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| http://www.pbs.org/wgbh/commandingheights/shared/minitextlo/images/singpix.gif | | NARRATOR: As the 20th century drew to its close, and our new century began, the battle over the world economy intensified. Some people feared globalization and questioned the benefits. Others welcomed it.   RICHARD CHENEY, U.S. Vice President: Millions of people a day are better off than they would have been without those trade developments, without globalization. And very few people have been harmed by it.   NARRATOR: As the terrible events of September 11 drove the world deeper into a recession, new questions emerged about the perils of the new world economy. Can our now deeply interconnected world surmount a global downturn and rise above other crises? And is global terrorism the dark side of the promise of globalization?   BILL CLINTON, U.S. President, 1993-2001: You can't get away from the fact that globalization makes us interdependent. So it's not an option to shed it. So is it going to be on balance positive or negative?   NARRATOR: This is the story of how the new global economy was born, a century-long battle as to which would control the commanding heights of the world's economies -- governments or markets; the story of intellectual combat over which economic system would truly benefit mankind; the story of epic political struggles to implant those ideas on the nations of the world.   JEFFREY SACHS, Professor, Harvard University: Part of what happened is a capitalist revolution at the end of the 20th century. The market economy, the capitalist system, became the only model for the vast majority of the world.   NARRATOR: This economic revolution has defined the wealth and fate of nations and will determine the future of the planet.   DANIEL YERGIN, Author, *Commanding Heights:* This new world economy is being driven by technological change and by political change, but none of it would have happened without a revolution in ideas.   NARRATOR: Tonight, the battle of ideas that still divides our world.  [**back to top**](http://www.pbs.org/wgbh/commandingheights/shared/minitextlo/tr_show01.html#top) | http://www.pbs.org/wgbh/commandingheights/shared/minitextlo/images/singpix.gif |
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| http://www.pbs.org/wgbh/commandingheights/shared/minitextlo/images/singpix.gif | | NARRATOR: Air-raid sirens sound the alert. German bombers will pound another British city tonight .    **Onscreen title: Cambridge University, 1940**  During the blitz, the two most important economists of the age shared air-warden duty on the roof of King's College, an English gentleman and an Austrian exile -- personal friends, but intellectual rivals. How their battle of ideas still shapes our life and society is our story.   John Maynard Keynes helped the allied governments defend freedom by planning their wartime economies. Friedrich von Hayek thought government interference in the economy was a threat to freedom.   DANIEL YERGIN: The debate over market forces, whether you have economy that's based upon prices or on state, planning has been at the very heart of the economic battles of the last 100 years. For decades, the ideas of John Maynard Keynes dominated the economies of the Western world.   JOSEPH STANISLAW, Co-Author, *Commanding Heights:* Keynes felt that the market economy would go to excesses, and when things were in difficulty the market wouldn't work. Therefore the government had to step in. Hayek felt that the market would eventually take care of itself.   DANIEL YERGIN: It was only when Hayek was a very old man that his ideas began to prevail and the world began to change.   NARRATOR: At the start of the 20th century, Hayek and Keynes had witnessed the first age of globalization. Every day life was being transformed everywhere. Technologies like the telegraph and the telephone revolutionized communications. Steamships and railways made the world a smaller place. Tens of millions migrated without the need for passports.   Keynes described this global market in which trade flowed freely.   JOHN MAYNARD KEYNES: The inhabitant of London could order by telephone, sipping his morning tea, the various products of the whole earth, and reasonably expect their early delivery upon his doorstep. Militarism and imperialism of racial and cultural rivalries were little more than the amusements of his daily newspaper. What an extraordinary episode in the economic progress of man was that age which came to an end in August 1914.   NARRATOR: Hayek summed it up more succinctly.   FRIEDRICH VON HAYEK: We did not realize how fragile our civilization was.   NARRATOR: The murder of an Austrian archduke by a terrorist triggered a world war. It would be almost 80 years before there was once again a truly global economy.   World War I destroyed 20 million lives. It laid a whole continent to waste. There was blood and carnage amidst the beauty of the Italian Alps, where the armies of Austria and Italy were fighting.   Friedrich von Hayek served in the Austrian artillery. He was only 17 years old -- still a schoolboy. The fighting was ferocious. He experienced retreat and defeat.   FRIEDRICH VON HAYEK: The decisive influence was really World War I. It's bound to draw your attention to the problems of political organization.   NARRATOR: He vowed to work for a better world.   DANIEL YERGIN: The first world war was a cataclysm. People were disillusioned. People were bitter. They were looking for something better. Socialism, communism seemed to promise that better world.    **Onscreen title: St. Petersburg, 1917**  NARRATOR: By overthrowing the old order, the Russian Revolution aimed to deliver that better world. Inspired by the economic theories of Karl Marx, the Bolsheviks sought to smash capitalism. Lenin, the revolution's leader, urged the workers of the world to unite against the global economy. The revolution made trade, commerce, and private property criminal acts. Lenin promised to end the economic exploitation of man by man.    **Onscreen title: Cambridge University, 1918**  The man who was destined to be Hayek's great intellectual rival was a brilliant young academic at Cambridge University. But John Maynard Keynes was much more than that. He befriended writers and artists. One painted these murals for him. He was also a familiar figure in the City of London, where he made a fortune in the stock market, lost it all, and made it back again.   Familiar with politicians and prime ministers, Keynes spent the first world war advising the British government on how to organize its wartime economy. At the end of the war, Keynes joined the British peace delegation at Versailles in France. The victorious allies wanted defeated Germany to pay the costs of the war through what were called reparations.   ROBERT SKIDELSKY, Biographer of J.M. Keynes: All the statesmen of Versailles could think about was how to squeeze money out of an already bankrupt Germany.   GEOFFREY HARCOURT, Professor of Economics, Cambridge University: Keynes felt the reparations were out of all proportion to what an economy could really take and would have very destructive social, political, and economic consequences.   NARRATOR: Angry and disgusted, Keynes resigned. Back in England, he went to stay with his friend, the painter Duncan Grant. That summer, Grant painted Keynes writing his prophetic book, *The Economic Consequences of the Peace.*   JOHN MAYNARD KEYNES: If we take the view that Germany must be kept impoverished and her children starved and crippled, vengeance, I dare predict, will not limp. Nothing can delay that final war that will destroy the civilization and progress of our generation.  [**back to top**](http://www.pbs.org/wgbh/commandingheights/shared/minitextlo/tr_show01.html#top) | http://www.pbs.org/wgbh/commandingheights/shared/minitextlo/images/singpix.gif |
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| http://www.pbs.org/wgbh/commandingheights/shared/minitextlo/images/singpix.gif | | **Onscreen title: Vienna, 1919**  NARRATOR: Austria had lost the war and its empire. Vienna was a cold and hungry city. Revolution was in the air. Socialists and Communists were winning the battle for hearts and minds. Young and idealistic, Friedrich von Hayek enrolled at the University of Vienna.   FRIEDRICH VON HAYEK: It was during the war that I more or less decided to do economics. I really got hooked.   NARRATOR: Socialism seemed to promise a more just society. Albert Zlabinger, a former pupil and disciple of Hayek:   ALBERT ZLABINGER, Economist and Pupil of Hayek: He openly said that he at one time was a socialist of the mild sort, where concerns for the poor and concerns for fairness and equity would help to determine government policy.   NARRATOR: Much of Vienna's intellectual life took place outside the university, in the coffeehouses across the Ringstrasse. There were informal seminars for those who loved discussion and argument. Hayek joined the circle of a passionate libertarian called Ludwig von Mises. Von Mises believed markets, like people, needed to be free from government meddling.  ALBERT ZLABINGER: Ludwig von Mises was the preeminent economist of the Austrian school. The distinguishing hallmark of the Austrian school of economic thought is that markets work and governments don't.   NARRATOR: Von Mises predicted that the new Soviet socialist economy would never work, precisely because the government controlled wages and prices.   DANIEL YERGIN: What von Mises said is that the great flaw of socialism is that it doesn't have a functioning price system to send all the signals to consumers and producers as to what something is worth; that these prices are at the very heart of what makes a functioning economy work.   You can think of them as traffic signals. And if you don't have them, what you get is a system that doesn't work, or you get chaos.   ALBERT ZLABINGER: Von Mises argued that free markets do it best -- why fool with anything else?    **Onscreen title: Moscow, 1922**  NARRATOR: In Soviet Russia, it seemed as if von Mises's predictions were coming true. Lenin had abolished what he saw as the chaos of free markets. The state controlled the economy. Wages and prices were fixed. But the great Marxist experiment was in trouble. Lenin had an economic disaster on his hands. Soviet Russia was a grim place, haunted by cold, famine, hunger, and death.   DANIEL YERGIN: Lenin knew that he needed a different kind of policy. and he instituted what would become known as the New Economic Policy. Lenin says farmers can sell their own goods and own their own land. He says that small businesses can operate, and you start to get an economic revival. Well, his comrades on the left attacked him viciously for selling out the principles of Bolshevism and Marxism. And Lenin, who by this time had already had a stroke and was not well, nevertheless pulled himself up on the platform for one of the very last times in his life, and he was still the old Lenin. He was vitriolic; he was sarcastic. His critics, he said, were fools, were stupid, because the state, the government, the Bolsheviks would control the overall economy: steel, railroads, coal, the heavy industries -- what he called the "commanding heights" of the economy.   NARRATOR: Within a year Lenin was dead. The mourners at Lenin's funeral believed that history was on their side, and in less than 30 years, not only Russia, but Eastern Europe, China -- more than a third of humanity -- would be living according to the economic tenets of Marxist Leninism.   Lenin's successor would tighten the Communist Party's iron grip on the commanding heights of the economy. Joseph Stalin introduced central planning. Under him, the Communist Party planned and managed every aspect of the economy. While communism seemed to be forging ahead, capitalism looked to be doomed.  [**back to top**](http://www.pbs.org/wgbh/commandingheights/shared/minitextlo/tr_show01.html#top) | http://www.pbs.org/wgbh/commandingheights/shared/minitextlo/images/singpix.gif |
