

How the Markets Beat Marx, Hands Down

Fortune, August 1998

Just when you thought historians were conspiring to strip away every last bit of drama from the record of human experience, along come Daniel Yergin and Joseph Stanislaw and their new book, *The Commanding Heights*. Yergin and Stanislaw, president and managing director, respectively, of the consulting firm Cambridge Energy Research Associates, are unashamed proponents of the 'great man' school of history. Their book reads like a juicy nonfiction soap opera, tracing the paths of more than 30 characters as they redefine the econo-political landscape of the last half-century.

The drama turns on a world-transforming idea best expressed by Lenin. In a famous speech in 1922, Lenin declared that the state must control the most important sectors of the economy--the 'commanding heights,' as he called them. The bulk of the book follows the rise and eventual collapse of this idea.

It's certainly true that a doctrinal belief in the ability of government to run economies swept the globe early in this century, peaking in the postwar years. Socialists around the world adopted the idea, but its appeal was much broader. So even as communists in the Soviet Union, China, and other socialist countries were running those countries' entire economies (into the ground, it turns out), governments in Western Europe, Africa, Latin America, and the U.S. were also taking on more and more power.

What is astonishing is the degree to which this entire apparatus has since been dismantled. Between, say, 1976 and 1996, the rollback in government economic activism worldwide is all the more surprising for having cut across national, political, and ideological borders as though they'd scarcely existed. Governments worldwide have cut top marginal tax rates, privatized dozens of government-run industries worth hundreds of billions of dollars, slashed tariffs, and ended price controls.

The change was greatest in countries where government had acquired the most power. In Russia, where state ownership was virtually total just ten years ago,

Yergin and Stanislaw point out that 70% of GDP is now generated in the private sector. In China in 1978, Deng Xiaoping created a de facto system of property rights by allowing peasant families to farm for themselves rather than for collectives. As a result, between 1978 and 1990 the share of agricultural output sold on the open market rose from 8% to 80%, and in the six years after 1978, real income in farm households rose by 60%. Deng also allowed more freedom to companies located in Special Economic Zones along China's coast, which have since grown much faster than the rest of China. 'I have two choices,' said Deng. 'I can distribute poverty or I can distribute wealth.'

Yergin and Stanislaw also document the shift away from government and toward economic freedom in India as well as in the rest of Asia, Latin America, and Britain. But how did all this happen? They cite two main causes. First, people--even government planners--began to see just how badly governments run things. The authors quote a senior economic planner in regulation-laden India: 'Everything I had believed about economic systems and tried to implement was wrong.' The head of the Chinese Communist Party's propaganda department was shocked when he visited Japan and noticed that cars, TVs, refrigerators, and washing machines were widely owned. He wrote, 'One Sunday we went out to a busy street. Of all the women we saw, no two wore the same style of clothes.'

The second cause of the rollback of government was a supply of fresh ideas. Even when political thinkers saw the havoc wreaked by governments, they needed something to take socialism's place. Free-market economists were ready. Stanislaw and Yergin heap credit on libertarian economists Friedrich Hayek (whose contemporary disciples include Margaret Thatcher and Yegor Gaidar, Boris Yeltsin's chief economist) and Milton Friedman. In the 1940s, Hayek had shown that socialist economies must fail because they lack a price system, which complex economies absolutely must have to direct resources. In the 1960s, Friedman, now at the Hoover Institution and formerly at the University of Chicago, along with economist Anna Schwartz, had produced evidence that the federal government's monetary policy, not the free market, had caused the Great Depression.

There is one significant flaw, or at least a significant rhetorical disconnect, in *The Commanding Heights*. Given their positive attitude toward free markets, Yergin

and Stanislaw are strangely dismissive of the idea that freedom might be morally superior to governmental coercion. Leftists during the Spanish civil war, the authors write wistfully, 'are said to have died with the word Stalin on their lips.' Few people, they claim, 'would die with the words free markets on their lips.' I'll grant them one point: Falsehoods, myths, and easily understood slogans appeal to deluded statists. Anyone who reads this otherwise excellent book, however, ought to know better.