

## Market rules

The triumph of the free market, and its repercussions. BY MARK WILLIAMS

**The Commanding Heights: The Battle Between Government and the Marketplace That Is Remaking the Modern World**  
Daniel Yergin and Joseph Stanislaw  
460 pages, \$26  
Simon & Schuster

**Paradise Lost: California's Experience, America's Future**  
Peter Schrag  
344 pages, \$25  
New Press

IN THE mid-'70s, when she was simply Britain's leader of the opposition, Margaret Thatcher visited the Institute of Economic Affairs for a private meeting with the economist Friedrich Hayek. The aged author of *The Road to Serfdom*—the 1944 book that more and more seems like one of the 20th century's seminal texts—was meditative after she left. The institute's staff gathered around. Finally, Hayek pronounced his judgment: "She's so beautiful."

Mrs. Thatcher's charms weren't universally appreciated. Yet Mr. Yergin and Mr. Stanislaw get it right in *The Commanding Heights* when they credit her with showing the world the road to privatization. Yes, Ronald Reagan will always be honored for how, when the time came to hit his marks and say his lines, he had the sheriff's role down pat: he faced off with the bad guys and ended the cold war. But Reaganite spending, Mr. Yergin and Mr. Stanislaw remind us, never came down with its taxation

levels. As Reagan and Bush administration official Richard Darman acknowledged, "In the Reagan years, more federal debt was added than in the entire prior history of the United States." America's gross national debt grew from \$995 billion in 1981 to \$2.5 trillion in 1989. Only to Mr. Reagan was it given, as the critic Garry Wills has commented, to drive two of the greatest empires in history to near-bankruptcy.

### PRIVATIZATION SECTOR

No, Mrs. Thatcher is the one to whom we owe the diminution of big government. Her style was in your face: even those who loathed her knew that she believed what she preached. It's hard to imagine Mr. Reagan cracking open any of the three dozen volumes that Mrs. Thatcher and her "minister of thought," Keith Joseph, prescribed to the Conservative Party's shadow cabinet as required reading or interrupting old-time party mainstays by reaching for a copy of Hayek's *The Constitution of Liberty*—holding it up and declaring, "This is what we believe," then delivering a monologue on the ills of the nation's economy.

And what novel ideas these were by the standards of the time! Mrs. Thatcher, Mr. Joseph, and their col-

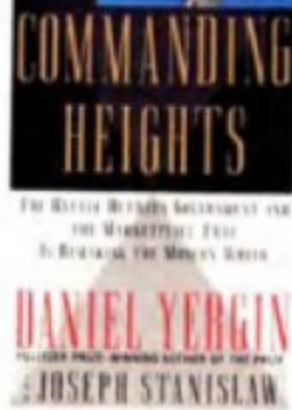
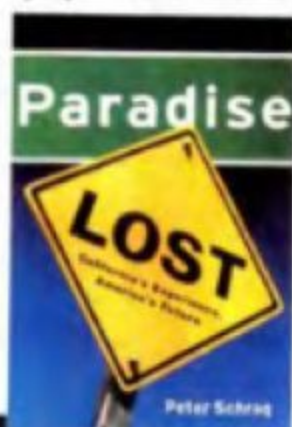
leagues were worried that even the phrase *market economy* would be beyond the fringe. Searching for the right word for how they wanted to get the government out of business, they settled reluctantly on *privatization*, which they'd found in the work of a writer influential in America: Peter Drucker.

### LIBERAL ART

One of *The Commanding Heights'* strengths is that it makes clear how much the prevailing orthodoxy in those decades was the "mixed economy," in which the state played a dominant part. After the Great Depression, the market

was seen to have failed, requiring expanded government interventions like Franklin Delano Roosevelt's New Deal. (As the authors point out, Roosevelt appropriated the word *liberal* to forestall accusations of leftism and in America linked *liberalism* to activist government policies; in the rest of the world it means almost exactly the opposite—a reduced state role, maximization of individual liberty, and economic freedom and market reliance after the manner of Adam Smith and John Stuart Mill.)

Following World War II, only governments marshaled the resources to reconstruct whole nations. During the economic expansion of the Kennedy-Johnson years, Keynesian macromanagement through taxing and spending was Washington's accepted norm; even in 1971 Richard Nixon announced, "I am a Keynesian,"



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and sought massive regulation of wages and prices, making Nixon's, oddly, the last and most massive American liberal presidency—unless one considers Reaganite military spending to be Keynesian. In Britain in the early '60s, the Conservative Harold Macmillan presided over a welfare state and told everyone, "You never had it so good," and the *Economist* initially mocked the Thatcher-Joseph proposals. Indeed, as in Asia till recently, mixed economies worked for the West for a long time.

Until, increasingly, they didn't. Today the consensus is that the market's price system is obviously more responsive than any centrally planned economy could be. Bill Clinton proclaims the era of big government over, Tony Blair enrages old Labour by inviting Mrs. Thatcher to Downing Street, capitalism and the Chinese Communist Party coexist in both China and Hong Kong, and the

shift to the dispersed intelligence of the market is being consummated globally. *The Commanding Heights* explains, with enormous skill, how this happened.

Mr. Yergin and Mr. Stanislaw claim that, while Republican soldiers in the Spanish Civil War are reputed to have died extolling—however misguidedly—Stalin, few people would die with the words *the market* on their lips. But I think I know some who would. The ideological purity of their insistence that the market is always rational seems to beg the questions: what constitutes "the market," and what is "rational"?

## MILTON KEYNESIANISM

*Paradise Lost*, by Peter Schrag, is a handy illustration of the problem. Mr. Schrag describes how the California political marketplace, commencing in 1978 with Proposition 13's decimation of property taxes and continuing through

the volley of subsequent voter initiatives, has made the state's roads, prisons, and schools some of America's worst.

Is the market acting rationally here? In one sense, absolutely. By 2000 all but 1 million of the 6 million children in California's public schools will be nonwhite. The state's voting electorate is 78 percent white. By 1996 28 percent were already 60 years of age or older: they aren't going to be here when those kids become the people who'll have to pay taxes to fund public services, Social Security, and Medicare.

But then what happens at the end of the next century's first decade, when the baby boomers begin retiring and have the votes to expand taxes to support the elderly?

Here also the market will likely impose its rationality. Want taxpayer revolt? You ain't seen nothing yet. ●

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