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| http://www.pbs.org/wgbh/commandingheights/shared/minitextlo/images/singpix.gif | | **Onscreen title: Vienna, 1923**  NARRATOR: Germany and Austria were living with the economic consequences of the peace. Forced to pay unbearable war reparations, the defeated governments simply printed more money. The result: inflation, more inflation, hyperinflation. It took a basket full of paper money to go shopping.   KARL OTTO POHL, President, German Central Bank, 1980-1991: You saw people carrying their money on wheels because you had to pay for a piece of bread billions of reichmarks.   NARRATOR: Hayek, who was working at a statistical research institute, needed 200 pay raises in eight months. Money was cheaper than wallpaper. Million-mark notes lit stoves. Shoes that cost 12 marks in 1913 sold for 32 trillion marks in 1923. In Hitler's favorite beer keller, a glass of beer cost a billion marks. Hyperinflation wiped out the savings of the middle class.   KARL OTTO POHL: And that was one of the reasons for the success of the Nazis, of Hitler. They got support from these people who lost their fortunes.   NARRATOR: Hayek would always see inflation as an evil that corroded society and undermined democracy. The fight against inflation became a cornerstone of his economic philosophy.    **Onscreen title: New York, The Roaring 1920s**  DANIEL YERGIN: During the 1920s, while Europe was continuing to suffer the wounds of the first world war, in American cities, at least, it was boom time. Americans were spending money. They were dancing. They were partying. They were buying cars. They were buying bathtub gin. And they were buying stock -- lots of stock.   The stock market, the New York Stock Exchange, had become a national pastime. The Americans couldn't get enough of it. And the favorite stock of the day was in these new radio companies. Radio was like the Internet of the 1920s, an industry that had come from nowhere. And the number one glamour stock was RCA, which in just a few years went from a dollar and a half a share to $600 a share. Americans couldn't get enough of it.   NARRATOR: It was a classic stock market bubble. Then, on Black Thursday, October 24, 1929, the bubble burst. Prices plunged. The downward spiral proved unstoppable. Eight hours after the market had closed, the tickertape machines were still tapping out the bad news. The stock market crash started America's slide into despair.   SPENCER ECCLES, Salt Lake City Banker: During the '30s here, it was a complete and utter collapse from the people's point of view. It was despair. As values and prices spiraled ever onward, downward, it left them with no ability to earn, no ability to repay, no ability to spend, no ability to consume. Everything went down. The farm implement seller, the clothing store, the merchant -- everything spiraled downward, and of course with it went the banks.   NARRATOR: People panicked. They rushed to withdraw their hard-earned savings.   KENNETH RANDALL, Chairman of the Federal Deposit Insurance Corporation, 1964-1970: A run on a bank means lines through the lobby and out the front door and down around the block, people waiting day and night to get up to see if they could withdraw their cash.  NARRATOR: The millions that could not lost everything.   KENNETH RANDALL: If you look at the period of time from '29 on, about half the banks in the United States closed.   NARRATOR: The government failed to halt the downward spiral. In fact, it made things worse.   NEWSREEL NARRATOR: Private construction virtually ceases. Mills and factories shut down. Railroads come to a virtual standstill. Millions of Americans -- men, women, children -- wait in the cold on bread lines, in soup kitchens. Three million Americans are ex-wage earners, unemployed, and the ranks of the unemployed are to soar to 15 million.    **Onscreen title: Europe, 1931**  NARRATOR: Banks collapsed. Industry ground to a stop. Millions were out of work. In Britain, working men, many of them war veterans, marched the length of the country to petition the government for the simple "right to work." In Italy, Spain, and Germany, they marched to a different drum. With the failure of capitalism, fascism cast its shadow ever wider. John Maynard Keynes saw his nightmare coming true.   In Cambridge, Keynes set out to save capitalism from itself by writing a book about what caused the Great Depression and what to do about it. He aimed to rewrite the rules of economics, to see a country's economy as a whole, as a machine that could be managed.   ROBERT SKIDELSKY: Keynes was the real inventor of macroeconomics. Concepts we take for granted today, like gross domestic product, the level of unemployment, the rate of inflation, all to do with general features of the economy, were invented by him.   GEOFFREY HARCOURT: He was writing a book which he thought would revolutionize the way we thought about economic systems. It would also give us the means to make sure they operated better.   ROBERT SKIDELSKY: It was written against the background of not only the collapse of the world economy, but the potential collapse of democratic government. Hitler became chancellor of Germany in 1933. Democracy seemed to be losing ground, and with democracy, the system of liberty. So Keynes had to produce an answer to the Great Depression, or democracy would be swamped by totalitarianism.  [**back to top**](http://www.pbs.org/wgbh/commandingheights/shared/minitextlo/tr_show01.html#top) | http://www.pbs.org/wgbh/commandingheights/shared/minitextlo/images/singpix.gif |
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| http://www.pbs.org/wgbh/commandingheights/shared/minitextlo/images/singpix.gif | | **Onscreen title: Washington, D.C., 1933**  NARRATOR: The new American president, Franklin Delano Roosevelt, was staring economic disaster in the face. His wife, Eleanor, described Inauguration Day as "very solemn, and a little terrifying."   FRANKLIN DELANO ROOSEVELT, U.S. President: This great nation will endure as it has endured, will revive and will prosper. I shall ask the Congress for the one remaining instrument to meet the crisis: broad executive power.   NARRATOR: Roosevelt's voice of confidence rallied the nation.   He then embarked on a whirlwind program of reform.   DANIEL YERGIN: For Roosevelt and the New Deal, it was a war. They were at war with the Great Depression, and they responded with frenetic activity, relief programs for the unemployed, for the hungry; programs to get people back to work. They built dams and highways and national parks. At the same time they instituted a program of regulating capitalism in a way that had never been done before, in order to protect people from what they saw as the recklessness of the unfettered market.   NARRATOR: Privately, Roosevelt feared the market system had failed, so he created an entire alphabet of new agencies to regulate banks, the stock market, capitalism itself. New headquarters built for the Interstate Commerce Commission celebrated government regulation, which reined in market forces and curbed capitalism. Under the New Deal, industry became subject to a host of new rules and regulations.  DANIEL YERGIN: And the airline industry was a very good example of that. You had people go into this business, be very competitive, they'd go bankrupt. New people would come in, they would go bankrupt. It was very unstable, so the New Deal stepped in and said, "We're going to stabilize this industry. We're going to set the prices that you can charge for tickets. We're going to tell you what routes you can fly." And with that system they eliminated these very vicious cycles of boom and bust in the aviation industry, and in a sense, that was what they were aiming to do throughout the American economy.    **Onscreen title: Cambridge University, 1936**  NARRATOR: In 1936 John Maynard Keynes finally published his *General Theory,* a brilliant analysis of how to fight the Depression. By showing governments that it was possible to manage their economies, Keynes made himself the most influential economist of the age.   ROBERT SKIDELSKY: Keynes's solution to unemployment was for the government to spend the money to restore and maintain full employment.   NARRATOR: Governments, said Keynes, should spend against the wind. In good times they should reduce their spending and build surpluses; in bad times, like the Great Depression, they should step up spending, run deficits, and put purchasing power into the hands of working people.   ROBERT SKIDELSKY: He gave people hope that unemployment could be cured without concentration camps.   NARRATOR: Harvard University became an intellectual bridgehead for Keynes in America. John Kenneth Galbraith was one of Keynes's leading apostles.   JOHN KENNETH GALBRAITH, Professor Emeritus, Harvard University: I've said many times I think had something, maybe quite a bit, to do with bringing Keynes across the Atlantic. I came back to find a whole group of people here who had also read *The General Theory,* and this was a breath of hope and optimism.   NARRATOR: Keynes's ideas trickled down from Harvard to Washington, turning the federal government's conventional economic policies upside down.   JOHN KENNETH GALBRAITH: You resisted conservative finance, borrowed money, and hired people across the country, rescuing them from unemployment. That was the basic essential -- and that you didn't worry about accumulating debt, or, more precisely, you worried about it, but did it anyway.   NARRATOR: Keynes's ideas began to gain ground.  [**back to top**](http://www.pbs.org/wgbh/commandingheights/shared/minitextlo/tr_show01.html#top) | http://www.pbs.org/wgbh/commandingheights/shared/minitextlo/images/singpix.gif |
