated as allowing the Federal Reserve to engage in open market operations to purchase and sell at home or abroad, diverse securities and bills of exchange (United States Congress, 1958). The power to engage in open-market operations with diverse governments and complete control over controlling the entire market gives the Federal Reserve extreme powers to control the entire market at any time, in many ways, it does gives the Federal Reserve the right to buy government securities which could help reduces bond yields in many ways, such as the current 2008 financial crisis, in which the Federal Reserve bought many mortgages and government bonds to help reduce yields on the public debt. It begs to question if the act of having an independent bank like the Federal Reserve is truly independent, since the individuals on the board is chosen by a politician, which can appoint ideological appointees to operate monetary policy.

Monetary Policy can only be affected if a monopoly is granted, which the Federal Reserve has held for decades. The power in which the Federal Reserve Act adds is the natural monopoly over money, in which it is given the power to issue notes, while offering to redeem them when demanded in gold, at the Treasury Department, or in certain cases at any Federal reserve bank (United States Congress, 1958). The fact that the legislation gives a detailed analysis of how the Federal Reserve should operate with regards to note issuance and having to tie notes to gold demonstrates a strong accountability feature in which the Federal Reserve would be tied to gold and forced to not expand the money supply recklessly, and cause rapid inflation. This initial tie to gold can be interpreted as attempting to maintain a sound payment system, in which the money supply would not be used for political purposes, but simply to ensure that a standard note which would be accepted at all businesses as tender and for an automatic redemption in gold which has been a matter of currency for thousands of years. Reducing the need for day-to-day transactions in gold or constant transfer of gold between private banks gave such a strong transparency mechanism and helped to reduce transaction costs by not having to transport large quantities of gold during regular times or even more frequent when economics crises would arise.

Maintaining a responsible and accountable currency was a drastically important feature which could not be enforced unless both aspects of the currency link were stable. The Federal Reserve Act saw the dangers of fiat currencies in which it gave the Federal Reserve the exclusive duty to ensure that all currency would be engraved in the best manner to guard against counterfeits and fraudulent alternatives (United States Congress, 1958). A duty which often can be interpreted as with regards to any bank, although the important feature of ensuring that note were transparent was an essential feature of the gold standard, which the Federal Reserve first began under. The danger that would arise should the notes be fraudulent, then naturally the government would have criminals redeeming gold for papers which represented absolutely no value than an overinflated currency.

A large reserve of American currency is an ever changing nature throughout the world, while the Americans continue to fill their banks with Americans reserves. The Federal

Reserve Act empowers the Federal Reserve to set requirements for all bank reserves, and defines the possibility of holding multiple bank reserves at the Federal Reserve or even certain defined banks in diverse cities (United States Congress, 1958). Such a power is very powerful, since it allows the Federal Reserve to engage in selecting the ratio of reserves banks must hold, in essence, limiting the amount of money that banks can loan instead of putting them into their vaults. A clear power to engage in such regulation permits the Federal Reserve to select diverse ratios and in many essence engage in political or personal opportunism in setting favourable ratios for diverse banks, by allowing to lend more money, it permits banks to gain a foothold in the political arena or compete with other banks through having a chance to gain more remuneration from interest on loans compared to certain banks who could lend less.

The Federal Reserve Act permits the Federal Reserve to engage in multiple transactions, often aimed at financial stability in the general text; however it does allow the possibility of political and business advantages through corrupt practices of permitting lower bank reserve ratios for certain banks that are connected to the Federal Reserve Board. Powers such as having the monopoly over a currency and being linked to gold is a naturally powerful idea for previous times, although it does leave open the door to counterfeiting credit and having gold stolen, instead of the free banking-era of recognizing bank notes as credit, which could allow small inflation, instead of large gold losses. Overall, the Federal Reserve lacks a long thought over the problems that it could create and forbid equality over banks.

4.5 Scotland and the Bank of England

Throughout the different periods of Scotland history, there has always been a diverse amount of banks and currency options. During diverse times Scotland has had different currencies from Scotland's former private currencies or state-issued currency, which merged in 1845 to embrace the British Pound as the new unified currency. Scotland's change to the

British Pound was based primarily on the union of both countries, although, the change came after the private sector of the economy had competed for over a hundred years, in which the government abandoned free banking and engaged in a unified currency. The unification was due primarily to a currency war. Despite these changes, the modern Bank of England's start should be analyzed for its origination, which naturally started the new currency which the Scottish would come to embrace in the long-term.

