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The Gradual Revolution

By Jeffrey E. Garten

THE COMMANDING HEIGHTS

The Battle Between Government and the Marketplace That Is Remaking the Modern World.

By Daniel Yergin and Joseph Stanislaw.

Illustrated. 457 pp. New York:

Simon & Schuster. \$26.

We often think of a revolution as an event that changes the course of history -- the American War of Independence, the Bolsheviks taking over the Kremlin, the East Germans tearing down the Berlin Wall. But revolutions can have a much longer arc. They can result from the interaction of strong personalities, powerful ideas and changes in circumstances and stretch out for many years -- like the decline of feudalism or the shift from agrarian to industrial societies. In "The Commanding Heights," Daniel Yergin, the Pulitzer Prize-winning author of "The Prize: The Epic Quest for Oil, Money and Power," and Joseph Stanislaw, a Paris-based adviser to global companies, describe the broadest and most dramatic long-fused revolution of this century -- the changing balance of power from governments to markets, and the significant effects of this change on politics, economics and culture. It is an extraordinarily ambitious undertaking, combining the history of milestone events in countries as diverse as France and India, the biography of leaders as different as Margaret Thatcher and Deng Xiaoping and the evolution of ideas ranging from Keynesian economics, which focused on how governments could manage economies, to the Chicago school of free markets. But it is also a brilliantly successful project, a colorful and even suspenseful story of how the world has been transformed over the last half-century.

The book's title comes from a 1922 speech by Lenin in which he told his Communist comrades that the new Soviet state would have to control the most important components of the economy -- the commanding heights. It was a philosophy that would be adopted in various forms around the world for at least the next 50 years. In the United States, increasing government regulation was in vogue from Franklin Roosevelt's New Deal to Richard Nixon's experiments with wage and price controls. In Britain and Europe, nationalized companies and state planning were key elements of the political and economic landscape until the 1980's. In Japan and the rest of East Asia, state-centered mercantilism, in which the government pushed exports and kept out imports, has only recently begun to subside under the pressure of a financial crisis. And in Latin America, the Indian subcontinent and Africa, political leaders until the 1990's were obsessed with using governments to force industrialization and to address poverty directly.

As Yergin and Stanislaw describe so vividly, the era of big government succeeded for a long time. American prosperity soared; Japan and Germany managed spectacular recoveries from wartime devastation; the Soviet Union transformed itself from a backwater economy to an industrial power; and much of the third world achieved political independence and economic takeoff.

So how did we go from a world in which government was on the top side of the seesaw of power to one in which public sectors are shrinking, deregulation is everyone's priority, state companies are being auctioned off to private investors and Wall Street is the most powerful influence on economies everywhere? The short answer is that governments overreached, while at the same time prosperity created private markets that became too big, too powerful, too complex and too internationally linked for public officials to control. Beginning with the oil crisis in 1973 and the advent of stagflation in the United States, and extending to the third world debt crisis in the 1980's, to the double-digit unemployment in Europe for most of the last decade and to the financial meltdown in Japan starting in the early 1990's, it became clear that governments were failing to deliver economic progress for enough of their citizens. Then, too, the Soviet model imploded, removing any alternative economic system to capitalism. As Singapore's longtime political leader, Lee Kuan Yew, said: "Communism collapsed, and the mixed economy failed. What else is there?"

In describing the U-turn from government to market dominance, "The Commanding Heights" manages its most impressive feat: to tell a real-world story in multiple dimensions and to make it read like a novel. For example, the authors describe the rise of Margaret Thatcher from obscurity, influenced by strident free-market advisers as well as by passionate conservative economists like Friedrich von Hayek. They tell the story of how Deng Xiaoping, three times officially disgraced by Chinese leaders, rose to the top of the Communist hierarchy and started China on what may be the most extensive set of economic reforms ever undertaken anywhere. They relate how Mexico and India reformed their closed economies in the last few years and are moving rapidly toward more open markets. And they document the years of economic pressures and contentious politics in the United States that led to widespread deregulation of such industries as airlines, telecommunications and banking. Included here too is the explanation of how American universities and think tanks, with their market-oriented doctrines, replaced the London School of Economics -- which had influenced so many socialist leaders -- as the intellectual center of global economics.

Most interestingly, Yergin and Stanislaw describe how ideas about the primacy of markets spread like fire from one country to another. Thatcherism caught on in the United States and beyond; Hungarian concepts of capitalism were adopted by China; management theories hatched at Harvard were implemented in Russia; new approaches to private pension management in Chile were studied by Germans.

It is tempting to say that this pro-market revolution, like nearly all revolutions, is irreversible, but the authors are more thoughtful and subtle. As they themselves write, a lot depends on whether markets will deliver the goods and services that people want at

affordable prices and on whether they will be able to provide a modicum of fairness in society. On these scores the experiment with global capitalism is still new, and the returns aren't in. Many countries have seen an increase in economic growth rates and in opportunities for talented individuals. But from China to Argentina, income inequalities are rising. From Russia to Mexico, large swaths of the economy are dominated by criminal syndicates, indicating an absence of the legal underpinnings required to support legitimate capitalism.

The freeing of economies from government shackles has a long way to go in Europe and Japan, not to mention in emerging markets like Brazil and Indonesia. In these nations, many of the most difficult steps toward deregulation are still ahead, and are sure to create political conflict as old patterns of doing business are disrupted and as vested political interests are challenged by new groups. Finally, a global financial crisis could reverse enthusiasm for Adam Smith, as could a serious economic slowdown in the United States, which could lead to protectionism and the disruption of global trade.

Yergin and Stanislaw are cautiously optimistic that societies around the globe will continue to embrace more market-oriented systems, and that the world will be a better place as a result. Yet they have struck exactly the right balance between, on the one hand, acknowledging the powerful momentum that markets have achieved and, on the other, recognizing the weak links in the system. Their fascinating book, at once so packed with information, so clear and so nuanced, contains this warning: The free-market revolution isn't over, and no one knows where it will end.