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| http://www.pbs.org/wgbh/commandingheights/shared/minitextlo/images/singpix.gif | | **Onscreen title: World War II, 1941**  NARRATOR: It took a world war for Keynesianism to become government policy. As the U.S. government borrowed money and pumped it into the war effort, high unemployment ended, and the Depression disappeared.   NEWSREEL NARRATOR: ... men and women to make the uniforms; machinists to make the guns and ammunition; auto workers to produce the jeeps and trucks, to build the ships and tanks; civilian soldiers to turn out the fighters, the bombers.   NARRATOR: In charge of wartime wage and price controls, John Kenneth Galbraith saw the economy rebound.   JOHN KENNETH GALBRAITH: One could not have had a better demonstration of the Keynesian ideas, and I think it's fair to say that as a young Keynesian in Washington, in touch with the other Keynesians there, we all saw that very clearly at the time.   NARRATOR: In a radio broadcast, Keynes expressed his hope that what worked in war would work in peace.  JOHN MAYNARD KEYNES: If expenditure on armaments really does cure unemployment, a grand experiment has begun. Good may come out of evil. We may learn a trick or two which will come in useful when the day of peace comes.    **Onscreen title: London, 1944**  NARRATOR: Now teaching at the London School of Economics, Hayek feared that Keynes's brave new world was a big step in the wrong direction. He attacked the growing consensus by writing *The Road to Serfdom.* Sarcastically dedicated to "socialists of all parties," it was a popular success. There was even a cartoon version of it.   Its message was simple and direct: Too much government planning means too much government power, and too much government power over the economy destroys freedom and makes men slaves. For Hayek, central planning was the first step to a totalitarian state.   GEOFFREY HARCOURT: Well, Hayek thought that since freedom was an absolute, you must let a competitive system just work itself out. And if at times that meant there was considerable unemployment, well, that's what you had to put up with   ROBERT SKIDELSKY: Hayek always rejected macroeconomics. He rejected any government intervention during the Great Depression itself, whereas Keynes was an activist. He said in the long run we're all dead, and in the long run if we allow things to go on without remedy, we get lots of Hitlers, lots of wars, and lots of Stalins. And who was right?   NARRATOR: Most people would have agreed with Keynes when he wrote this to Hayek.   JOHN MAYNARD KEYNES: What we want is not no planning, or even less planning. We almost certainly want more.   NARRATOR: In the battle of ideas, Hayek was on the losing side.   FRIEDRICH VON HAYEK: I had a fairly good reputation as an economic theorist in 1944 when I published *The Road to Serfdom,* and it was treated even by the academic community very largely as a malicious effort by a reactionary to destroy high ideals.    **Onscreen title: New Hampshire, 1944**  NARRATOR: With the world at war, Keynes traveled to Bretton Woods and a grand resort hotel. Here, delegates gathered from all over the world to organize the postwar economy.   The Bretton Woods Conference created the World Bank and the International Monetary Fund. They were designed to bring stability to the world economy and prevent the unemployment and the depression of 1930s.   Keynes's idealism and humanity were an inspiration.   JOHN MAYNARD KEYNES: There has never been such a far-reaching proposal on so great a scale to provide employment in the present and increase productivity in the future. And I doubt if the world understands how big a thing we are bringing to birth.   NARRATOR: Keynes did not have long to live. Ill and overworked, his health gave way, but his reputation and influence outlived him.   FRIEDRICH VON HAYEK: When Keynes died, Keynes and I were the best known economists. Then two things happened. Keynes died and was raised to sainthood, and I discredited myself by publishing *The Road to Serfdom.* And that changed the situation completely. And for the following 30 years, it was only Keynes who counted, and I was gradually almost forgotten.    **Onscreen title: V-E Day, 1945**  NARRATOR: The war was over, and the troops came marching home.   The final summit conference of the three wartime allies took place in a palace in the Berlin suburb of Potsdam. Truman, Churchill, and Stalin came to plan the peace and to redraw the map of Europe. Their different economic systems offered alternative paths to prosperity. But the Great Depression continued to cast its long shadow.   JEFFREY SACHS: There's no doubt that at the end of World War II there was a tremendous loss of faith in the market economy. You had a feeling in large parts of the world, "We don't want to go that way. We want to go a better way."  [**back to top**](http://www.pbs.org/wgbh/commandingheights/shared/minitextlo/tr_show01.html#top) | http://www.pbs.org/wgbh/commandingheights/shared/minitextlo/images/singpix.gif |
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| http://www.pbs.org/wgbh/commandingheights/shared/minitextlo/images/singpix.gif | | **Onscreen title: Britain, 1945**  NARRATOR: In Britain, the troops were coming home to a general election.   TONY BENN, Labor Candidate, 1945: Well, I came back in a troop ship in the summer of 1945, and I was a pilot in the Royal Air Force, and I was picked as a 19-year-old to be the Labor candidate. All these soldiers said, "Never again. We're never going back to unemployment, the Great Depression, to fascism, to rearmament. We want to build a new society."   NARRATOR: During the dark war years, Britain had been governed by a coalition of conservatives and socialists. Winston Churchill, the great wartime leader and head of the Conservative Party, expected an easy victory. Everywhere he went, huge crowds turned out to cheer the nation's hero.   Heading the campaign against Churchill was Clement Attlee, leader of the Labor Party. Attlee argued that Britain had planned the war, and now planning would win the peace.   BARBARA CASTLE, Labor MP, 1945-1979: We knew that our people would never have withstood the bombardments and the loss of life and the hardship if they hadn't been confident that their government was operating a policy of fair shares. We set out to ensure that this system of fair shares and the planning and controls continued after the war.   NARRATOR: Churchill, who was influenced by Hayek's book *The Road to Serfdom,* opposed planning and controls.   WINSTON CHURCHILL: No socialist system can be established without a political police, some form of Gestapo.   RALPH HARRIS, Institute of Economic Affairs, 1957-1987: He got carried away with this Gestapo. And this, of course, was carrying things to absurdity -- Gestapo in Britain!   NARRATOR: Attlee, a mild-mannered Christian Socialist, gave Churchill's gaffe a sinister spin.   RALPH HARRIS: Attlee actually went out of his way to refer to this foreign professor with this august [name], Friedrich August von Hayek -- this foreign chap with a slightly German accent.   NARRATOR: Britain went to the polls. The result was sensational.   BBC RADIO NEWS: Here is the state of the parties up to 3:00, in detail: Conservatives 180, Labor 364.   NARRATOR: Churchill was out. The people had voted for a new socialist Britain.   BARBARA CASTLE: The Labor Party swept to power simply because the vast majority of people, particularly those men and women in the fighting forces who'd lived through the dreadful Depression years of the '30s, just said, "Churchill's done a fine job of war leader, but we don't trust him to win the peace."   CLEMENT ATTLEE: What kind of society do *you* want?   NARRATOR: Attlee promised his party that they would build a new Jerusalem.   CLEMENT ATTLEE: Let's go forward into this fight in the spirit of William Blake: "I will not cease from mental fight, nor shall the sword sleep in my hand, till we have built Jerusalem in England's green and pleasant land."   NARRATOR: William Blake's hymn "Jerusalem" became an anthem for the Labor movement.   BARBARA CASTLE: You know, it seemed to people who'd been through a war, it seemed to them natural justice. Why not pool your resources? And so we broke into the concept of the sacredness of private property.   NARRATOR: When Labor took power, private owners were compelled to sell their businesses. Labor created a "mixed economy" in which newly nationalized industries coexisted with private enterprise. Now government-owned industries like coal, rail, and steel no longer enriched owners and shareholders, but worked for the common good.   TONY BENN: So it was an act of regeneration, of renewal. That was the hope, and it was the hope that gave us the welfare state, gave us the National Health Service, gave us full employment, gave us trade union rights, really rebuilt the country from the bottom up.   NARRATOR: The welfare state provided care, free of charge, "from womb to tomb." Nobody, rich or poor, would need to fear poverty, ignorance, unemployment, ill health, or old age.   TONY BENN: And people said, "This is better than allowing a lot of gamblers to run the world, where they're not interested in us, but only in profit."   NARRATOR: Russia ended the war as a military and industrial giant. With the Red Army and the Secret Police, Stalin imposed his economic system on half of Europe.   JEFFREY SACHS: The planned economy of Lenin and Stalin had defeated fascism. Scientific socialism seemed to be in the ascendancy.   NARRATOR: Socialism was on the march; capitalism and free markets were on the retreat.   JEFFREY SACHS: So about one-third of the world adopted socialism, sometimes to internal revolution, sometimes to brutal imposition by the Red Army.   NARRATOR: The world was divided. The Cold War had begun.  [**back to top**](http://www.pbs.org/wgbh/commandingheights/shared/minitextlo/tr_show01.html#top) | http://www.pbs.org/wgbh/commandingheights/shared/minitextlo/images/singpix.gif |
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| http://www.pbs.org/wgbh/commandingheights/shared/minitextlo/images/singpix.gif | **Chapter 8: Pilgrim Mountain [3:43]** | | |
