tion." 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.

Peter J. Boettke
New York University

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, the book reflects Friedman's thoughts on China on the basis of his knowledge of Western market economies. During his two visits to China in 1980 and 1988, Friedman gave a series of lectures and, on his second visit, met General Secretary Zhao Ziyang. These lectures form the main content of the book. One chapter is devoted to the dialogue between Friedman and the general secretary. Steven Cheung's reminiscences of Friedman's second visit to China are also included in the book.

In the years between Friedman's two visits, China undertook first agricultural reform and then industrial reform. Lands formally owned by communes were divided and leased to households for 50 years. Each household was responsible for its own output. Output in excess of a government-mandated purchase could be sold at free-market prices. The so-called "household responsibility" system soon created a miracle: Food was suddenly abundant in most parts of China, and millions of peasants were released from their lands through the dramatic increase in efficiency. Between 1980 and 1985, agricultural output grew at an annual rate of 8.2 percent, compared to an annual rate of 3 percent between 1952 and 1977. The "surplus labor" released from the countryside was either absorbed by newly formed county and township enterprises or laborers migrated to big cities and coastal areas looking for a better life.

As the wave of economic reform swept to industrial sectors, however, Deng's blueprint for economic reform began to face some real challenges. The "managerial responsibility" system, which was copied from the household responsibility system, was not as successful as its predecessor. After all, managers and workers in a state enterprise are not household members who want to work together to improve their well-being. Besides, according to Marxist doctrines, workers are supposed to be the "owners" and managers are the "servants" of state enterprises. Therefore, the interests of managers and workers may not be the same. As local government officials and enterprise managers were granted limited power in making decisions on production and revenue-sharing, they tended to use the power to benefit themselves. So, the interests of local governments and enterprises also clashed with the interests of the central government. Although industrial output grew at an annual rate of 16.6 percent between 1985 and 1988, the central government revenue, as a percentage of national income, actually decreased by more than 4 percent during the same period.

Moreover, as local government officials and state enterprise managers enjoyed increasing autonomy, they soon realized that it was to their mutual benefit to get more loans from either the central government or the local branches of the People's Bank of China, which is China's central bank. More loans meant more revenue to local governments and a larger share of the nation's economic pie that belonged to nobody. In this sense, China's bank loans have become government grants that represent no risk to state enterprises at all. As total outstanding loans dramatically increased, the People's Bank of China was forced to inject more money to ease the liquidity shortage. Inflation then soared. According to the official consumer price index, inflation was 7 percent in 1986, 9 percent in 1987, and 21 percent in 1988, the time when Friedman was in China.

Although China's central bank recognized that "substantial inflation is always and everywhere a monetary phenomenon," it apparently lacked the ability to control the money supply. Because of public ownership (i.e., both banks and enterprises belonged to the state), money could be created either from the top as the central government demanded more spending or from the bottom as local governments and their subordinated enterprises competed for more loans in an effort to expand their shares of the nation's income. Since the nation's total income did not change overnight, money soon lost value as inflation rose.

Besides the issues of inflation and property ownership, many other thorny issues also began to surface in the process of industrial reform. These issues included, for example, how to use the market mechanism in connection with central planning, how to disentangle the relationship between state-owned banks and state-owned enterprises, whether to pursue economic reform drastically or gradually, and whether to relax exchange rate controls and eliminate the two-tier price system. Friedman has elaborated these issues, not only persuasively and eloquently, but also simply. Therefore, this 144-page book is suitable for anyone interested in economic reforms in either China or other countries trying to make the transition from central planning to a free market.

Three years after Friedman's second visit, China began to loosen control on foreign exchange rates and to allow prices of many commodities to be determined in markets. Stock markets were established in both Shanghai and Shenzhen, and future markets on certain agricultural commodities were emerging in some areas. All these changes indicate that China is again moving solidly toward market-oriented reforms. But these markets are neither "free" nor "private." Furthermore, the central government is again tempted to use the cheap way to lift China's sagging economy—printing money, this time under the sacred name of the Keynesians. By the end of the third quarter of 1990, the money supply was growing at an annual rate of 20 percent, the highest level since the last quarter of 1988, and Chinese officials have attributed the rebound of industrial production in 1991 to their successful effort in "fine tuning" the economy.

Alas, I begin to wonder if the Chinese officials still remember Friedman's advice and whether they know why Friedman is so famous.

Jeffrey Liang
American Enterprise Institute