competitive markets. For example, how easily can new suppliers enter the educational market? The answer is not very easily. Indeed, Lieberman argues, public school choice is not really about competition at all. Public school choice fails most market assumptions.

As Lieberman persuasively shows, public school choice does not provide schools with sufficient economic incentives to seek new students. Choice plans also typically fail to provide schools with sufficient flexibility to compete. State and district regulations limit their ability to differentiate themselves from one another. And personnel rules, in statutes and collective bargaining agreements, make it exceedingly difficult for schools to create distinctive staffs through hiring and firing. Lieberman is especially insightful in discussing labor-management issues. Besides his productive academic career, Lieberman has worked as a consultant or negotiator in numerous collective bargaining processes. His knowledge of the many tensions between union objectives and school competition is impressive.

This hard-hitting and highly accessible book should jolt those reformers who so often argue that public school choice will transform American education in much the same way that markets are expected to transform socialist economies. Reformers need to be so alerted, for an educational system truly based on principles of competition and choice could bring major improvements in the organization and performance of America's schools. Yes, reformers also need to know that there are problems with markets—for example, uninformed parents, principals and teachers who are currently incapable of running competitive schools, and economic savings associated with some forms of centralized educational organization. Lieberman discusses these problems and more. Still, it would be a shame for American education if the current enthusiasm for market-oriented school reform was squandered on choice plans that do not give markets a real chance and do not provide families with real choice. Lieberman fears that such a sad scenario is a likely one, and I quite agree.

John E. Chubb
The Brooking Institution

The Political Economy of American Monetary Policy
Thomas Mayer, ed.
New York: Cambridge University Press, 1990, 314 pp.

A dramatic shift has occurred in recent decades in the thrust of academic research regarding the operations of the Federal Reserve System. Scholarly studies used to concentrate on technical aspects of Federal Reserve operations. In each of the Fed's domains—monetary policy, lender of last resort, and bank regulator—investigators asked what the Fed was doing and how it was doing it. These studies presupposed that only the public interest animated Federal Reserve activities.

Two developments account for a new direction in academic research. First, the Federal Reserve was not responsive to critics. It defended its performance and rarely conceded past mistakes. Second, the influence of public choice theory on the analysis of the behavior of government agencies, including monetary authorities, has expanded rapidly. Public choice theory assumes that actions by public bodies are motivated by the preferences of their leaders. The theory further notes that these preferences are not necessarily limited to serving the public interest. Public servants may be more motivated by attempts to promote their institutions' franchises and their own private interests. Public choice theory leads investigators to focus on why the institution has performed the way it has.

Determining the factors that influence Federal Reserve behavior involves a multidimensional investigation. The institutional setting must be related to the policy choices the Fed makes. But the institution itself is complex and subject to both international and domestic pressures. The Fed's interactions with other central banks can affect its decisions, and domestically the Fed is an agent of Congress and is accountable to the president who appoints the board of governors and the chairman. The Treasury Department wants the Fed to be obedient to its agenda. The Federal Reserve chairman and individual governors often seek to influence the selection of district bank presidents, thus limiting the number of independent voices within the system. Political choice theory needs to trace the paths that lead from all these sources of power as well as to identify the personal motives of staff and governors in making the Fed's decisions. These decisions affect what the price level will be, whether the Fed will play the short-run Phillips curve game, under what circumstances it will intervene as lender of last resort, and what position it will maintain as bank regulator relative to its rivals in bank supervision.

The Political Economy of American Monetary Policy, edited by Thomas Mayer, includes 19 chapters that attempt to explain the Fed's behavior in light of public choice theory.

Some of the chapters reject models the literature has previously applied to the Fed. Take, for example, the bureaucratic theory that regards power and prestige as the primary goals of the Fed, eager to maximize its autonomy and the size of its staff and its budget. Power, prestige, and autonomy do seem to play a role, but Thomas Willett dismisses budget and staff maximization as significant influences on monetary policy. He similarly dismisses the theory that decisionmakers at the top levels of the Fed are engaged in significant rent seeking, but Willett notes that the extent to which Congress and the executive branch are engaged in rent seeking can have an indirect influence on Fed policy.

The nature of the relationship between Congress as principal and the Fed as a congressional agent is also in dispute. It is not clear whether Congress is a behind-the-scenes manipulator of banking regulation and monetary policy or whether Congress does not seek such control.

Contrary to earlier studies, Nathaniel Beck provides evidence in support of the view that Congress does not seek control and shows why inactivity is in the interest of the legislators.

Although evidence indicates that executive branch pressure dominates monetary policy, Michael Munger and Brian Roberts argue that a new theory is needed that encompasses all sources of political pressure on the Fed. The executive branch supports the Fed in return for its maintenance of a desired level of nominal interest rates, and the Fed accepts the role of scapegoat for the Congress—when interest rates are rising and exchange rates fluctuating, for example—in return for relative autonomy.

The book includes chapters with contradictory findings on the validity of the political business cycle. Beck reports that M1 growth rates support the existence of a political business cycle while the federal funds rate provides no such support. Meanwhile, Willett finds evidence that a political business cycle exists based on Treasury bill rates.

Political pressure is also exerted within the Fed. Thomas Havrilesky and Robert Schweitzer attempt to determine which of eight career characteristics of members of the Federal Open Market Committee (FOMC) accounted for dissenting votes, which were discouraged, over the period 1960 to 1983. Assuming that the central government favors inflation, Havrilesky and Schweitzer attribute votes for easier monetary policies to those characteristics that indicate greater proximity to the central government. Votes for tighter policies were attributed to characteristics reflecting less proximity to the central government. In contrast to earlier results, the authors of this chapter found that occupational background did make a difference in FOMC dissents.

John Gildea presents a different model of FOMC voting behavior. He considers each member's voting record—dissents as a percentage of total votes—from 1960 to 1982. Gildea includes politico-economic constraints, individual preferences, career variables, and social-background variables. He reports results for four different samples, and he concludes that members voted for more expansionary monetary policy as presidential popularity declined and as the ex ante real interest rates rose relative to inflation. Governors cast their split-decision votes in accordance with the appointing president's party. Voting behavior accommodating short-run political pressures was associated with government experience and private industry background; voting behavior resistant to such pressures was associated with an Ivy League education, an economics Ph.D., and a position as a regional Federal Reserve Bank president.

Thomas Mayer offers a mirror-image of public choice theory. He argues that the Fed is driven less by the wish to enhance power than by attempts to avoid feelings of responsibility when policy turns out to be mistaken. Mayer labels his approach a regret-avoidance theory, on the basis of a psychological phenomenon called cognitive dissonance. He cites behavior that suggests the Fed may be seeking to reduce cognitive dissonance, but Mayer notes that other explanations may be equally operative.

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.

Anna J. Schwartz
National Bureau of Economic Research

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