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| http://www.pbs.org/wgbh/commandingheights/shared/minitextlo/images/singpix.gif | | **Onscreen title: Switzerland, 1947**  NARRATOR: Hayek loved mountains. He said they breathed freedom. But he saw socialist ideals and the planned economy as threats to freedom, and so he organized a conference at a formerly fashionable hotel on the top of Mont Pelerin -- Pilgrim Mountain.   RALPH HARRIS: Well, what happened in 1947 was that Hayek at last brought off a great dream, which was to assemble 36, mostly economists, some historians, and a few journalists, a handful of what he regarded as survivors, good eggs, good intellectuals, who understood the market economy and the whole of the case.   MILTON FRIEDMAN, Professor Emeritus, University of Chicago: This was Hayek's belief and the belief of other people who joined him there, that freedom was in serious danger.   NARRATOR: One of the delegates was a young economist from Chicago, Milton Friedman.   MILTON FRIEDMAN: The point of the meeting was very clear. Hayek and others felt that the world was turning toward planning and that somehow we had to develop an intellectual current that would offset that movement.   NARRATOR: They met downstairs in the cocktail bar. The room and its furniture are not much changed.   RALPH HARRIS: The whole world was shadowed by the Iron Curtain, the Russian threat, by the failure to establish democracies in the Eastern European countries and by the prevalence everywhere intellectually of these ideas of collectivism arising from the war. The argument always was that democracy is impossible without a free economy. You need a free economy; free economy is a necessary though not a sufficient condition for democracy.   NARRATOR: The debates were passionate. At one point, Hayek's former mentor, Ludwig von Mises, stormed out of a meeting.   MILTON FRIEDMAN: In the middle of a debate on the subject of distribution of income, in which you had people who you would hardly call socialist or egalitarian, people like myself, Mises got up and said, "You're all a bunch of socialists," and walked right out of the room. (laughs)   NARRATOR: But Hayek told the meeting that they had one great lesson to learn from the socialists.   RALPH HARRIS: Hayek paid enormous tribute to the socialist intellectuals and said that the great strength of the socialists is that they had the courage, he said, to be idealistic; to have a theory, to have a project, to have a vision, and to go on working towards that, through thick and thin.   NARRATOR: As the meeting came to an end, Hayek predicted a long fight, a battle of ideas that might last 20 years or more, before the world changed its mind. In the meantime, Hayek could see only one gleam of light.  [**back to top**](http://www.pbs.org/wgbh/commandingheights/shared/minitextlo/tr_show01.html#top) | http://www.pbs.org/wgbh/commandingheights/shared/minitextlo/images/singpix.gif |
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| http://www.pbs.org/wgbh/commandingheights/shared/minitextlo/images/singpix.gif | **Chapter 9: Germany's Bold Move [4:11]** | | |
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| http://www.pbs.org/wgbh/commandingheights/shared/minitextlo/images/singpix.gif | | **Onscreen title: Berlin, 1947**  NARRATOR: The war left Germany in ruins. Its economy had disintegrated. Markets had broken down. Shops were empty. Already the Russians occupied East Germany and were waiting for the rest to fall into their lap. In the American and British occupation zones, raging hyperinflation had made the German currency worthless.   In the winter of 1948, the Allies appointed as director of economic affairs a rotund, cigar-chomping economist named Ludwig Erhard. A staunch anti-Nazi, Erhard was a free-market economist who shared many of Hayek's beliefs and ideas. He also believed the Allies' economic rules were making a bad situation worse.   MILTON FRIEDMAN: The occupying authorities had imposed a system under which there were extensive wage and price controls, supposedly to control inflation, but of course wage and price controls never control inflation. And you had essentially an economy that was brought to a halt.   ALFRED BOSCH, Economist and Friend of Hayek: In this situation the black markets formed, and American cigarettes were its form of currency.   MILTON FRIEDMAN: Nobody smoked cigarettes. They were for small transactions. Cognac was a medium of circulation for large transactions.   NARRATOR: The Allies introduced a new currency, the Deutsche Mark, to replace the worthless German money. But for Erhard, that was not enough. So without informing the Allies, Erhard went on the radio and made a startling announcement.   KARL OTTO POHL: Ludwig Erhard, a legendary man, he decided, without asking anybody and against the will of the American occupation powers, he decided to give up all price controls.   NARRATOR: Next day, Gen. Lucius Clay, the man in charge of occupied Germany, demanded to know what Erhard thought he was doing.   ALFRED BOSCH: Clay said, "What have you done? You have changed the Allied price controls." Erhard replied, "Herr General, I haven't changed them; I've abolished them." And Clay said, "My advisors tell me it is a big mistake." Erhard replied, "Herr General, my advisors tell me the same thing."   NARRATOR: Overnight the black market disappeared. People stopped hoarding, and goods not seen for 10 years went on sale.   MILTON FRIEDMAN: It started the markets working, with free prices. Instead of nothing being in the windows of the shops, everything started to come up. And that began the German economic miracle.   NARRATOR: Germany's "social market economy" combined free markets with a strong welfare state. Within a few years, Germany's social market economy overtook Britain's more planned economy.   But back then, nobody wanted to model themselves on Germany. Most countries preferred to plan their economies.  [**back to top**](http://www.pbs.org/wgbh/commandingheights/shared/minitextlo/tr_show01.html#top) | http://www.pbs.org/wgbh/commandingheights/shared/minitextlo/images/singpix.gif |
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| http://www.pbs.org/wgbh/commandingheights/shared/minitextlo/images/singpix.gif | **Chapter 10: India's Way [3:51]** | | |
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| http://www.pbs.org/wgbh/commandingheights/shared/minitextlo/images/singpix.gif | | **Onscreen title: New Delhi, 1947**  NARRATOR: India, the jewel in the crown of the British Empire, the very symbol of imperialism, celebrated its freedom. Mahatma Gandhi was the father of independence. His economic ideal was a simple India of self-sufficient villages. Pandhit Nehru, the first prime minister, wanted to industrialize and combine British parliamentary democracy with Soviet-style central planning.   JAIRAM RAMESH, Senior Economic Advisor to India's Congress Party, 1991-1998: In the 1950s India was the Mecca of all economists. You talk of any economist in the world, and they were advising the Indian government. And the advice was, you must have a state-led model of industrial growth; the public sector must occupy what came to be called the commanding heights of the economy. And that's why steel, coal, machine tools, capital goods, all the areas of heavy industry were in the public sector and not in the private sector.   NARRATOR: Nehru put his faith in technology.   MANMOHAN SINGH, Minister of Finance, 1991-1996: Nehru was a rational thinker, and he wanted to apply science and technologies to solve the great mass poverty that prevailed at the time of independence.   NARRATOR: Under Nehru, central planning became a form of science.   MEGHNAD DESAI, Professor, London School of Economics: Nehru was always recruiting intellectuals in India on his side in the cause of planning. And there was this genius statistician, Mahalanobis, who was head of the Indian Statistical Institute.   NARRATOR: Nehru asked Mahalanobis to think about how to plan an economy. The brilliant Mahalanobis succeeded in expressing the entire Indian economy in a single mathematical formula.   VOICE OF MAHALANOBIS: Let YT equal national income, CT equal consumption, and KT equal investment at time, open bracket, open bracket, one plus lambda K beta K, closed bracket, minus one, are fractions of investment allocated to industries producing capital goods; that is K sector and consumer goods at C sector, respectively.   NARRATOR: People believed this perfect mathematical model could be applied in a less-than-perfect world.   MEGHNAD DESAI: And at that time, Mahalanobis's model was hailed as one of the pioneering mathematical models for planning a mixed economy. And that made Mahalanobis very influential.   NARRATOR: India became the model of economic development for newly independent nations. Across the developing world, socialism, planning, government control, regulation, and ownership -- these became the gospel. All over Africa, people looked to socialism to lead them out of poverty. Across South America, governments chose state control as the way to modernize. The apparent success of communist countries like the Soviet Union and China seemed to show the way.  [**back to top**](http://www.pbs.org/wgbh/commandingheights/shared/minitextlo/tr_show01.html#top) | http://www.pbs.org/wgbh/commandingheights/shared/minitextlo/images/singpix.gif |
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| http://www.pbs.org/wgbh/commandingheights/shared/minitextlo/images/singpix.gif | **Chapter 11: Chicago Against The Tide [7:32]** | | |
