

**KOFA HIGH SCHOOL SOCIAL SCIENCES DEPARTMENT**

**ECONOMICS**

**VIDEO STUDY GUIDE > COMMANDING HEIGHTS – THE BATTLE FOR THE WORLD ECONOMY - PART 2 - THE AGONY OF REFORM**



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**KEY PLAYERS AND DEFINITIONS THAT YOU MAY NOT BE FAMILIAR WITH**

1. **JEFFERY SACHS - CONSERVATIVE FREE MARKET ECONOMIST AND PROFESSOR AT HARVARD UNIVERSITY. HE IS A DISCIPLE OF HAYEK AND FRIEDMAN. HE EFFECTIVELY LEADS THE REORGANIZATION THE GLOBAL ECONOMY BY LEADING THE RESTRUCTURING OF MANY OF THE COMMUNIST AND SOCIALIST ECONOMIC SYSTEMS THAT WERE NOT WORKING - BOLIVIA , ARGENTINA , POLAND , THE SOVIET UNION**
2. **ANATOLY CUBAIS AND YEGOR GAIDAR - RUSSIAN ECONOMISTS ( GAIDAR ALSO A PRIME MINISTER ) THE FIRST RUSSIAN ECONOMISTS TO SPEAK OUT IN FAVOR OF FREE MARKETS**
3. **SHOCK THERAPY - TERM USED TO DESCRIBE ABANDONING ONE ECONOMIC SYSTEM FOR ANOTHER LITERALLY OVERNIGHT**
4. **MIKAL GORBACHEV - RUSSIAN PRESIDENT WHO ENDED THE COLD WAR , ABANDONED COMMUNISM , AND DISSOLVED THE SOVIET UNION. DIDN'T MOVE FAST ENOUGH TO CHANGE RUSSIA'S ECONOMY , BUT STILL IS CONSIDERED ONE OF THE BRAVEST MEN OF MODERN TIMES . HE RESIGNED AFTER LOSING THE NATION'S CONFIDENCE DESPITE PUTTING DOWN A COUP DE' ETAT.**
5. **PERESTROIKA – MAKIL GORBACHEV'S ECONOMIC REFORM PLAN FOR THE SOVIET UNION**
6. **LECH WALESIA - AS HEAD OF THE “ SOLIDARITY ” LABOR MOVEMENT IN POLAND , HE LED THE REVOLUTION TO OVER TURN COMMUNISM AND WAS SUCCESSFUL. HE LATER BECAME PRIME MINSTER . WALESIA IS ALSO CONSIDERED ONE OF THE BRAVEST MEN OF MODERN TIMES**
7. **THE RUSSIAN “ OLIGARCHS ” - AN OLIGARCHY OF YOUNG BUSINESS MOGULS WHO TOOK CONTROL OF THE COMMANDING HEIGHTS INDUSTRIES OF THE SOVIET UNION FROM THE RED DIRECTORS . THEY ALSO BOUGHT EXTREME POLITICAL POWER BY FUNDING AND BUYING BORIS YELTSIN'S ELECTION TO PRESIDENT**
8. **“ RED DIRECTORS ” OLD SOVIET COMMUNIST INDUSTRY MANAGERS WHO HELD ON TO CONTROL ( ACTUALLY OWN ) THE INDUSTRIES AFTER THE**

*COLLAPSE OF THE SOVIET UNION . THEY WERE VERY POWERFUL AND ACTUALLY CONTROLLED THE COUNTRY SINCE THEY CONTROLLED THE COMMANDING HEIGHTS*

9. *BORIS YELTSIN - CORRUPT RUSSIAN PRESIDENT WHO FOUGHT OFF THE RESURGENT COMMUNIST PARTY BUT FAILED TO FULLY IMPLEMENT FREE MARKET REFORMS CRIPPLING RUSSIA FOR MOST OF THE 1990'S*
10. *DENG XIAOPING - VISIONARY CHINESE LEADER WHO REPLACED REVOLUTIONARY MAO TSE TUNG . STARTED CHINA'S TURN AWAY FROM ITS COMMUNIST ECONOMIC SYSTEM AND TOWARD A MIX OF SOCIALISM AND CAPITALISM*

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### ***THE AGONY OF REFORM***