The creation of the Bank of England is relied in the Bank of England Act 1694. The creation of the Bank of England was very interesting with regards to the direct motivations for creating a monopoly over the currency, since the primary goal was to fund the War against France (Parliament of the United Kingdom, 1694). The monarch gave the power through such an act to grant upon Tonnage of Ships, Vessels and other companies or sectors to fund the fight against France by adding diverse increase in supplies (Parliament of the United Kingdom, 1694). The basic issue of having a government currency for war remains the most common issue, since it opens the central bank to engage in inflationary pressure, as in the case of the Bank of England, it permitted the monarch or Parliament to fund all issues related to war, or even to permit themselves to enjoy the possibility of enriching themselves. The Act ordered the advance of fifteen hundred thousand pounds (Parliament of the United Kingdom, 1694), which does differentiate itself from other central bank acts, since it gave a direct order for certain sums, compared to general monetary policy. The specific Act also permitted the Bank to buy and sell Bullion, Gold, Silver or Bills of Exchanges (Parliament of the United Kingdom, 1694). The multitude of issues surrounding such an Act remains very diverse, since the specification remains extremely determined to fund wars, while lacking the issue of strong accounting or even how to engage in market operations to ensure that the market is operated in a stable method, compared to simply inflating the market when the government or monarch requires funds for war or any other issues.

5.0 Financial and Economic Stability

Economic and financial stability are linked through the hip, in which if either one fails, it is most definitely that the other will suffer drastically. The analysis will take into consideration the diverse countries financial and overall economic stability during the free banking transition, in which government abandoned free banking and embraced central banking. The question will be to analyze as to whether it was due to political opportunism or economic necessity as often argued, which normally casts a draconian view of free banking stability and instead calls for large government intervention and monopoly over currencies.

5.1 Australia

The transition to centralized banking occurred after a drastic banking crisis which saw housing prices collapse and a large number of private banks collapse. In many cases, the question that is surrounded is whether the housing collapse was one of natural economic failure or politicians desires to respond to a crisis in an attempt to seek re-election.

Banking crisis are never small effects on economic activity, since they found the basis of any economy and the chance of professional lending. In the case of 1891-1892, 41 financial companies failed due to having a higher cost of borrowing in Britain (Hickson & Turner, 2002, p.148). Naturally it's to be expected, since if the British economy governs monetary policy from a different country, with a different focus, it's natural that at one time or another there would be an increase in the borrowing cost, and as interest rates on deposits rose in Britain, capital would return, instead of being saved in Australia. Since the fall in the money supply would reduce the demand for housing and mortgages, with a fall in price values, naturally banks would have to renegotiate their loans and accept losses, or in the case of the land crash, to have banks fail.

With the crisis spreading throughout Australia and causing much uncertainty, any individuals would become worried and start to question the credibility of diverse institutions. As noted, in 1893, once the Federal Bank failed (Hickson & Turner, 2002, p.161), such an institution through its name or even simply its recognition naturally would create a panic and cause a run on banks, however the issue surrounding a failure of free banking needs to be considered. Even if a bank were to fail, the question surrounding whether such a failure was a proper correction in the market is the primary issue, since having banks engage in improper practices would require the unstable banks to collapse and then regain the confidence of individuals through engaging in proper banking practices and increasing transparency through private insurance companies or even creating a banking association. With regards to stability, the issue of a monopoly over a currency and heavy regulations is rather ridiculous since markets would re-stabilize themselves, even under government management the instabilities can arise through inflationary policies or government policies which are chosen by the well-connected.

An argument over the market's influence on banks is unquestionably ridiculous in any statement regarding dangers of competition. The argument that lower charter values arose due to competition (Hickson & Turner, 2002, p.152) is reasonable to understand why banks would hold less assets, since more banks would hold less assets each, however the idea that competition could drive these charter banks to engage in riskier practices (Thomson & Abbott, 2001, p.72) simply hasn't been proven competently. Competition naturally would force certain banks to engage in a fierce attack on the market and satisfying customers and attempting to attract their deposits and create a profit. The problem that arises with the theory of competition as the cause of the bank failures is due to the problem in which banks would increase risk taking simply to compete for market shares, as any large increase in the market would cause housing prices to rise and for banks to fail in the long-term, which certain banks may naturally choose such a reckless method, although strong banks that would not engage in such actions naturally would remain afloat and gain a greater share in the market. Competition is the answer to ensuring a strong market and attempting new ideas, and any diversion of this leads to the natural state of monopoly or oligopoly and unsound bank practices.

