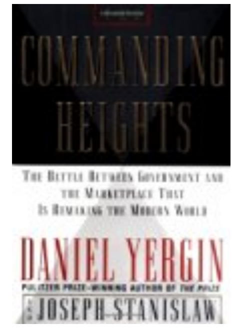
Daniel Yergin, Joseph Stanislaw. *The Commanding Heights: The Battle Between Government and the Marketplaces That Is Remaking the Modern World.* New York: Simon & Schuster, 1998. 457 pp. $26.00, cloth, ISBN 978-0-684-82975-3.



Reviewed by Ulf Zimmermann

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Lenin made his antepenultimate public appearance to defend his desperate readmission of private trade and agriculture in 1922, declaring that the state would, after all, retain control of what he christened the "commanding heights." Yergin and Stanislaw are concerned to explain why the control of these heights has increasingly shifted from the state to the market in recent years. They do this by giving not just a global gazetteer of twentieth-century politics and economics but also an equally insightful guide to the ideas and individuals behind this shift.

With the failures of capitalism in the 1920s and 1930s, and the initial successes of governments east and west, both in the New Deal and in Soviet central planning, and in the war, government seemed, after that war, the unequivocal solution to problems such as the unemployment the market had earlier permitted. Countries around the globe adopted a variety of government-managed approaches to running their economies, from the Soviet extreme and its many imitations to strategic nationalization as in Britain and government-business-labor corporatism in Germany down to government regulation in the United States.

India's independence from British rule as of 1947 marked the beginning of the end of colonialism, and all the newly emerging countries, like India, saw state control as the only alternative. (It had, after all, worked in industrial latecomers like France and Germany, but, ***mutatis mutandis***, many of these new nations did not let go of their industries when they could go it on their own--and ultimately strangled them.) Indian policymakers, for example, eventually recognized the great entrepreneurial successes Indians were achieving, as in the U.S., were possible only once they were out of India and its overregulated economy.

Where most of these purely state-centered efforts failed, many of Asia's countries succeeded through a mix of government intervention and market forces. Where India was the model for the "Third World," Japan and its Ministry of Trade and Industry demonstrated that there could indeed be such a mix as Confucian Capitalism-- Max Weber's claim to the contrary notwithstanding. As we know from the current headlines, though, this approach seems to have succumbed to the debilitating excesses of inbreeding.

In the U.S. government regulation had become necessary, first to control the railroads in the late 19th century, and then in banking and other financial industries. But by the end of the 1960s, after innumerable new regulatory agencies had been created--several, ironically, by the Nixon administration--many perceived free enterprise to be straitjacketed by regulation, and it was, just as ironically, Ted Kennedy who started the deregulatory trend in Congress with the airline industry.

Direct state control seemed to have shackled industry altogether in Britain, and in getting the government out of business it thus became the model for the market reform that has been sweeping the world in the nearly two decades since. Here as elsehwere Yergin and Stanislaw nicely bring in those theories and personalities which compelled action. To give but one pivotal example, Keith Joseph, a member of parliament, had turned into the "mad monk" who preached relentlessly about entrepreneurship and initiative and the wealth these created for everyone in the nation. He found intellectual support in the economic theories of Friedrich von Hayek and Milton Friedman, which are at the center of this shift to markets, and created a think tank to develop and broadcast their ideas the length and breadth of what was left of the British empire. Most important, Joseph persuaded parliamentary colleague Margaret Thatcher to reread Hayek--and soon enough she would be leading the party with this ideology, and shortly thereafter the whole country.

Initially, of course, all her reforms, chiefly privatization, were unpopular in the extreme. But her Falklands victory seemed to vindicate her and enabled her to press on with them. (Argentina's defeat, meanwhile, likewise prompted its leadership to redirect its economic policies in the same way--with great success.) While Thatcher's radical belt-tightening created much unemployment at the time, today Britain is far behind the continent in its unemployment rate.

Just how badly excessive state control stifles initiative and innovation and hence prevents real economic growth was best revealed by the fall of the Berlin Wall which allowed more than the occasional peeks the rest of the world had had behind the Iron Curtain. The exposure of the East German economy--that much-touted exemplar of communist economic progress--showed palpably just how poorly the politics and economics of central planning had worked and showed the truth of what the workers said of their workers' states: "They pretend to pay us, we pretend to work."

The implosion of the Soviet system thus discredited all kinds of statism, and that sped up trends towards markets already underway. With denationalization in Britain and deregulation in the U.S., their economies are booming, and countries everywhere are increasingly following suit, from continent to continent, as Yergin and Stanislaw richly depict. Yet they rightly wonder whether markets will really deliver the goods in terms of economic growth, employment, and higher standards of living for all.

While they are partial to the market case, they do not neglect the signal cautionary tales of regulatory laxity that can be spun from, say, the sorrily underpublicized savings and loan debacle. While there may have only been some of us who understood and weren't happy with how that was handled, there'll be many more of us who'll understand and won't be happy with what we're getting in health care. As these cases demonstrate, markets don't always exercise the self-restraint we might like them to, and Yergin and Stanislaw therefore see government stepping in more as a referee than a major player itself. So now the question is, What are the rules of the game it must enforce? The way health care is going, it seems clear that the public will ultimately demand more regulation (as it may perhaps in the financial markets that are increasingly dictating not just our economic well-being).

Having interviewed practically the whole pantheon of intellectual and political leaders involved in these developments around the world, Yergin and Stanislaw are able to dramatize political history and even the dismal science: character, atmosphere, and the telling anecdote make their volume, compendious as it is, into a compelling read for students and lay readers. Even academics will find much here, though they may wish for a bit more critical analysis of a politics that leaves government as mere referee between those who control the markets and those who have no choice but to shop in them.