The Theory of Monetary Institutions. By Lawrence H. White. Oxford: Blackwell Publishers. 1999.

Austrian economist Lawrence White, formerly of the University of Georgia, has given us in *The Theory of Monetary Institutions*, a book written in mainstream mode yet embellished with Austrian insights. Based on lectures given by Professor White in the courses he teaches, and furnished with thought-provoking questions at the end of each chapter, the book is intended for classroom use—if not as a text, then at least as a supplement for graduate and upper-level undergraduate courses in monetary economics. A recurring theme of this book is that most of the actions governments everywhere have taken to influence monetary affairs are devoid of economic justification.

The book's thirteen chapters can be grouped into four broad categories: the origins of monetary institutions, the role government should play in monetary matters, an analysis of the government's actual behaviors, and a look at possible future monetary institutions. The first of these sections has the greatest Austrian content, as it is based largely on Carl Menger's account of the origins of money. White makes clear that the notion of differing degrees of marketability of goods is the *sine qua non* for understanding the evolution of money. He also notes that this notion is absent from the Walrasian general-equilibrium tool kit. From there, White goes on to discuss the origins of coinage, banknotes and deposits, reciprocal acceptance of notes at par, and clearing arrangements. His analysis leads him to the conclusion that none of these mechanisms required the heavy hand of government to create them.

His discussion of privately produced money reflects the advocacy of free banking seen in his earlier work. It is not surprising, given this orientation, that his estimate of the resource cost of a gold standard differs from Milton Friedman's, largely in that White assumes a fractional reserve system (2-percent reserves against demand liabilities), while Friedman's is based on 100-percent gold reserves. White shows the ability of the classical fractional-reserve gold standard to deliver a 0.5 percent average annual decline in prices as compared to a 6.5 percent increase in more well-behaved fiat money systems (inexplicably, he excludes cases of hyperinflation, although they, too, can result from fiat money) makes a gold standard well worth the resource costs

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incurred in its operation. However, in doing so, he follows the standard practice of equating the welfare cost of inflation to "the amount by which the dollar value of lost consumer surplus exceeds the gained government revenue from monetary expansion" (p. 48). A more thoroughgoing Austrian critique would not have accounted the additional government revenue a benefit of fiat money.

His section on the role of government in money and banking methodically demolishes pretext after pretext used even by otherwise free-market-oriented economists who claim money to be an exception to the general case for laissez-faire. Thus, he explains why money is not a public good, exhibiting both excludability in supply and rivalness in use. But he doesn't stop there. Enthusiasts of government provision of money who have conceded this point have taken the fallback position that although money itself may not be a public good, monetary stability, or uniformity, or information about money nonetheless are. Professor White dispatches each of these contentions swiftly. The argument that money has external benefits that prevent markets from producing money in an optimal manner is another which fares no better at his hands. Thus, in response to Stephen Morrell's argument that government could have quickened the process of convergence to a single medium of exchange by publicizing which goods are most marketable, White retorts in fine praxeological fashion that,

> to improve the market outcome, those in government have to know better than those in trade what is the most salable good among traders. Further, to speed the emergence from barter, those in government would have to know that the market process is heading toward convergence on a commodity money, even though they live in an economy in which money has never existed. (p. 94)

Touché!

The book's discussion of actual government behavior in the monetary sphere examines the implications of different factors motivating these actions, including the accumulation of government revenue through seignorage, maximizing the power of the bureaucrats in charge of monetary policy, and manipulating the business cycle to enhance the electoral prospects of incumbent officeholders. Of these, I found the discussion of seignorage most interesting, with its explanations of how governments can maximize their take, why they usually stop short of abusing that power to the fullest extent possible, and how financial regulations enhance the ability of government to obtain seignorage. What was disappointing in this discussion was the author's failure to note that creating money to raise revenue in this way is tantamount to counterfeiting. The closest he comes is how note holders of base money are cheated if money expansion raises prices, as it invariably must (p. 160).

One of the virtues of this book is its organization. By and large, the chapters flow logically from one to the next, as the author pushes many a line of thought to its ultimate conclusion. For instance, his chapter on political business cycles leads to a discussion of rules vs. discretion, which culminates in his making the case that the abolition of the Fed would be a prerequisite to obtaining the benefits of a rule-based monetary regime (p. 222).

The question of monetary constitutions is the locus of one major omission, especially from someone with Professor White's Austrian pedigree. Here he mentions three schools of thought—discretionary central banking, constitutional central banking, and free market-free banking (pp. 218–19). Conspicuous by its absence, however, is an alternative near and dear to the hearts of many Austrians: the 100-percent-reserve gold standard. Clearly, he is familiar with it, having himself critiqued that point of view in the predecessor to this publication.[1]

That said, this volume's virtues far outweigh its failings. Despite some necessarily involved math used to elucidate some of the models he scrutinizes, *The Theory of Monetary Institutions* boasts a lucid, even lively, writing style. Moreover, Professor White successfully meets the challenge of not letting the equation trees obscure his ability to enable the reader to grasp the economics forest. Furthermore, he deftly weaves historical material into his theoretical discussions, recognizing that such episodes are what theory seeks to explain. This book's broad scope should leave those students who use it well-versed in a full range of monetary issues and well-equipped to refute arguments which suggest that only government is capable of maintaining a properly functioning monetary system.

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[1]George Selgin and Lawrence H. White, "In Defense of Fiduciary Media—or, We Are Not Devo(lutionists), We Are Misesians!" *Review of Austrian Economics* (1996): 83–107.