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| http://www.pbs.org/wgbh/commandingheights/shared/minitextlo/images/singpix.gif | | **Onscreen title: Chicago, 1950**  NARRATOR: By 1950, Hayek's market economics were so completely out of fashion that when he sought a full-time academic job in the United States, only one university was willing to hire him.   SAM PELTZMAN, Professor, University of Chicago: Chicago has always been an exceptional place, out of the mainstream. Chicago is geographically isolated. This affects Chicago's intellectual influence in many more areas than economics.   NARRATOR: The University of Chicago's intellectual influence would grow. Eight professors and another 11 economists from Chicago went on to win Nobel Prizes. Gary Becker is one of them.   GARY BECKER, Professor of Economics, University of Chicago: When I came as a graduate student to Chicago 1951, I was flabbergasted by how stimulating the atmosphere was. I had been a very good student at Princeton. My first day in Friedman's class he raised a question. I answered. He said, "That's no answer; that's just rephrasing the question." That was the example of how blunt people were.   MILTON FRIEDMAN: Nobody was very polite. People were interested in ideas and argument and not in making sure you didn't ruffle anybody's feathers.   ARNOLD HARBERGER, Professor Emeritus, University of Chicago: If you're sitting in a seminar room and somebody up there is saying something which if imbibed by your students who are sitting in that same room is going to lead them astray, it's up to you to call that guy right now and not later, and that, I think, is sort of the spirit that prevailed in the Chicago workshop system. There wasn't that much fighting in the lunches. They were pretty cordial. (laughs)   NARRATOR: Lunches at the Quadrangle Club were famous for the intensity of intellectual discussion. And one man came to dominate those debates.   GEORGE SHULTZ, Dean of the Chicago Graduate School of Business, 1962 - 1968: Somehow Milton managed to set the agenda of argument, and so there was a saying, "Everybody loves to argue with Milton, particularly when he isn't there," because he's a good arguer.   NARRATOR: Milton Friedman was becoming the most articulate spokesman for the so-called Chicago School of economics.   MILTON FRIEDMAN: The Chicago School meant a strong belief in minimal government and an emphasis on free market as a way to control the economy.   LAWRENCE SUMMERS, President, Harvard University: You know, in many ways Milton Friedman was a devil figure in my youth in our household of Keynesian economists because he seemed, with his emphasis on individualism, freedom, and markets, to be so unconcerned with fairness.   NARRATOR: Liberals may have loathed the Chicago School, but Hayek felt on home ground in an intellectual atmosphere so like the Vienna of his youth.  ARNOLD HARBERGER: Our vision is that the forces of the market are just that: They are forces; they are like the wind and the tides. If you want to try to ignore them, you ignore them at your peril. If you find a way of ordering your life which harnesses these forces to the benefit of society, that's the way to go.   NARRATOR: But in Washington, Keynes was still king of the hill. Nineteen years after he died, his face was on the cover of *Time* magazine.   SAM PELTZMAN: Keynes's influence on economics at mid-century can't be exaggerated. The economic advice that economists gave to policymakers said the only reason you have bad economic outcomes is because the government's not doing enough. It sounds almost like central planning, doesn't it?   NARRATOR: Washington's Keynesians saw the economy not as a force of nature but a sophisticated machine to be fine-tuned by technocrats like themselves. The Keynesian consensus was summed up when that most Ivy League of presidents, John Kennedy, received an honorary degree from Yale.   JOHN FITZGERALD KENNEDY, U.S. President, 1961-1963: It might be said now that I have the best of both worlds -- a Harvard education and a Yale degree.   NARRATOR: For JFK, Keynes had won the argument. The battle of ideas was over.   JOHN FITZGERALD KENNEDY: What is at stake in our economic decisions today is not some grand warfare of rival ideology which will sweep the country with passion, but the practical management of a modern economy. What we need is not labels and clichés, but more basic discussion of the sophisticated and technical questions involved in keeping a great economic machinery moving ahead.   NARRATOR: Kennedy's council of economic advisors had drafted his speech along Keynesian lines.   ROBERT SOLOW, Professor Emeritus, Massachusetts Institute of Technology: We thought it was a great day when Kennedy decided to give that speech at Yale and to talk about economic policy. That speech suggested that we had won over Kennedy. We had won the heart and mind of the president.   NARRATOR: For what came to be known as the "Thirty Glorious Years," Keynesian economics had been delivering the goods. Europe, Japan, and America all saw high economic growth and rising standards of living. People enjoyed a prosperity undreamed of at the end of the war.  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| http://www.pbs.org/wgbh/commandingheights/shared/minitextlo/images/singpix.gif | | **Onscreen title: Austria, 1970**  NARRATOR: When Hayek moved back to his native Austria, he was depressed. The success of mixed economies made his free-market theories, and Hayek himself, seem more irrelevant than ever.   LAURENCE HAYEK, Hayek's Son: The world was very much a socialist world. His ideas were not fashionable. Nobody seemed to listen to him. Nobody seemed to agree with him. He was alone.   NARRATOR: Hayek found his ideas shunned by the academic world.   FRIEDRICH VON HAYEK (interviewed in 1978): Most of the departments came to dislike me, so much so that I can feel it to the present day, [and] economists very largely tend to treat me as an outsider.   NARRATOR: He was living in a provincial town and stuck in a rut. But the outside world was beginning to change. Skimming the newspaper in his usual restaurant, Hayek read how inflation and unemployment were rising at the same time. There was a new word to describe it: "stagflation."    **Onscreen title: USA, 1971**  NARRATOR: After 30 glorious years of growth, the American economy was in trouble.   GEORGE SHULTZ: The economy basically was kind of going nowhere and had inflation, which didn't seem to get cured -- kind of a malaise in the economy.   MILTON FRIEDMAN: Stagflation was the end of naive Keynesianism. You had two things at the same time, which under the Keynesian view would have been impossible. You had stagnation in the economy, high level of unemployment. You had inflation, with prices rising rapidly.   NARRATOR: President Nixon looked like a Chicago economist's dream come true. Milton Friedman was a special advisor, and George Shultz was in charge of the budget.   GEORGE SHULTZ: So I think going back to your comment about the wholesale price index a moment ago, one of the areas where prices were going up very rapidly was lumber and other materials associated with home-building.   NARRATOR: But the president wasn't listening. He tried to spend his way out of trouble. To add insult to injury, he declared, "Now I am a Keynesian."   DANIEL YERGIN: This declaration by Nixon horrified his conservative supporters. Indeed, one congressman wrote to him and said, "Mr. President, I'm going to have to burn all of my old speeches." Nixon wrote back and said, "I will, too."   NARRATOR: Nixon decided he hadn't gone far enough, so he took his top economic advisors off to Camp David for a working weekend. Ben Stein, the quiz-show host, was a junior speechwriter in the White House, and his father was at the meeting.   BEN STEIN, Host, *Win Ben Stein's Money:* Here's my father, walking into the president's cabin to meet Mr. Nixon, and there's George Shultz right behind him. I'm not sure, but I think it's a fair bet that at any one of these meetings they're complaining about something being wrong, probably talking about prices and stagflation. I'm not sure.   NARRATOR: Dick Cheney was a young aide at the time.   RICHARD CHENEY: I always remember the debate we had during the Nixon administration when the public was convinced that food prices were going up. So the political debate was whether or not we should impose a freeze on food prices.   NARRATOR: The supposedly conservative Republican Nixon opted for wage and price controls.   BEN STEIN: Nixon was a great one for doing something, I think in retrospect we now know that it would have been better to do nothing, but he was in favor of doing something.   GEORGE SHULTZ: I was there, and I opposed them. Wage and price controls, you could see analytically, would get you in a lot of trouble.   RICHARD NIXON, U.S. President, 1969-1974: The time has come for a new economic policy for the United States. Its targets are unemployment, inflation.   RICHARD CHENEY: At one point President Nixon spoke up and quoted Nikita Khrushchev, and he said, "Khrushchev once told me that sometimes in order to be a statesman, you have to be a politician for a while."   MILTON FRIEDMAN: The problem with him was that he was willing to sacrifice principles too easily for political advantage.   NARRATOR: The voters liked the president's war on prices. Nixon was reelected in a landslide. The economy did less well.   DANIEL YERGIN: Right away the economy went out of whack. People couldn't cover their costs. Ranchers stopped sending cattle to market; farmers started drowning their chickens. Instead of controlling inflation, they were creating shortages.   NARRATOR: And prices just kept on rising.   MILTON FRIEDMAN: The last time I saw Nixon in the Oval Office, with George Shultz, President Nixon said to me, "Don't blame George for this silly business of wage and price control," meaning George Shultz. And I said to him, "Oh, no, Mr. President, I don't blame George; I blame you!"  [**back to top**](http://www.pbs.org/wgbh/commandingheights/shared/minitextlo/tr_show01.html#top) | http://www.pbs.org/wgbh/commandingheights/shared/minitextlo/images/singpix.gif |
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| http://www.pbs.org/wgbh/commandingheights/shared/minitextlo/images/singpix.gif | **Chapter 13: A Mixed Economy Flounders [8:36]** | | |
