

Overmarketing

by [John Langmore](#) in the [December 9, 1998](#) issue

By Daniel Yergin and Joseph Stanislaw, The Commanding Heights: The Battle Between Government and the Marketplace That Is Remaking the Modern World. (Simon & Schuster, 457 pp.)

Daniel Yergin and Joseph Stanislaw contend that the relation of governments and markets is now as central an issue as the cold war was two decades ago. They rightly stress dramatic shifts in mainstream attitudes on this topic and in the power of state and market since the '70s. The book is admirably comprehensive, covering the recent history of the transfer of power from government to private sectors in every region, including not just the U.S., Europe and Russia, but also China, India and other parts of the developing world.

But this interesting book of intellectual history and political economy is also seriously misleading. The theme of every story is that people with foresight became aware that government is inefficient and business effective. Of course, this is often true. But always? By making so broad a claim, Yergin and Stanislaw caricature the public sector and idealize the private sector.

This analytical flaw shows up most clearly in the superficial discussion of "market failure." Since this concept is familiar to even first-year economics students, there is no excuse for its relative neglect here--other than that it complicates the story the authors want to tell. Markets fail because of monopolies and other forms of the concentration of corporate power; because of external factors which are not expressed in the price system, such as the damage of factory production to the environment; because of the failure of prices to reflect future scarcities, leaving investors with an inadequate basis on which to make decisions; and because of incomplete information, particularly for consumers. Markets also give far more power to the wealthy than to the poor. In the one instance in which Yergin and Stanislaw mention market failure, the description is incomplete, and at no point are the implications rigorously discussed.

The issues are essentially empirical: what works best in practice. Deng Xiaoping is rightly quoted: "It doesn't matter whether a cat is black or white so long as it catches mice." Yet the authors give little attention either to what the "mice" are--

that is, to the goals of economic activity--or to considering whether the private sector alone can achieve those goals. Deregulation, privatization and cuts to public programs are celebrated, but nowhere is there a careful evaluation of their consequences. Have they always increased national economic efficiency? Have the price, quality and accessibility of services which were formerly in the public sector been improved by privatization? Ask British people, for example, about the quality of their water, the timeliness of their trains or the price of their electricity since privatization. Ask Russians whether they are at ease with the transfer of massive shareholdings to the small group of robber barons who now control their economy.

Ownership is largely irrelevant to the debate about efficiency, let alone to other goals of economic life such as security or equity. There are many determinants of efficiency. None among the most important--managerial capacity, organizational structure, technology, capitalization, employee morale, regulatory framework, degree of competition and consumer tastes--is naturally or exclusively associated with a particular form of ownership. The campaign for privatization has largely been driven by financiers and consultants who receive enormous fees, and board members and senior managers who receive enormous pay increases after privatization. Even Yergin and Stanislaw admit that privatization has never been electorally driven.

This book is a decade too late. The market has won the battle. We are now realizing the consequences and the reaction is under way--and not just in Russia and East Asia. In many countries, there is not much left that could be privatized or deregulated. It would scarcely be possible for some governments to be more cautious or passive in the face of market forces than they are now.

The ideas that led to deregulating financial markets and to privatizing public enterprises have been triumphant. The challenge now is to evaluate their impact and consider what modifications are required. But this book only mentions as an afterthought the concern which must now be addressed: how to curtail the excesses of deregulated markets so that some semblance of stability--and the common good--can be achieved.