The problem that arose with the failure can be viewed as a political crisis, since individuals joined together and ask that the problems of banks be solved. The opportunist behaviour began when the governments began to intervene, in which politicians were able to be re-elected or even elected. The problem is always a method in which politicians can gain fame for attempting to solve or at least stabilize for the short-term. In the case of Australia, politicians acted too soon, by calling bank holidays and implementing more regulations and a central bank. The problem of any institution failing or not achieving optimal goals is the natural order of things in any society, in the market place corrections will always arise as confidence and contracts are upheld and adjusted without political pressures, while government engage in politically-calculated moves which may simply delay problems and offer simplistic and costly remedies, such as inflation in banking.

5.2 Sweden

The ever evolving banking system in Sweden was relatively stable. The financial stability was market during the 1800's in which only one bank failed, Vadstena Enskilda Bank (Lakomaa, 2007, p.40). The fact that only one bank failed during the entire free banking period demonstrates a strong robustness to diverse stresses which are normal for banking systems. The Vadstena Enskilda Bank only collapsed due to fraud and theft committed by the bank manager, as the customers of the bank did not incur any losses when it was closed (Lakomaa, 2007, p.40). With such a stable banking system, it questions the reasoning for transitioning to a central bank. When a market is entirely stable, it leaves open the possibility that nation-building or simply the desire to be able to devalue a currency and engage in government spending, for politicians.

5.3 Switzerland

Stability under free banking has often been questioned in Switzerland due to the diverse problems that arose with banks and price stability. In many arguments the question over whether price stability could be maintained under free banking or if the private banks would simply engage in large and constant loans in an attempt to increase either use of their notes or to benefit from inflationary pressures.

One of the main argument gives has been the lack of proper clearing houses to stabilize and permit the financial system to be more stable. One of the prime examples of questionable stability was the issue of redeeming foreign notes, since it was feared that the foreign institutions would not return the banks own notes (Neldner, 1998, p.294). Naturally, if one were to consider the difference of times during the 18th century, it isn't very difficult to understand that during a time of large shipments of gold, other metals, or even just the basic shipping, such costs were unbelievable high due to the lack of modern airplanes or high-speed trains. In many ways, the effects of modern technology and globalization would easily be understood as a method to engage in a more stable banking system for clearing houses, however during the previous era it is very questionable if stability was possible under a free – banking Switzerland. Despite the question of stability, the stability would still be present as markets would be able to clear themselves and price-levels at the local level would remain relatively stable, or in the case that a rapid influx of Swiss Francs were to occur, banks could either dismiss their notes or most probably increase rates for bank deposits.

The Swiss National Bank was a logical conclusion to induce stability and help clearing notes. The issue of the Swiss National Bank that can be viewed as different remains the fact that it was not forced upon by government but was instead greatly called upon by the majority of bankers (Neldner, 2003, p.404). The new National Bank would also be composed primarily of representatives from all of the former private issuers (Neldner, 2003, p.404). Such a change was drastically different from other central banks which often were created due to nationalism, in many regards, the Swiss case could be argued that during the time, Swiss citizens viewed the Swiss National Bank as an economic necessity, although it could still be argued that having simply create a private bank of note clearing would have served a greater purpose and permitted the market to continue to compete under certain circumstances. Even with a private clearance bank, competition could have been upheld to ensure that diverse trials of monetary policy could be implemented. The government was not entirely needed and a monopoly over the currency can be viewed as not necessary, since the market could have provided the same benefit. To ensure that currencies were also differentiated, diverse banks could have refused to accept certain banks and deal directly with other banks through inter-bank accounting.

5.4 United States

The stability of banks under the free banking era in the United States is rather controversial since the freedom of banks was not to the highest extent. Banks in many instances were bound by state legislatures, through either state charters or state laws.

The 26 years of state chartered banks was based primarily on the idea that simply competition would stabilize the system, as it did succeed in that aspect (Bordo & Schwartz, 1995, p.461). The experiment had been argued to of failed due primarily to state interference in production and pricings decisions, as states had an interest in encouraging inflation and lack of redeemable notes and currency (Bordo & Schwartz, 1995, p.461). Such stability could be argued to be an attempt at simply defending a theory of free banking, however when the government charters permitted the government to regulate and reduce any decision making authority on the bank's, since they were responsible for all liabilities, it remained a bizarre mix. As well, with a lack of legal defence of contracts, it did open the possibility of having diverse banks engage in inflationary pressure for the well-connected.

A great change in government policy can be reflected throughout the history of New York with regards to economic, or more focused banking change in the following case. In 1838, a great change occurred when individuals came to reject the politicization of economic matters and rejected the legislature's interference in economic issues (Bodenhorn, 2006, p.252). The drastic change which occurred helped to cleanse the ever evolving problems of short-minded voters who often advocate policies which will enrich their lives, while neglecting the larger implications. While also rejecting government politicization of the economy and the banking sector, a growing change occurred in which the well-connected businessmen would be forced to compete and endure market stresses, instead of using common legislation to regulate and attack their opponents.