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| http://www.pbs.org/wgbh/commandingheights/shared/minitextlo/images/singpix.gif | | **Onscreen title: London, 1973**  NARRATOR: Britain's mixed economy, so widely imitated, was in similar trouble. It, too, was facing the deadly combination of unemployment and inflation. In theory, the Conservative prime minister Ted Heath and his Cabinet believed in markets. In practice, like Nixon, they made a sharp U-turn and used wage and price controls to combat stagflation.   KENNETH BAKER, Conservative Minister, 1981-1992: I was a junior minister in Ted Heath's government, and I remember having to attend meetings with three or four other ministers where we would actually decide the level of charges plumbers would charge next week to repair taps and how much taxi drivers could charge for fares and how much hairdressers should get in wages. It was absolutely unbelievable. It all came to a very sticky end, a complete collapse.   NARRATOR: A coal miners' strike and an oil crisis plunged the country into darkness. Voters blamed Ted Heath and voted the Conservatives out of office.   SHOP MANAGER: Well, we're virtually out of business while the power's off. We've got no sets that we can operate at all.   DAVID YOUNG, Conservative Minister, 1984-1989: We were the sick man of Europe, and the English disease was the disease of strikes, which we had all over the place. And you know, it was so bad that Herman Kahn of the Hudson Institute wrote a book called *The Year 2000,* and he saw many things, but the one thing he did see was that the lowest standard of living in Europe in the year 2000 would be shared between Albania and the United Kingdom. Albania!   NARRATOR: A minister in the defeated government, Keith Joseph may have been an unworldly intellectual, but his search for fresh answers would change the way not only Britain but the world thought about economics and society.   KENNETH BAKER: Keith wore a hair shirt, he beat his breast, and said we were to blame; we've got it wrong. And he did beat his breast. He was called a Mad Monk.   KEITH JOSEPH (interviewed in 1975): I thought I was a Conservative. I thought I was a Conservative, but all the time I was in favor of... I was in favor of shortcuts to Utopia. I was in favor of the government doing things, because I was so impatient for good things to be done.   KENNETH BAKER: And when he appeared on television, he had a vein in his head which kept throbbing, and people said, "Oh, you know, this is a very strange figure indeed, this man." But nonetheless, he started to rethink the Conservative policy.   NARRATOR: Keith Joseph's search brought him here, where, with Hayek's encouragement, a group of kindred spirits had set up a think tank called the Institute of Economic Affairs.   RALPH HARRIS: The institute started in 1957, you could say the direct result of the Mont Pelerin Society, of *The Road to Serfdom,* of Hayek's ideas of freedom and competitive enterprise.   NARRATOR: With the zeal of a convert, Joseph began to preach the virtues of free markets. In a series of pamphlets, he went on the intellectual offensive, attacking the mixed economy, making the case for capitalism.   Mark Garnett is a biographer of Keith Joseph.   MARK GARNETT, Biographer of Keith Joseph: From the middle of 1974 Joseph undertakes a crusade to convert the country to his way of thinking, and what he wants to do is take the battle to the heart of the enemy camp, and he believed that the universities were infected with socialist thinking.   KEITH JOSEPH: Because there was a free society in this country....   CECIL PARKINSON, Conservative Minister, 1981-1983, 1987-1989: And he was going right into the lions' den, arguing a case that many people had never heard before.   MARK GARNETT: Joseph felt that it was his duty to fight back on behalf of the free market.   NARRATOR: To revive the economy, Joseph preached that Britain needed more risk-taking, which meant more bankrupts and more millionaires, and less equality.   CECIL PARKINSON: The audience would sort of gasp. They'd never heard anybody challenging the consensus.   KEITH JOSEPH: Mild inflation seemed a painless way of maintaining full employment, encouraging growth, and expanding the social services. So the result is that we're now more socialist in many ways than any other developed country outside the Communist bloc.   RALPH HARRIS: He used to be smuggled in the back door. He was genuinely hurt that the students had reacted to this penetrating argument by chucking flour bombs at him.   MARK GARNETT: It was almost a badge of honor that he would come away from these meetings with egg yolk running down his suit.   NARRATOR: Keith Joseph's most significant adherent was an up-and-coming Conservative politician named Margaret Thatcher. In Parliament and politics, Thatcher's closest friends agree that Keith Joseph's influence on her was crucial.   NIGEL VINSON, Institute of Economic Affairs: She relied on him to give her deep intellectual support. There's nothing wrong with intuition. Intuition is reason in a hurry, and Keith just supported and reinforced her intuition. At the very moment, she needed that support.   NARRATOR: Margaret Thatcher had a gut instinct for market economics. Her father had been a grocer, and when she was a girl, she had helped him in the shop. Hardworking and studious, she won a place at Oxford University, where she became interested in student politics.   While she was at Oxford, she read Hayek's *Road to Serfdom.* It made a lasting impression on her. Years later, when she became the first woman to lead the Conservative Party, she once slammed Hayek's book down on a table and announced, "This is what we believe."   RALPH HARRIS: (laughs) Thatcher's office came on and said could she come and drop in to see him. And so she called by, and there was a period of unaccustomed silence from Margaret Thatcher as she sat there, intense, attending to the master's words.   NARRATOR: By 1974, Hayek sensed the world beginning to go his way.   FRIEDRICH VON HAYEK (interviewed in 1978): As for the movement of intellectual opinion is concerned, it is now for the first time in my life moving in the right direction.    **Onscreen title: Stockholm, 1974**  NARRATOR: In the battle of ideas, 1974 was a turning point. Hayek's Nobel Prize came as a surprise, but the balance was now shifting away from Keynes and towards Hayek.   FRIEDRICH VON HAYEK: I like to say when I was a young man, only the very old men still believed in the free-market system. When I was in my middle ages I myself and nobody else believed in it. And now I have the pleasure of having lived long enough to see that the young people again believe in it. And that is a very important change.  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| http://www.pbs.org/wgbh/commandingheights/shared/minitextlo/images/singpix.gif | **Chapter 14: Deregulation Takes Off [7:29]** | | |
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| http://www.pbs.org/wgbh/commandingheights/shared/minitextlo/images/singpix.gif | | **Onscreen title: Chicago, 1974**  NARRATOR: The U.S. economy was going through the worst downturn since the Great Depression. Industry slowed. Unemployment rose. The Yom Kippur War was followed by an Arab oil embargo. Americans waited in gas lines. And the price of everything kept rising.   Chicago School economists had always argued that rigid government regulations were keeping prices high and fueling inflation. Now more people began to wonder if competition could break the inflationary stranglehold.   SAM PELTZMAN: What is the effect of regulating the airlines? What is the effect of regulating the trucking industry? And what is the effect of regulating the railroad industry? Very often, it raises prices. Instead of allowing competition, it suppresses competition.    **Onscreen title: Washington, D.C., 1974**  NARRATOR: In the airline industry, the host of regulations enacted during the Great Depression were still in force. It was a classic example of regulated capitalism. But deregulation was in the air.   Stephen Breyer, now a Supreme Court justice, then a Harvard professor, was asked by liberal Democratic senator Ted Kennedy to head a Senate investigation of airline regulations.   STEPHEN BREYER, U.S. Supreme Court Justice: You discovered that basically the same firms that had been there in 1938 were still there. Those were the major carriers and nobody new.   NARRATOR: The hearings began, and officials from the Civil Aeronautics Board were called to testify.   STEPHEN BREYER: And it turned out that 5 percent of their time went to stop prices that were too high and 95 percent of their time went to stop prices that were too low, but always the effort was to keep the price high and not low.   NARRATOR: Naturally, the established airlines were quite happy with this arrangement.   STEPHEN BREYER: And we'd say, "When was the last time you granted a new route? Well?"   NARRATOR: Regulations meant that major carriers like Pan Am never had to compete with newcomers. But some cut-price charter flight operators wanted to break this club. Leading the struggle against Pan Am over its profitable trans-Atlantic flights was an exuberant Englishman called Freddie Laker.   FREDDY LAKER: I'm Freddy Laker. I own Laker Airways, and I'm dedicated to low-cost air travel. With Laker you can fly round trip to the USA or Canada in one of our wide-bodied DC-10s for less than half the price of a normal economy ticket. Look, I've got to give you a better deal -- I've got my name on every plane.   STEPHEN BREYER: The Transportation Department said that this may hurt Pan Am. And Freddy Laker testified and said, "The cause of this whole thing is 'Panamania.'" So we said, "What is that?" And he said, "Well, everybody should do everything for Pan Am."   NARRATOR: The man who was to sweep away airline regulations is a lifelong Gilbert and Sullivan fan. Improbably enough, the bearded poet is played by Fred Kahn, a professor at Cornell University.   Kahn wanted a leaner, meaner regulatory environment in which the market was free to chase profits without the dead weight of bloated government. Democratic president Jimmy Carter made Kahn head of the Civil Aeronautics Board. Kahn had spent years studying government regulation; now he had a chance to do something about it.   ALFRED KAHN, Civil Aeronautics Board, 1977-1978: When I got to the Civil Aeronauts Board, the biggest division under me was the division of enforcement -- in effect, FBI agents who would go around and seek out secret discounts and then impose fines. We would discipline them. It was illegal to compete in price. That means it was illegal to compete in the discounts you offer travel agents. So we regulated travel agents' discounts. Internationally, since they couldn't cut rates, they competed by having more and more sumptuous meals. We actually regulated the size of sandwiches.   NARRATOR: By the time Kahn had finished, the C.A.B. had nothing left to do but close itself down.   SPOKESMAN FOR THE CIVIL AERONAUTICS BOARD: Competition is the rule, and because of it, the consumers are better served than ever.   NARRATOR: Airline deregulation led to painful turbulence as new carriers came and went. Like her father, Judith Hamill works in the airline industry.   JUDITH HAMILL, Administrator, Chicago O'Hare Airport: My dad was a jet mechanic with Braniff. At the age of 59 he found that his skills were no longer desirable or needed. When Braniff came back because of the duty to hire, he came back at half the salary that he had made before. When you live by the rules and then the rules change, it's sad.   NARRATOR: But 20 years later, the industry was employing two times as many people to fly almost three times as many passengers.   STEPHEN BREYER: The industry vastly underestimated the demand for airfares at lower prices, and what's happened is that as the prices went down, demand went up dramatically.   ALFRED KAHN: And once they were free to compete, you began to get super-saver fares and super-apex fares and potato fares and peanuts fares -- an explosion of discounting and competition. Well, those were dramatic.   NARRATOR: The stage was set for deregulation of the U.S. economy, and now these ideas were about to make their entrance in the very homeland of Gilbert and Sullivan.  [**back to top**](http://www.pbs.org/wgbh/commandingheights/shared/minitextlo/tr_show01.html#top) | http://www.pbs.org/wgbh/commandingheights/shared/minitextlo/images/singpix.gif |
