

The larger struggle



David Brooks

These days we are transfixed by the struggle between BP and the U.S. government. This is a familiar conflict — between a multinational company trying to make a profit and the government trying to regulate the company and hold it accountable.

But this conflict is really a family squabble. It takes place amid a much larger conflict, and in this larger conflict both BP and the U.S. government are on the same team.

The larger conflict began with the end of the cold war. That ideological dispute settled the argument over whether capitalism was the best economic system. But it did not settle the argument over whether democratic capitalism was the best political-social-economic system. Instead, it left the world divided into two general camps.

On the one side are those who believe in democratic capitalism — ranging from the United States to Denmark to Japan. People in this camp generally believe that businesses are there to create wealth and raise living standards while governments are there to regulate when necessary and enforce a level playing field. Both government officials like President Obama and the private sector workers like the BP executives fall neatly into this camp.

On the other side are those that reject democratic capitalism, believing it leads to chaos, bubbles, exploitations and crashes. Instead, they embrace state capitalism. People in this camp run Russia, China, Saudi Arabia, Iran, Venezuela and many other countries.

Many scholars have begun to analyze state capitalism. One of the clearest and

most comprehensive treatments is “The End of the Free Market” by Ian Bremmer.

Bremmer points out that under state capitalism, authoritarian governments use markets “to create wealth that can be directed as political officials see fit.” The ultimate motive, he continues, “is not economic (maximizing growth) but political (maximizing the state’s power and the leadership’s chances of survival).” Under state capitalism, market enterprises exist to earn money to finance the ruling class.

The contrast is clearest in the energy sector. In the democratic capitalist world we have oil companies, like Exxon Mobil, BP and Royal Dutch Shell, that make money for shareholders.

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In the state capitalist world there are government-run enterprises like Gazprom, Petrobras, Saudi Aramco, Petronas, Petróleos de Venezuela, China National Petroleum Corporation and the National Iranian Oil

Company. These companies create wealth for the political cliques, and they, in turn, have the power of the state behind them.

With this advantage, state energy companies have been absolutely crushing the private-sector energy companies. In America, we use the phrase Big Oil to describe Exxon Mobil, BP, Royal Dutch Shell and others. But that just shows how parochial we are. In fact, none of these private companies make it on a list of the world’s top 13 energy companies. A generation ago, the biggest multinationals produced well more than half of the world’s oil and gas. But now, according to Bremmer, they produce just 10 percent of the world’s oil and gas and hold only about 3 percent of the world’s reserves.

The rivalry between democratic capitalism and state capitalism is not like

the rivalry between capitalism and communism. It is an interdependent rivalry. State capitalist enterprises invest heavily in democratic capitalist enterprises (but they tend not to invest in each other). Both sides rely on each other in interlocking trade networks.

Nonetheless, there is rivalry. There is a rivalry over prestige. What system works better to produce security and growth? What system should emerging and struggling democratic nations aim for? There is also rivalry over what rules should govern the world order. Should countries like Russia be able to withhold gas from Western Europe to make a political point? Should governments be able to tilt the playing field to benefit well-connected national champions? Should authoritarian governments like Iran be allowed to nuclearize?

We in the democratic world tend to assume state capitalism can’t prosper forever. Innovative companies can’t thrive unless there’s also a free exchange of ideas. A high-tech economy requires more creative destruction than an authoritarian government can tolerate. Cronyism will inevitably undermine efficiency.

That’s all true. But state capitalism may be the only viable system in low-trust societies, in places where decentralized power devolves into gangsterism. Moreover, democratic regimes have shown their vulnerabilities of late: a tendency to make unaffordable promises to the elderly and other politically powerful groups; a tendency toward polarization, which immobilizes governments even in the face of devastating problems.

We in the democratic world have no right to be sanguine. State capitalism taps into deep nationalist passions and offers psychic security for people who detest the hurly-burly of modern capitalism. So I hope that as they squabble, Obama and BP keep at least one eye on the larger picture.

We need healthy private energy companies. We also need to gradually move away from oil and gas — the products that have financed the rise of aggressive state capitalism.