*\*\*\* THE SOVIET UNION AND THE "IRON CURTAIN" > POLITICAL PRISONER / SLAVE LABOR WAS A CRUCIAL COMPONENT OF THE SOVIET ECONOMY AND SOVIET INFLUENCE WAS EVERYWHERE .....*

*THE TRUTH BEHIND THE CURTAIN WAS THAT THE SOVIET UNION WAS ONLY INTERESTED IN \_\_\_\_\_ PRODUCTION AND THAT THE OVERALL ECONOMY WAS \_\_\_\_\_*

*THE BIGGEST PROBLEM WAS THAT THE PEOPLE DID NOT WANT TO WORK BECAUSE THERE WAS NO \_\_\_\_\_*

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*\*\*\* INDIA > THE MODEL OF SUCCESSFUL SOCIALISM ?*

*THE GOVERNMENT RUN ECONOMY HAD BECOME SO COMPLICATED THAT IT MADE CONDUCTING BUSINESS IMPOSSIBLE . WHAT CLASSIC MARKET REACTION DID THIS CREATE ?*

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*\*\*\* LATIN AMERICA > CHILE'S SOCIALIST EXPERIMENT*

*PRESIDENT ALLENDE'S SOCIALISM LEADS TO A \_\_\_\_\_ LED BY  
PINOCHET*

*PINOCHET DOES NOT HAVE AN ECONOMIC PLAN AND INFLATION SOARS TO  
\_\_\_\_\_ PERCENT MONTHLY !!! WHO DOES PINOCHET CALL ON  
FOR HELP ?*

*PINOCHET'S ARMY LEADERS FAVORED A \_\_\_\_\_ ECONOMY.  
WHY ?*

*FRIEDMAN TELLS PINOCHET HE IS DOOMED IF HE DOES NOT DO TWO  
THINGS :*

- 1. \_\_\_\_\_ BUSINESSES*
- 2. \_\_\_\_\_ TARIFFS*

*IN THE SHORT RUN THE TURN TO FREE MARKETS CAUSES CHILE EXTREME  
PAIN AS UNEMPLOYMENT HITS \_\_\_\_\_ PERCENT.*

*IN THE LONG RUN THE TURN TO FREE MARKETS MAKES CHILE THE  
\_\_\_\_\_ COUNTRY IN SOUTH AMERICA*

*IN THE END THE ECONOMIC CHANGES ALSO CAUSE A POLITICAL CHANGE AS  
A \_\_\_\_\_ EVENTUALLY REPLACED THE JUNTA*

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*\*\*\* THE SOVIET UNION - THE CRACKS BEGIN TO SHOW - 1985*

*ANATOLY CUBAIS AND YEGOR GAIDAR FIND A POLITICIAN WHO APPEARS TO*

*UNDERSTAND THAT THE SOVIET COMMUNIST SYSTEM IS NOT WORKING. HIS NAME IS MAKIL GORBACHEV. GORBACHEV INTRODUCES HIS REFORM PROGRAM CALLED " PERESTROIKA " ..... WHAT TYPE OF REFORM APPROACH WAS THIS ?*

*1987 - IN HIS FAMOUS SPEECH AT THE BERLIN WALL , WHAT DID PRESIDENT REAGAN MEAN WHEN HE SAID " MR. GORBACHEV , TEAR DOWN THIS WALL " ?*

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*\*\*\* POLAND - THE RISE OF SOLIDARITY AND FREE MARKETS*

*WHAT WAS MARGARET THATCHER TYING TO DO WITH HER VISIT TO POLAND IN 1988 AND THE DEMAND TO MEET WITH LECH WALESZA ?*

*THE SOLIDARITY LABOR UNION BECAME 10 MILLION STRONG AND WAS OPPOSED TO \_\_\_\_\_*

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*\*\*\* BOLIVIA - ANCHORING LATIN AMERICA'S LOST DECADE*

*BOLIVIA IS ONE OF LATIN AMERICA'S POOREST AND UNSTABLE NATIONS . BY THE 1980'S IT HAD EXPERIENCED \_\_\_\_\_ MILITARY COUP DE'ETAT*

*HOWEVER, BY THE 1980'S WHAT WAS BOLIVIA'S BIGGEST PROBLEM AND WHAT WAS THE PRIME CAUSE OF THE PROBLEM ?*

*WHEN JEFF SACHS GOES TO BOLIVIA TO HELP , WHAT DOES HE FIND THE INFLATION RATE TO BE ?*

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GONI DE LOSADA , BOLIVIA'S FINANCE MINISTER , COMES UP WITH A PLAN THAT IS CALLED \_\_\_\_\_ WHAT ARE THE 4 PARTS OF THIS PLAN :

- 1.
- 2.
- 3.
- 4.