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| http://www.pbs.org/wgbh/commandingheights/shared/minitextlo/images/singpix.gif | **Chapter 15: Thatcher Takes the Helm [3:50]** | | |
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| http://www.pbs.org/wgbh/commandingheights/shared/minitextlo/images/singpix.gif | | **Onscreen title: Britain, 1979**  WORKER: Well, 5 percent's no good to nobody, is it?   INTERVIEWER: Do you think you can win this strike?   WORKER: Yes, I do.   NARRATOR: They called it the Winter of Discontent. It seemed as if everyone was on strike.   MAN: I think it stinks, like all the other damn strikes in this country run by the filthy Socialist Communist unions.   NARRATOR: The garbage men were out. So were the ambulances. And if you died, the gravediggers were out, too.   NARRATOR: With the economy in apparently terminal decline, the people voted for a new Conservative government headed by Margaret Thatcher.   LAURENCE HAYEK : Margaret Thatcher was elected prime minister on the day of my father's birthday, so he sent her this telegram from Freiburg: "Thank you for the best present to my 80th birthday that anyone could have given me." A few days later she wrote back from 10 Downing Street: "Dear Professor Hayek, I am very proud to have learned so much from you over the past few years. I am determined that we should succeed. If we do so, your contribution to our ultimate victory will have been immense. Yours sincerely, Margaret Thatcher."   MARGARET THATCHER: And I'll strive unceasingly to try to fulfill the trust and confidence that the British people have placed in me and the things in which I believe.   NARRATOR: Determined, and some said strident, she would revolutionize the economy.   MARGARET THATCHER (interviewed in 1993): The spirit of enterprise had been sat upon for years by socialism, by too-high taxes, by too-high regulation, by too-public expenditure. The philosophy was nationalization, centralization, control, regulation. Now this had to end.   NARRATOR: Thatcher squeezed government spending and cut subsidies to business. Thousands of bankruptcies and higher unemployment followed. Many saw her as uncaring. Britain had rarely been so divided.   CROWD OF PROTESTERS: Maggie, Maggie, Maggie. Out, out, out!   NARRATOR: Thatcher had no time for conventional, Keynesian economists who urged her to use government money to lessen the pain.   MARGARET THATCHER: Although 364 economists wrote to the *Times* and said, "This is outrageous; you'll put us into a deep depression from a recession," 364 were wrong, and the half dozen who supported us were right.   And those who urge us to relax the squeeze, to spend yet more money indiscriminately in the belief that we'll help the unemployed and the small businessman, are not being kind or compassionate or caring. I have only one thing to say: U-turn if you want to. The lady's not for turning.   NARRATOR: In Britain, the battle lines were drawn. In America, the fight was already under way.  [**back to top**](http://www.pbs.org/wgbh/commandingheights/shared/minitextlo/tr_show01.html#top) | http://www.pbs.org/wgbh/commandingheights/shared/minitextlo/images/singpix.gif |
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| http://www.pbs.org/wgbh/commandingheights/shared/minitextlo/images/singpix.gif | **Chapter 16: Reagan Rides In [8:17]** | | |
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| http://www.pbs.org/wgbh/commandingheights/shared/minitextlo/images/singpix.gif | | **Onscreen title: USA, 1979**  NARRATOR: Things were at a low in the United States. President Carter spoke of malaise and loss of confidence in the country. Revolution in Iran had led to a second oil shock and Americans held hostage in Tehran. Despite the beginning of deregulation, inflation was still at record heights. Carter's attempts to follow Keynes's formula and spend his way out of trouble were going nowhere.   LARRY LINDSEY, Assistant to the President for Economic Policy: Jimmy Carter was maybe the high point of Keynesian behavior. And it simply was not working.   GEORGE SHULTZ: Toward the end of the Carter administration, with inflation out of control, Paul Volcker was made chairman of the Federal Reserve. He understood the problems.   JIMMY CARTER: I'm grateful to Paul Volcker for being willing now to accept the oath of office and the responsibilities of the Federal Reserve system of our country. Paul?   NARRATOR: Paul Volcker was steeped in the ideas of Austrian school economics.   PAUL VOLCKER, Federal Reserve Board, 1979-1987: It's obvious to all of you from what's been said today that we're face to face with really unique economic difficulties.   NARRATOR: Volcker believed that inflation was one of the worst of all economic evils.   PAUL VOLCKER: It came to be considered part of Keynesian doctrine that a little bit of inflation is a good thing. And of course what happens then, you get a little bit of inflation, then you need a little more, because it peps up the economy. People get used to it, and it loses its effectiveness. Like an antibiotic, you need a new one; you need a new one. Well, I certainly thought that inflation was a dragon that was eating at our innards, so the need was to slay that dragon.   NARRATOR: Volcker used a blunt weapon: He tightened the money supply. The economy went into a nosedive. Facing a presidential election, Carter was reluctant to back such harsh measures.   Carter's rival was the Republican Ronald Reagan. Reagan shared the same economic philosophy as Margaret Thatcher. For over 20 years, he had been campaigning against the Keynesian orthodoxy and for Hayek and Friedman's ideas of free markets and freedom.   NEWT GINGRICH, Speaker, U.S. House of Representatives, 1995-1999: Reagan knew Hayek personally; he knew Milton Friedman personally. And Reagan was, in a sense, their popularizer. So he was the person who would take these people who were very profound but not very easy to communicate. I don't think you'd ever get Hayek on the Today show, but you could get Reagan explaining the core of Hayek with better examples and in more understandable language.   RONALD REAGAN, U.S. President, 1981-1989: Vote for me, if you believe in yourself, if you believe in your right to control your own destiny and plan your own life, yes, and have a say in the spending of your own money.   The president is going to have more government on the backs of the people and of business and of industry, the working people, in order to try to solve the problems that were created by too much government on our backs.   We can get government off our backs, out of our pockets. This kind of indifference to economic disaster must be ended, and it'll be ended by having a different kind of leadership.   NARRATOR: The American people voted for change, and Reagan became president.   MILTON FRIEDMAN: The situation was this: The only way you could get the inflation down was by having monetary contraction. There was no way you could do that without having a temporary recession.   GEORGE SHULTZ: Obviously, who wants a recession? But I can remember President Reagan using those famous words: "If not now, when? If not us, who?"   NARRATOR: Reagan offered Volcker his moral support in the fight against inflation. As Volcker tightened the money supply, the economy slowed and contracted. Unemployment hit 10 percent. Nobody had realized quite how tough it would be.   All across the heartland of America, ordinary people were hurting.   DARREN SMITH, Farmer: Well, the interest rates, that just eats up your profit. It becomes very difficult to keep your business running right. Nineteen eighties, the interest rates were up to 20 percent or better. It was very interesting times. I remember, you know, cash flows got very tight as things got tighter and tougher. Creditors forced sales -- you know, "Come up with the cash or we're going to have to liquidate you." It's a hole that almost seems impossible that you can get out of.   PAUL VOLCKER: If you had told me in August of 1979 that interest rates, the prime rate would get to 21.5 percent, I probably would have crawled into a hole. I would have crawled into a hole and cried, I suppose. But then we lived through it. (laughs)   NARRATOR: It had taken three years -- three years of growing public anger, three years of real hardship for millions of Americans. But by 1982, the dragon of inflation had been slain.   PAUL VOLCKER: What changed drastically in the 1980s and running through today is the kind of presumption that inflation is bad. The primary job of a central bank is to prevent inflation. That's a very different environment than the '50s and '60s.   ANNOUNCER: Ladies and gentlemen, the president of the United States.   NARRATOR: Reagan and Volcker had set the United States on a new economic course.   RONALD REAGAN: From our very first day, we have been working to undo the economic wreckage they left behind.   NARRATOR: They called his policy Reaganomics. It had four key elements.   LARRY LINDSEY: The first was the concept of sound money. The second was deregulation. The third was modest tax rates. And the fourth was limited government spending. Sounds pretty conventional now, but when Reagan was elected, he was vilified by his opponents as being some radical extremist.   RONALD REAGAN: They just can't accept that their discredited policies of tax and tax, spend and spend, are at the root of our current problems.   NARRATOR: Reagan's tax cuts, the biggest in history, led to huge deficits. But the economy started to grow steadily again.   MILTON FRIEDMAN: There's no doubt in my mind that those actions of Reagan, lowering tax rates, plus his emphasis on deregulating unleashed the basic constructive forces of the free market, and from 1983 on, it's been almost entirely up.  [**back to top**](http://www.pbs.org/wgbh/commandingheights/shared/minitextlo/tr_show01.html#top) | http://www.pbs.org/wgbh/commandingheights/shared/minitextlo/images/singpix.gif |
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| http://www.pbs.org/wgbh/commandingheights/shared/minitextlo/images/singpix.gif | **Chapter 17: War in the South Atlantic [1:41]** | | |