Government charted banks were numerous throughout diverse states. The effect on the market of private bank notes was negative as often argued, the governments often interfered with how banks could stop any economic crisis, such as limiting the amount of notes that banks could create in response to major shocks (Selgin, 2000). Without taking into consideration the political interference from legislative laws, one cannot comprehend the basic reasoning for failing institutions. In many regards, the demonstration of legal interference remains the prime motivator for disrupting any institution. Without allowing markets to correct themselves and solve problems by their own hand, or through an impartial justice system, markets will always be argued to be the problem when one fails, while neglecting the government involvement in precipitating a crisis.

5.5 Scotland

Scotland has to be one of the oldest and most well renowned cases of free banking. The transition from a free banking system into a monetary union occurred when it joined in a union with Britain. The question to be asked is whether the banking system was truly so unstable that government intervention and monopolization was necessary.

Scotland's period of free banking lasted for close to 150 years, while enduring multiple changes at the level of government legislation. The Scottish experience of free banking setup a note exchange system through two state banks, that of the Bank of Scotland and the Royal Bank of Scotland, which both were recognized by Westminster as representatives of the banking system as a whole (Dow, 1996, p.704). The fact that such an intrusion occurred could explain the eventual collapse of the system, since when an oligopoly of two banks and a legal recognition of their superiority can distort the market by encouraging individuals to take a greater stake in such banks.

Despite the issue of government intervention in the market place for banking, there were diverse success stories. The stability of the Scottish banking system was demonstrated in the 1820s during a depression when 60 banks failed in England while only one in Scotland (Hickson & Turner, 2004, p.914). Even with an interventionist policy, it's clear that the market-based competition helped to stabilize the market and reduce the dependence on the state, while permitting banks to manage their own affairs. However it still doesn't fit the ideal model of a free banking system, since they were still rather dependent on a central bank in a certain sense, since they were able to suspend specie payment when English did in 1797, which lasted until 1821, which doesn't fit the standard defence of property rights of the depositors (Rothbard, 1988, pp.230-31). Market stability can be described through the real economic development that occurred.

The issue of boom and bust cycles is rather important to understand in the case of Scotland. The problem that arose was the constant series of boom and bust cycles of 1760, 1772, 1778, 1793, 1797, 1802-03, 1809-10, 1810-11, 1818-19, 1825-26, 1836-37, 1839 and 1845-47 (Rothbard, 1988, p.230). In many regards the system failed to ensure stability, as boom and bust cycles should not occur in such a constant series of repetition. However, in some regards it could question if the market was re-adjusting to technological improvements or mass land privatization, all of which would affect the prices for land tied to loans or even the value of business investments.

Overall, the Scottish experiment demonstrated that the market was capable of remaining active for over 150 years, while engaging in stability for a long period until after the union with England. In the Scottish case, it demonstrates that the market's stability compared to the English system was far superior. The question of lacking a state stake in two banks would have helped to add to the clarity of the system and even help to analyze if the market was truly the creator of a crisis. The case would be reinforced if the state did not have such an interventionist stake in the market and permitted the market to allow unfettered currencies.

6.0 Conclusion

Throughout the research the idea of verifying if central banks and the general government monopoly over currency was due to political opportunism or economic necessity, by generally comparing between the free banking era and the central banking era of 5 countries. The research has been drastically analyzed by using three diverse tools. The analysis was first considered with bond yields to see any correlation between government debt and the reduction in rates once the central bank gained a monopoly. The second consideration was to verify the central bank acts and verify if there were any specific legislative directives or argument in favor of preventing a previous economic crisis. And the final consideration was given to the historical stability of the free banking period.

The research demonstrated that there were multiple methods of interpreting economic activities, by analyzing their political aspects and the definition of money by different schools of thought. The further schools of thought were demonstrated in different periods of time as a guiding factor for politicians.

In the research, it was apparent that bond yields, except in the lack of data for Scotland, demonstrated an ever growing public debt as bond yields dropped significantly under the era of government monopolies. When free banking eras were compared to the central banking era, it became ever apparent that under the market era, private banks would not lend to government at such low rates due to the irresponsibility and high premium that would be required, in which the data demonstrates that reasonably a politician could seek to gain a monopoly in hope of financing large government expenditures at a lower interest and encouraging individuals to justify this to the electorate as a small cost, when in reality, debts have continued to increase since the monopolization of currencies.

