Two chapters deal with the Federal Reserve as a political power. The Fed's power arises from its control of monetary growth, its regulatory functions, and its role as lender of last resort. James Pierce shows how the Fed has worked to increase its power. This has been illustrated most recently by the Fed's opposition to recommendations that would limit its supervision to large (rather than all) bank and thrift holding companies. Edward Kane discusses the incentives of the Federal Reserve and Congress to avoid accountability. Efforts to impose a rule on the Fed in place of current discretionary policy will not succeed, Kane concludes, unless the shift is accompanied by some sort of compensation for those who would lose by the reform.

In some remaining chapters, the authors either do not draw political implications or they tack them onto essentially apolitical material. One chapter provides a Marxian explanation for Fed behavior, and its inclusion is a mark against the editor's judgment. According to Gerald Epstein and Juliet Schor, the Fed is inflation averse because it is primarily concerned not with the public's welfare, but with financial and nonfinancial profitability, which is reduced by inflation.

If judged by this collection, public choice theory as applied to the Fed lacks overall structure. Individual research findings relate to a particular aspect of the subject. Interesting as the explanations are, they offer only partial insights at best, and they are limited to the time and circumstances to which they apply. As a result, none of the explanations is fully persuasive.

The one attempt at structure is the chapter by Robert Hetzel, who provides a theoretical framework for the Fed's discretionary monetary policy. In this framework, congressional desires to redistribute income through inflation are constrained by the obvious costs of inflation. Congress can pressure the Fed for expansionary monetary policy without accepting responsibility for inflation because it has given the Fed nominal autonomy. The Fed for its part chooses procedures that defend its institutional autonomy while allowing it to provide the trend rate of inflation the political system demands. More structured public choice studies are a promising direction for future research.

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The Economics of Property Rights: Towards a Theory of Comparative Systems
Svetozar Pejovich
Boston: Kluwer Academic Publishers, 1990, 204 pp.

It is now generally recognized that socialist economies have failed to deliver on their promise of a more equitable and prosperous society. It is also generally recognized that the economic failure is a consequence of socialism's inability to provide the information and incentives necessary for the efficient allocation of resources. Despite the fact that the argument concerning the perverse consequences of collective ownership can be traced back to Aristotle, many economists have failed to appreciate the depth of the analytical insights that follow from pursuing a property rights approach to social and institutional questions.

Steve Pejovich can take a lot of credit for making the economics profession take notice of the theoretical and empirical power of the property rights paradigm. Beginning with his work on the Yugoslavian system of workers' self-management and continuing with his more recent work on the Soviet reforms, Pejovich has consistently chided fellow economists for not paying enough attention to the consequences of alternative institutional arrangements for economic decisionmaking.

In *The Economics of Property Rights*, Pejovich continues his reconstruction of economic thinking on alternative systems. The book contrasts the operation of capitalism with that of socialism. Pejovich combines theoretical discussion with historical illustrations in a very convincing manner. The book, however, attempts to cover a lot of ground—from the impact of religious thought on economic ideas to the analysis of concrete proposals for reform—in a relatively few pages. As a result, the book is divided into 19 brief chapters, and one is often left wishing that each particular subject was treated in more depth. Nevertheless, the work summarizes and synthesizes several important contributions to economic theory and history.

Part One (chapters 1–3) introduces the reader to the basic notions of scarcity and competition and describes how alternative social institutions arise to cope with the problem of allocating scarce resources among alternative uses. The historical development of capitalism, as well as the intellectual history of socialism, are explored in two brief chapters (2 and 3).

Part Two (chapters 4–9) is devoted to an analysis of capitalism. In this section, Pejovich explains how the institution of private property and free-market pricing mobilizes and signals economic actors to allocate resources efficiently. Chapter 9, in particular, explains neatly the vital role financial markets play in the intertemporal allocation of resources.

Part Three (chapters 10–16) analyzes the Soviet-type economy. Unfortunately, Pejovich does not always fully grasp the radical implications for the Soviet economy suggested by his own work. He repeats many of the historical myths concerning the origin of the Soviet system, the experience of "war communism," and the establishment of the Stalinist system. Even a more fundamental problem, though, is his failure to appreciate the true nature of the Soviet "planned" economy. If socialist planners lack both the information and incentives to rationally plan the economy, then what do they do? On the one hand, they can attempt to plan in the absence of any market signals and can misallocate scarce resources. Or they can substitute political for economic rationales as a criterion for the allocation of resources. The consequences of such a substitution is what Michael Polanyi has called "conspicuous production." Planner's preferences take precedent over consumers. While Pejovich clearly recognizes this, the insights of Polanyi, G. Warren Nutter, Paul Craig Roberts, and Eugene Zaleski concerning the polycentric nature of the Soviet economy could have been conveyed with more power and conviction. Nevertheless, Pejovich correctly sees the Soviet economy as a system of monopoly privileges governed by the *nomenklatura*.

His chapters on the Soviet-type economy, therefore, represent a mixed bag. Chapter 12 on the basic institutions of Soviet planning is not as strong as it could be, but chapters 13, 14, and 15 contain important theoretical and empirical observations about the operation of the Soviet system. Pejovich's most important contribution in these chapters is to force economists to analyze the implications of the fact that "public ownership" is merely a "facade" hiding the fact that the Politburo has traditionally been the true owner of all nonhuman resources in the Soviet economy. Recognition of this fact forces analysts to pay attention to the way the Soviet system actually works, rather than focusing on how the central-planning text-book models say it is supposed to work. Understanding the actual—implicit and de facto—operation of the Soviet economy is a vital prerequisite to understanding the necessary and sufficient conditions of transformation of the system and the pressures that will come to bear on those efforts.

Part Four (chapters 17–19) provides a property rights perspective on the labor-managed economy. These chapters summarize much of the work that made Pejovich and Furubotn famous. As they have pointed out, labor-managed economies tend to favor current consumption over savings, thus retarding capital investment and innovation. Moreover, these economies are biased against employing additional workers since all workers share in their firms' earnings, but new workers did not participate in financing the additional capital. As a result, the high unemployment rate observed in labor-managed economies is a structural result of the institutional design of labor management.

The Economics of Property Rights is recommended reading to all students of economic systems. Pejovich has provided a useful summary of the findings and implications that follow from studying economic decisionmaking under alternative rules of the game.

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Friedman in China
Milton Friedman
Hong Kong: The Chinese University Press, 1990, 144 pp.

Milton Friedman, Nobel laureate and the intellectual leader of the revival of monetarism, has again attempted to unlock the mystery of money for us in his new book *Friedman in China*. As the title indicates,