WHAT WERE THE RESULTS OF DE LOSADA'S PROGRAM ?

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\*\*\* BACK TO POLAND - 1989

IN FREE ELECTION SOLIDARITY WINS 99% OF THE SEATS IN PARLIAMENT. THE HEAD OF POLAND'S COMMUNIST PARTY CALLS MAKIL GORBACHEV LOOKING FOR HELP ( MILITARY HELP TO CRUSH THE OPPOSITION AS THEY HAD DONE IN THE PAST ). GORBACHEV TELLS HIM TO JUST LET THINGS BE ..... THIS WAS CALLED THE PHONE CALL THAT ENDED THE \_\_\_\_\_

LECH WALESIA IMPLEMENTS "SHOCK THERAPY" JUST LIKE IN BOLIVIA . IN THE LONG RUN POLAND BECAME THE MODEL OF FREE MARKETS , BUT IN THE SHORT RUN .....

PRICES \_\_\_\_\_

\_\_\_\_\_ OCCURRED

WHAT DID POLAND FIND MORE DIFFICULT TO CHANGE / PRIVATIZE ?

*THE SOVIET UNION WATCHES WHAT IS GOING ON IN POLAND AND BEGINS TO DRAW UP ITS OWN PLAN TO CHANGE , BUT DID IT ?*

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*\*\*\* CHINA - 1989 > THE SEEDS ARE SOWN FOR CHINA'S CURRENT GROWTH*

*DENG XIAOPING HAD FIGURED THINGS OUT WHEN CHAIRMAN MAO WAS IN POWER . WHEN HE BECOMES LEADER HE QUIETLY BEGINS TO TURN CHINA AWAY FROM A COMMUNISM / CENTRAL PLANNING TO A SYSTEM OF SOCIALISM WITH CHINESE \_\_\_\_\_*

*DENG SAVED CHINA FROM WHAT FATE ?*

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*\*\*\* BACK TO THE SOVIET UNION / RUSSIA - 1991*

*ECONOMIC REFORMS DID NOT MOVE FAST ENOUGH IN THE SOVIET UNION AND THIS LED TO TWO THINGS :*

- 1. GORBACHEV'S CREDIBILITY IS SEVERELY DAMAGED BY A \_\_\_\_\_*
- 2. GORBACHEV THEN \_\_\_\_\_ THE SOVIET UNION*

*ALTHOUGH THE NEW PRESIDENT OF RUSSIA , BORIS YELTSIN , MOVES FAST HE FACES SERIOUS PROBLEMS SUCH AS :*

- 1. NO \_\_\_\_\_*
- 2. NO \_\_\_\_\_*
- 3. MASSIVE \_\_\_\_\_*
- 4. AN INFLATION RATE OF \_\_\_\_\_*

*YEGOR GAIDAR , NOW YELTSIN'S FINANCE MINISTER , MAKES REVOLUTIONARY*

MASSIVE CHANGES IN POLICIES AND LAWS , THE TWO MOST IMPORTANT WERE :

1. ABOLISHING \_\_\_\_\_ CONTROLS
2. ABOLISHING THE LAW THAT PROHIBITED \_\_\_\_\_

ENTREPRENEURISM SKY ROCKETS , BUT SO DO \_\_\_\_\_

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\*\*\* BACK TO INDIA

WITH INDIA'S ECONOMY STAGNANT AND THE GOVERNMENT IN DEBT , THE COLLAPSE OF THE CENTRALLY PLANNED SOVIET UNION HAD A PROFOUND IMPACT . INDIA MOVED QUICKLY TO GET THE GOVERNMENT OFF THE BACKS OF THE PEOPLE . THEY MADE THE FOLLOWING FOUR CHANGES :

1. STATE CONTROL OF THE ECONOMY WAS \_\_\_\_\_
2. SUBSIDIES WERE \_\_\_\_\_
3. TARIFFS WERE \_\_\_\_\_
4. REGULATORY LICENSES WERE \_\_\_\_\_

WHAT ARE THE RESULTS ?

