desirable than it would have been if we had had a powerful socialist party. They write, "[T]he organizational strength of the lower class of a society is decisive in determining the relative life chances of poorer people." In their view, it's bad that socialism didn't develop in the United States because "those toward the bottom of a society must rely on political power if they are to influence the laws of their society."

Lipset and Marks have swallowed that great piece of sucker bait that socialists dangle in front of people concerned about the poor—that they are doomed to a squalid and unfair existence unless the state disembowels the market economy with redistributive programs. Nowhere do they recognize that many extremely poor people rapidly worked their way out of poverty in America prior to the advent of the welfare state. Nor do they see that the supposedly pro-poor programs of socialist states induce an economic arteriosclerosis that makes it far more difficult for poorer people to succeed. And they are blind to the fact that even in the hands of socialists, government policy inevitably comes to favor some groups at the expense of others. In France, for example, socialist policy is very pro-farmer, keeping food costs artificially high for everyone.

Too bad the authors tarnished their work with ill-informed prattling about the consequences of the "failure" of socialism in America. □

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Microfoundations and Macroeconomics: An Austrian Perspective

by Steven Horwitz

Routledge • 2000 • 276 pages • $100.00

Reviewed by Gene Callahan

Professor Steven Horwitz of St. Lawrence University has written an important new book laying the foundation of an Austrian school approach to macroeconomics. Horwitz is not addressing only fellow economists: While this book is certainly not an introductory work (don't give it as a gift instead of *Economics in One Lesson*), it is readily accessible to any reader who follows the economic arguments put forth in this magazine.

Horwitz begins by stating his agenda. He hopes to advance Austrian macroeconomics, seeking to demonstrate to mainstream macroeconomists that a viable alternative vision exists, one that adeptly treats many problems ignored by the mainstream approach. He explains that the Austrian themes of subjectivity, methodological individualism, and the market process focus macroeconomic explanation on the behavior of the individual in response to economy-wide disturbances, such as inflation or deflation.

Following the introduction is an excellent chapter that traces the development of a distinctive Austrian approach to economics and describes the history of Austrian interaction with the emerging neoclassical paradigm, which since has come to dominate the profession. Horwitz highlights the time when these two traditions nearly merged, before diverging again. In the 1930s Lionel Robbins incorporated certain Austrian insights into Marshallian economics, helping to define the neoclassical school. This Austrian-Marshallian synthesis focused on the properties of equilibrium markets, which were taken to be a good approximation of the real world. However, Hans Mayer's critique of price theories that simply assumed equilibrium foreshadowed F.A. Hayek's work on knowledge and prices. Austrians moved away from Robbins's formulation of economics, emphasizing the freedom and unpredictability of human action. Austrians came to view general equilibrium as a model of an unreal and unobtainable world, which nevertheless aids our view of the market process.

Horwitz goes on to discuss the role of capital in macroeconomics. As Ludwig von Mises, Ludwig Lachmann, and Israel Kirzner have pointed out, the salient aspect of capital goods is that they are a part of someone's plan to produce one or more consumer goods. Because of the goal-oriented nature of capital goods, it won't do to aggregate "society's capital" and confine economic analysis to this aggregate. Many entrepreneurial plans contain elements incompatible with others' plans, so it is not possible for them all to succeed. Horwitz faults both neoclassical and Keynesian analysis for neglecting this heterogeneity of capital.

The next topic taken up is the theory of monetary equilibrium. Horwitz uses this equilibrium construct as a foil to highlight the consequences of inflation and deflation, a classic Austrian use of static constructs. He defines monetary equilibrium as a situation where the supply of and demand for money are in balance. This seems trivial, until we realize that the means by which most markets move toward equilibrium, a change of price for the single good in question, cannot work for money—as Leland Yeager points out, money has no market, and no price, of its own. After a disturbance in the supply of or demand for money, *all* prices in the economy must adjust. This process takes time and does not occur uniformly across the economy.

Horwitz goes on to highlight the effects of this time lag in this adjustment process, employing the classic Austrian theory of the business cycle, as developed by Mises and Hayek, and the theories of "Austrian fellow travelers" Yeager, Axel Leijonhufvud, and W.H. Hutt. The section on the unjustly neglected Hutt was especially enlightening, focusing on the importance Hutt placed on the institutional barriers to rapid price adjustment. Horwitz closes by speculating on the policy implications of Austrian macroeconomics, deciding that free banking offers the best hope of smoothly adjusting the money supply as needed.

I have a couple of quibbles with the book. Horwitz is mistaken, I think, when he contends that Mises was firmly against fractional reserve banking. Also, while in one chapter Horwitz refutes Hans-Hermann Hoppe's ethical argument about the relative wealth effects of inflation, he employs nearly the same argument in another chapter. However, these are minor blemishes in an otherwise excellent book. □

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Education in a Free Society

edited by Tibor Machan

Hoover Institution Press • 2000 • 149 pages • $16.95 paperback

Reviewed by Karen Y. Palasek

Editor Tibor Machan states in his introduction to this collection of four essays that "The primary concern in this book is whether human individuality is compatible with coercive public education." Each of the four perspectives offered takes a unique approach.

The late E. G. West's contribution, "Public Education and Imperfect Democracy," takes an economist's-eye view of the topic. It is a well-thought-out discussion of voucher plans in particular, focusing finally on the policy possibilities for an evolution toward a free-market alternative to public schools, including the near-complete withdrawal of government from education. Professor West's conclusions are that market diversity and parental authority, as evidenced in the Milwaukee experiment, are sufficient indicators of the success that a fully market-oriented educational system can provide.

Psychologist Carol B. Low's essay on "Schools and Education: Which Children Are Entitled to Learn?" focuses on the goals of public education in contrast to the quite different goals of traditional private education. Low, looking at the group makeup of girls versus boys, the treatment of gender differences as "disorders," and the methods in which public schools deal with these issues, argues those schools' primary aim is equalization, homogenization, and socialization among all members. As Low remarks, "Our children are unable to discover who they are and what they are and where they are going in life because there is a system in place with the power to tell them." In contrast to the public-education model of a good student, Low presents the expectations of a traditional private education: the ability to think and to understand, the expansion of individual knowledge, and the presumption that one strives to rise to his or her highest potential. What should education in a free society be like? Education that