The analysis of central bank acts revealed different ideas for each central bank, often not describing any true necessity or reasoning for any historical problem which would have motivated the central banks creation. The diversity of central bank goals can be summarized as having a more independent and ultimate power best in the Swedish Riksbank, while having a more broad objective set of goals at the Reserve Bank of Australia. The Swiss National Bank was clearly laid out to ensure a very independent operation, while following a general pattern of simply ensuring a stable currency and a responsible market acceptance of Swiss Francs. The Federal Reserve allowed far more selective powers, in which it described different rates and other set of goals which it was to achieve, while also being bound at the beginning of its existence with a gold standard. In which the final bank, in the case of Scotland, was the transition from private banks towards the later Bank of England under the union, as with the Bank of England demonstrated its creation was due to the monarch's desire to fund wars.

The analysis of stability from a historical perspective demonstrated that different causes for the economic crises that were often before the introduction of the central bank act, however, in almost all cases, an excess of government intervention has been seen and arguably believe to have precipitated risky processes at private banks. As in the case of Australia which the crash was due to a retraction of foreign money and thus the resulting fall in land prices which was further precipitated by government intervention such as mandatory bank holidays by the governor. The Swiss case was primarily based on a problem of clearing houses, in which the Swiss National Bank was, create to fulfill, although the market could have reasonably created such an institution. The United States system was generally stable, although in certain state the limitations imposed by state legislatures was often pro-inflationary and lacked the freedom for private banks to protect the liabilities to their depositors. The Scottish case was filled with government intervention, while not protecting the basic economic necessity of property rights and thus resulted in a constant boom and bust cycle of neglecting notes. The final Swedish central bank came about as a government project, since stability was extremely common, as only one bank failed due to corruption which did not result in any losses for the depositors.

The question over opportunism or economic necessity can be finalized with a general swing to opportunism. Despite politicians perhaps did plan to implement a central bank to lower bond yields as the data could arguably be an after-effect which was discovered. The view of central bank legislation and economic history of stability clearly demonstrate a pattern in which political decisions often were the result of the legislature, as in the New York case demonstrate a great fatigue with corporate powers and government legislation which benefits such well-connected individuals. The following research still leaves open the questions to be answered about micro-aspects of the diverse periods and specific political moves which may never be answered, but nonetheless, a clear pattern has emerged to demonstrate the true lack of knowledge of politicians to conduct monetary policy and their addiction to debt.

Abstract

Throughout history, at multiple times, countries have implemented central banking systems by monopolizing currencies. The following study looks at key indicators such as bond yields, central bank legislation and free banking era legislation to identify whether changes were due to economic necessity or political opportunism on the part of politicians. The study will analyze 5 countries, most notably Australia, Sweden, Switzerland, United States and Scotland, all of which have had a free banking period and can shed some light on the topic of transition from a free banking system to a centralized monopoly. The comparison draws light on the diverse problems and challenges that arose, most notably finding that in the majority of cases, government intervention caused the banking system to become unstable and help governments to engage in large debt financing under the central banking era.

Keywords: Free Banking; Rent-Seeking; Comparative Banking Systems; Central Banks; Political Economy of Monetary Institutions

JEL Classification: **B53, E02, E42, E44, F59, N13, N14, N11, N12, N21, N22, N23, N24**

Abstraktní

V průběhu historie v různých časech, země zavedly centrální bankovní systémy, které si přivlastňují měn.Následující studie se zaměřuje na klíčové ukazatele, jako jsou výnosy dluhopisů, centrální banky právních předpisů a zákonů z éry svobodného bankovnictví určit, zda změny byly kvůli ekonomické nutnosti nebo politického oportunismu ze strany politiků.Studie analyzuje 5 zemí, zejména z Austrálie, Švédsko, Švýcarsko, Spojené státy americké a ve Skotsku, z nichž všechny mají volnou bankovní období a může vrhnout trochu světla na téma přechodu z volného bankovního systému na centrální monopolu.Srovnání vychází světlo na různých problémů a výzev, které vznikly, zejména zjištění, že ve většině případů, vládní intervence způsobila bankovního systému, aby se stala nestabilní a pomoc vládám, aby se zapojily do značné dluhové financování v rámci centrálního bankovnictví éry.

Klíčová slova: bankovnictví; rent-seeking, Komparativní bankovní systémy, centrální banky, Politická ekonomie peněžních institucí

JEL klasifikace: **B53, E02, E42, E44, F59, N13, N14, N11, N12, N21, N22, N23, N24**

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