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\*\*\* BACK TO RUSSIA

ALTHOUGH MANY SIGNIFICANT CHANGES HAD BEEN MADE , THE COMMANDING HEIGHTS OF RUSSIA'S ECONOMY WERE STILL IN THE HANDS OF THE GOVERNMENT . GAIDAR , CHUBAIS AND THE OTHER ECONOMISTS COME UP WITH A PLAN TO AUCTION OFF THE MAJOR INDUSTRIES INTO PRIVATIZATION . BUT WITH PEOPLE HAVING NO MONEY TO INVEST THEY COME UP WITH THE BRIGHT IDEA OF GIVING ALL CITIZENS 10,000 RUBELS ( RUSSIAN CURRENCY ) WORTH OF PRIVATIZATION \_\_\_\_\_

PEOPLE NOW WOULD HAVE SOMETHING TO INVEST , HOWEVER WHAT WAS THE PROBLEM THAT THE PRIVATIZATION PLAN RAN INTO ?

THE PRIVATIZATION PROGRAM GETS STARTED JUST BEFORE THE DEADLINE THAT HAD BEEN SET FOR IT , THE DELAY IN GETTING IT STARTED COSTS \_\_\_\_\_ HIS JOB . ON THE OTHER HAND , THE START OF THE PRIVATIZATION CAUSES THE FOLLOWING THREE THINGS TO OCCUR :

1. A SMALL \_\_\_\_\_ MARKET BEGINS TO GROW
2. STOCK \_\_\_\_\_ BEGINS TO GROW
3. \_\_\_\_\_ BEGINS TO RUN RAMPANT

IN 1995 THE RUSSIAN “ OLIGARCHS “ APPEAR AND BEGIN TO MOVE IN ON THE “ RED DIRECTORS ” IN AN EFFORT TO ACQUIRE , AND PRIVATIZE , THE COMMANDING HEIGHTS INDUSTRIES . THE RED DIRECTORS ARE DEEPLY ENTRENCHED AND THE OLIGARCHS NEED WHAT TYPE OF HELP TO ACHIEVE THEIR GOALS ?

YELTSIN NEED HELP IN HIS DESPERATE BATTLE WITH THE RESURGENT COMMUNISTS FOR THE 1996 ELECTIONS . HE AND THE OLIGARCHS NEED EACH OTHER SO THEY WORK OUT THE “ THEFT OF THE CENTURY ” . WHO GETS WHAT IN THIS DEAL ?

IN THE END THE OLIGARCHS OWN EVERYTHING AND THE ECONOMY IS STRANGLERED . WHAT HAPPENS TO RUSSIA IN RUSSIA IN 1998 AND YELTSIN IN 2000 ?

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\*\*\* BACK TO POLAND

*THE REVOLUTION IS AT FULL SPEED > THREE ASTONISHING FACTS :*

1. \_\_\_\_\_ MILLION SMALL BUSINESSES ARE CREATED
2. SMALL BUSINESS EMPLOY \_\_\_\_\_ OF POLAND'S WORKFORCE
3. SMALL BUSINESSES PRODUCE \_\_\_\_\_ PERCENT OF THE NATION'S OUTPUT

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*\*\*\* NO NOTES FOR A FEW MINUTES AS THE FILM NOW QUICKLY UPDATES THE STORIES IN LATIN AMERICA , INDIA , AND THEN RETURNS BRIEFLY TO RUSSIA*

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*\*\*\* RUSSIA*

*SOME PEOPLE THINK RUSSIA IS TURNING THE CORNER WHEN VLADIMIR PUTIN IS ELECTED PRESIDENT OF RUSSIA AND HE MOVES TO LIMIT THE POWER OF THE \_\_\_\_\_ AND PUTS IN MORE REFORMS*

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*\*\*\* SUMMARY \*\*\**

*CAPITALISM AND FREE MARKETS HAD WON !!! THIS SET UP A GLOBAL MARKET – PLACE THAT IS NOW TIED TOGETHER BY THREE CRITICAL FACTORS :*

- 1.
- 2.
- 3.

***THE ERA OF GLOBALIZATION HAD BEGUN !!!!***