"moral hazard" of deposit insurance are some of the more obvious examples. Fraud and corruption, except where protected by statute, have played a very minor role. Second, he offers no explanation of why some financial innovations, such as credit cards, NOW accounts, and ATMs, have not precipitated crises. Finally, the manner of presentation is shrill and sensationalistic. There is too much hyperbole, too many pejorative terms, and too little scholarship.

All in all, *Money, Greed, and Risk* is one of those much-hyped books that it's best to avoid. □

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Public Finance and Public Choice: Two Contrasting Visions of the State

by James M. Buchanan and Richard A. Musgrave

MIT Press • 1999 • 272 pages • $27.50

Reviewed by Mark Skousen

So there I was in the late '60s, an undergraduate economics major at BYU, a very conservative institution. My introductory textbook was Paul Samuelson's *Economics*; my history of economic thought textbook was Robert Heilbroner's *The Worldly Philosophers*; and for my public finance course we used *The Theory of Public Finance* by Richard A. Musgrave. In other words, my "conservative" BYU professors were all using the most Keynesian of textbooks. No Friedman, no Hayek, no Mises.

Musgrave, a Harvard professor, argued the need for a triumvirate government: (1) to provide public goods that the private sector couldn't; (2) to redistribute wealth and institute social justice; and (3) to stabilize an inherently unstable capitalist economy. That "mainstream" interventionist theory was taught with hardly a ripple of skepticism.

Fortunately, much has changed since I graduated. Friedman, Hayek, and Buchanan have won Nobel Prizes in economics, and the textbooks are filled with market solutions and anti-Keynesian alternatives, including monetarism, privatization, and public choice. Even Samuelson highlights the "public choice" work of Buchanan and Gordon Tullock in his latest textbook. (I can't let this paragraph end without expressing my outrage that Tullock did not share the Nobel Prize with Buchanan in 1986; even Buchanan admits that Tullock was the "catalyst" behind public choice theory.)

The fact that Buchanan, not Musgrave, won a Nobel is telling. Musgrave is in his late eighties. Most of his books are out of print, and he remains an unabashed Keynesian. Still, the influence of his approach to the task of the state is pervasive, since the best that free-market economists have done is to help slow the growth of government, not reverse it.

Public Finance and Public Choice is a script of the papers and comments presented at a 1998 conference in Germany by Buchanan and Musgrave. In their debates, Musgrave defended social insurance, progressive taxation, and the growth of the public sector as the "price we pay for civilization." Buchanan blamed democratic politics for a "bloated" public sector, "with governments faced with open-ended entitlement claims," resulting in "moral depravity." He wants to constrain government through constitutional rules and limitations and describes their differences thus: "Musgrave trusts politicians; we distrust politicians."

Musgrave responded: "Is the state of our civilization really that bad? . . . There is much that should go on the credit side of the ledger. The taming of unbridled capitalism and the injection of social responsibility that began with the New Deal. . . . Socializing the capitalist system . . . was needed for its own survival and for building a good society." He also mentioned the "enormous gains" by blacks and women in the twentieth century, apparently assuming that those groups could have made no "gains" were it not for government intervention.

The two professors' exchange on the extent of justifiable government activity is enlightening, but I have two complaints about the book. First, Buchanan and Musgrave assume the reader has a great deal of economic sophistication. They don't define terms and often argue on a level suited to graduate students. Second, I would have liked to have seen a clearer discussion of today's hot issues—privatization of Social Security, budget surpluses, tax reform, and the Medicare crisis.

Moreover, one of the problems with this debate is that the two economists are not completely at opposite ends of the political spectrum. This is no debate between an anarchist and a socialist. Both advocate a substantial public sector. In fact, Buchanan admitted that he is philosophically between Musgrave and Hayek. For all his skepticism about the ability of public-sector decision-makers to arrive at good economic decisions, Buchanan still endorses what seems to me an inordinate amount of government activity.

One of the reasons Buchanan's (and Tullock's) public-choice approach has been so effective is that it applies market principles to government finance. By assuming that public decision-makers will act in their self-interest, just like everyone else, they were able to strip away much of the "romance" (as Buchanan puts it) of government action. The power of that analysis is clearly lost on old Keynesians like Richard Musgrave, but should not be lost on younger economists.

Although this is not a book for those who are in the early stages of their economic educations, seasoned economists will find some provocative exchanges between these two well-known pillars of the profession. □

Mark Skousen writes a monthly column for Ideas on Liberty.

Funding Science in America: Congress, Universities, and the Politics of the Academic Pork Barrel

by James D. Savage

Cambridge University Press • 1999 • 256 pages • $49.95

Reviewed by Jack Sommer

Taxpayer funding of science in America is pretty meager compared to total federal spending. But legislators and interest groups intent on grabbing tax dollars for themselves don't care whether the budget item is great or small. In recent years, federal funding for scientific research has become a prime target of the wastrels, and this pottage has since been giving off the distinct aroma of sizzling "pork."

Pork-barrel science is the subject of James D. Savage's excellent study of an arcane but important aspect of American academic science. He argues that the trend toward pork both corrupts the merit system for research funding and undermines the rational framework we have employed for the delivery of federal funds to those who do science.

Federal science funding used to be driven by the model of peer review. Congress would appropriate money for general fields of research, but decisions on the precise allocation of those dollars would depend on the evaluations of scientists called on by various agencies. That tax-funded system isn't perfect, but Savage says it tends to steer funds toward the research proposals that seem to have the greatest likelihood of success. Over the last two decades, however, politicians have been avoiding the peer review process more and more. Instead, much of the federal support for scientific research is now done through "earmarking," which is to say that money goes to institutions for purposes that may have only a tenuous relationship to science. Earmarking, as Savage puts it, is a "collective action problem" that challenges the "dominant policy regime" of peer/merit review.

Savage brings a wealth of insight from his years near the sausage grinder of science policymaking, having served as a consultant to the Congressional Research Service and to the Office of Technology Assessment. One of the key reasons for the move away from peer/merit review, he observes, was that its results were decidedly unegalitarian. The "old regime" of science funding sent the vast majority of the money to a small set of universities where most of the top scientists worked. In other words, it became obvious to many that a few states and universities were getting most of the resources under peer/merit review, so direct political action to "balance"