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| http://www.pbs.org/wgbh/commandingheights/shared/minitextlo/images/singpix.gif | | **Onscreen title: Atlantic Ocean, 1982**  NARRATOR: Far away in the South Atlantic, a British expeditionary force was at sea. Argentina had seized the Falkland Islands from Britain. Margaret Thatcher risked a war to make the islands British once again.   Before the war her popularity was at rock bottom. Victory in the Falklands ensured the survival of Margaret Thatcher's government.   CHARLES POWELL, Thatcher's Foreign Affairs Advisor, 1983-1991: The Falklands saved her. The Falklands gave her a new lease on life to implement the policies on which she had embarked which were not yet producing results. In effect, she gambled all on the Falklands, and she won decisively. And that of course not only greatly bolstered her standing within the Tory Party, it bolstered her standing in the country, and it greatly enhanced her reputation internationally.   NARRATOR: The Falklands War set her up politically to fight the final battle for the soul of the British economy. The impact would be worldwide.  [**back to top**](http://www.pbs.org/wgbh/commandingheights/shared/minitextlo/tr_show01.html#top) | http://www.pbs.org/wgbh/commandingheights/shared/minitextlo/images/singpix.gif |
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| http://www.pbs.org/wgbh/commandingheights/shared/minitextlo/images/singpix.gif | | NARRATOR: In 1945, Attlee's Labor government had nationalized the commanding heights of the economy, bringing core industries into state ownership. For Thatcherites, these state industries were now the primary target.   JOHN REDWOOD, Head of Prime Minister's Policy Unit, 1983-1985: A whole lot of people who were left of center thought that nationalization was Britain's great gift to the world, and one of my phrases at the time was that having exported the disaster of nationalization to the world, Britain should offer them the antidote; it was the decent thing to do, to say we're very sorry, it didn't work.   MARGARET THATCHER (interviewed in 1993): So the whole efficiency of nationalized industries was running down. Why should they be efficient? They had access to the Treasury purse.   NARRATOR: Thatcher wanted to end their dependence on government subsidies and submit them to the discipline of the marketplace.   JOHN REDWOOD: The nationalized industries fell to pieces. They lost huge sums of money; they put the prices up massively and still weren't able to make a profit. They were bleeding the nation dry, the taxpayer dry, and they weren't doing a good job for their customers.   NARRATOR: The coal mines and the miners' union became Thatcher's biggest challenge.   JOSEPH STANISLAW: The coal miners represented the last bastion of the socialist mindset in the UK. One of the singularly most important economic/political events for the world economic system was Margaret Thatcher's government confrontation with the miners.   MARGARET THATCHER: We were quite clear: Uneconomic pits must close. You could not go on pouring money into uneconomic pits. It was taxpayers' money.   CECIL PARKINSON: If you look at our coal industry, the coal is very deep in the earth; it is hugely expensive to get out.   NARRATOR: Seventy-five percent of Britain's coal mines were losing money. It took government subsidies of $3 billion a year to keep them going. But these statistics were seen as irrelevant by men like Ken Capstick, one of the radical Socialists who led the miners' union.   KEN CAPSTICK, National Union of Miners: What they would say was that in America, for instance, coal produced at the pit head was cheaper than coal produced at the pit head here.   NARRATOR: The union leaders argued that the government subsidies were money well spent if they kept 180,000 miners at work and able to feed their families.   KEN CAPSTICK: Miners used to say -- and I can remember them saying it -- "While ever I've got these I'll always have a job."   NARRATOR: It was a historic grudge match. Both sides knew the miners had brought down Ted Heath's Conservative government 10 years earlier. The fiery Marxist who led the National Union of Miners said no mine should be closed until the coal ran out.   ARTHUR SCARGILL: Reaffirm the unanimous decision of March the eighth to declare official in accordance with Rule 41 the strike action.   The issue before our members is very clear. They either accept the policies of the Coal Board and the government, which will result in the loss of 70,000 jobs, or alternatively, they stand on their feet like men. They fight -- defend the jobs, defend their pits, and defend their dignity.   NARRATOR: The strike was an epic clash of values which symbolized the wider battle of ideas: socialist against capitalist, free market against state ownership. And it was a question of power: Who ruled Britain?   Illegal mass picketing outside working mines led to violent clashes with the police.   KEN CAPSTICK: It was the next thing to, you know, to a war. We were faced with an enemy, and that enemy was out to destroy our livelihoods, out to destroy our pits, out to destroy our communities and what our communities stood for. Miners and their families had a set of values that I don't think Margaret Thatcher could understand, values of socialism and Christianity. The two things went hand in hand in many ways.   NARRATOR: For more than a year the miners held out, until internal rifts and the desire of many to return to work brought the walkout to an end.   MARGARET THATCHER (interviewed in 1993): And then suddenly it collapsed, the strike, and the most powerful union with the most militant leader had failed.  NARRATOR: Britain has changed. Today, less than 3,000 work in the mines.   KEN CAPSTICK: I feel devastated by what I see. Grimethorpe had considerable reserves of coal when it was closed, plenty of work for those miners to continue to do to keep their families. You can see the wasteland; you can see the social deprivation that it caused. The children that are coming along -- no prospects, no future; people despairing because they can't find employment and the dignity that employment brings. It's the market forces gone mad.   MARGARET THATCHER: The political consequences of the failure of the strike were incalculable.   GORDON BROWN, Labor Finance Minister: The coal-mining strike of the early 1980s was a tragedy for so many of the mining families that were involved in it.   NARRATOR: Perhaps the greatest political impact was on the Labor Party that had all along opposed Thatcher's free-market policies.   GORDON BROWN: I came into politics as someone who lived in an area which was an old mining community. The problem for the left in the past was that they equated the public interest with public ownership and public regulation, and therefore they assumed that markets were not therefore in the public interest. What we have had to explain both to ourselves and to the country -- and now I believe it's possible to explain this to the rest of the world as well -- is that markets are in the public interest.   DANIEL YERGIN: One of the most important things that the government of Margaret Thatcher does is invent this thing called privatization; that is, taking these state-owned companies, these nationalized industries, and selling shares to the public.   NARRATOR: One by one the Thatcher government put the commanding heights of the British economy up for sale: electricity, telephones, oil, gas, coal, steel, trains, and planes -- even water. Before long, two-thirds of the state-owned industries were removed from government control and sold off into the private sector. Who should control the commanding heights -- governments or markets -- in Britain? That battle was over.  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| http://www.pbs.org/wgbh/commandingheights/shared/minitextlo/images/singpix.gif | **Chapter 19: The Battle Decided? [3:26]** | | |
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| http://www.pbs.org/wgbh/commandingheights/shared/minitextlo/images/singpix.gif | | JOSEPH STANISLAW: What Margaret Thatcher did in Britain and the principles that she introduced were imitated worldwide -- Asia, Latin America, even in Africa and to some degree in the Middle East.   JEFFREY SACHS: The tide had surely swung. The thinkers that had kept alive the ideas of markets did play their role at that moment.   NARRATOR: In his lifetime, Hayek saw fascism rise and fall, communism come and go, and the end of his years in the intellectual wilderness.   NEWT GINGRICH: Here was a man who had intellectually changed the world without really ever leaving the university. It was the power of his books, the power of his ideas as then captured by Ronald Reagan and Margaret Thatcher that had changed things.   GEORGE SHULTZ: You had in Reagan and Thatcher at the same time two, what I call, idea politicians. They had ideas they were convinced were the right ideas, and they put them into effect.   MILTON FRIEDMAN: The coincidence of Thatcher and Reagan having been in office at the same time was enormously important for the public acceptance worldwide of a different approach to economic and monetary policy.   LAWRENCE SUMMERS: The old debates were about what the role of the market was, what was the role of the state. I think it's now generally appreciated that it's the market that harnesses people's initiative best. And the real focus of progressive thinking is not how to oppose and suppress market forces but how to use market forces to achieve progressive objectives.   SAM PELTZMAN: If you look at the whole of the 20th century, there's been a huge cycle. Less government was the orthodoxy at the beginning of the 20th century, more government clearly was the orthodoxy for the middle part of the 20th century, and now the later part, going into the new millennium, we're back to where we were practically at the start of the century. And you have to give folks like Hayek, Friedman, and then later Reagan and Thatcher their due for pushing all of this along.   MARGARET THATCHER: I remember the foreign minister and finance minister from another country saying to me: "You're the first prime minister who's ever tried to roll back the frontiers of socialism. We want to know what's going to happen, because if you succeed, others will follow."   NARRATOR: Within 10 years, governments everywhere would retreat from the commanding heights of their economies. In the battle of ideas, the pendulum had swung from government to market, from Keynes to Hayek. Only time would tell what people would ask of their governments in the event of a new recession, or a depression, or a war.  [**back to top**](http://www.pbs.org/wgbh/commandingheights/shared/minitextlo/tr_show01.html#top) | http://www.pbs.org/wgbh/commandingheights/shared/minitextlo/images/singpix.gif |
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