Review of *The Shock Doctrine: The Rise of Disaster Capitalism*

In 1989 Francis Fukuyama famously declared the “end of history,” by which he meant that the modern liberal free-market democracy was the ultimate evolution in human governmental form. It was the same year that the unfettered free-market economic policies of Milton Friedman were pronounced the “Washington Consensus,” which was interpreted to mean that anyone who was anyone knew that the unconstrained free market was the best of all possible worlds. But what if an unfettered free market is incompatible with democracy? What if virtually every economically hard-pressed country that has accepted radical free-market economic policies has been in one way or another forced to do so and has essentially sprung these policies on an unsuspecting, and quickly unsupportive, public?

This is the primary thesis of Naomi Klein’s remarkable new book *The Shock Doctrine: The Rise of Disaster Capitalism* .

Klein takes us from the 1973 overthrow and Salvador Allende’s government in Chile to the structural adjustment policies of the World Bank to the American attempt to impose a free market on Iraq after the invasion, and many places in between to show us that each of these diverse events (and many other similar disasters) so stunned the populations of their respective countries that their governments were able to force into place—frequently at the insistence of international financial institutions—the radical, and ultimately destructive free-market policies that would never otherwise have been tolerated.

Wiping the Slate Clean

Klein begins in an unusual place: the 1950s research funded by the United States Central Intelligence Agency (CIA) into human brainwashing by shocking the brain into a regression so complete that the individual would be susceptible to a complete reprogramming of the mind, a “wiping the slate clean” to allow the personality to be totally rewired. Although the research was soon terminated and condemned as unethical, the findings would morph into the “enhanced interrogation techniques” that the United States would export to Central and South American military governments and use in Abu Ghraib, Guantánamo, and clandestine CIA locations around the world. It seems a bizarre place to begin the exploration into economic history. What does torture have to do with radical, free-market economics? A great deal, it turns out.

In the middle of the twentieth century, the Economics Department of the University of Chicago under its chairman Milton Friedman became the center of what was then a fringe movement in economic understanding: the radically unfettered free-market. Friedman's ideas were actually a sophisticated restatement of a very old idea. The "invisible hand" of capitalist economics works best when unconstrained. The best thing government can do for the economy is just get out of the way—allow virtually all economic activity to function under the brutal "discipline" of the unregulated free market. First, governments must remove the rules and regulations standing in the way of the accumulation of profits. Second, any government assets that corporations *could* be running at a profit *should* be privatized, such as health care, the post office, education, retirement pensions, even national parks. Third, government spending—especially on the social programs that constitute the economic safety net for those who don't do well in the market—should be dramatically curtailed.

In other words, what Chicago School economics was ultimately looking for was to wipe the slate of the economy clean of government interference and reprogram it to run as a "perfect scientific system." It would soon become clear that the only way the slate could be wiped clean was by shocks to the economy analogous to the electroshock treatments explored by the CIA in the fifties … and sometimes backed up by the literal, physical shock of "enhanced interrogation techniques."

These policies must be imposed on an unsuspecting or unwilling population because, in practice, they are, in themselves, a brutal shock to the economy from which the poor and dispossessed have difficulty recovering. Allowing the currency to float on international markets, for instance, usually leads to an inflation that quickly obliterates savings. Free trade opens the country to products that can be produced more cheaply elsewhere, shuttering local manufacturers and businesses, forcing people into unemployment. Privatizing previously government-owned enterprises means that prices rise to what the market can bear, leaving the poor unable to afford, for instance, water or power or transportation. And then the cuts in social programs shred the safety nets that had protected individuals from destitution. Those who have been living near the edge are quickly pushed over into freefall. The shock is profound.

Chile: Assassination and a Military/Economic Coup

It began with the 1973 assassination of Salvador Allende and the coup lead by General

Augusto Pinochet in Chile. American CIA involvement in the coup, it later turned out, was largely prompted by the economic losses that US multinationals were sustaining under the socialist president Salvador Allende, who had strong popular support within his country. Coup planners recruited several of Friedman's disciples (known throughout the world as the "Chicago Boys") in secret to devise an economic blueprint for the new government. (According to later US Senate investigation, the CIA provided over three-quarters of the funding for this planning.) In the shock and dislocation of the coup, the slate could be wiped clean and a new economics instituted. Twenty-four hours after Allende's assassination a new 500-page economic plan was on the desks of the country's military government.

It didn't work out well. Inflation soared to 375%, the economy contracted by 15%, and unemployment went from 3% under Allende to 15% under the new regime. Small business leaders began to realize that free trade was wiping them out and turned against the plan; only the foreign nationals and small groups of Chilean financiers were benefiting, but Pinochet and the Chicago Boys persisted, cutting social services even more, further privatizing national industries. A Chicago-trained Chilean economist who had defected from neoliberalism's "harsh orthodoxy" wrote an angry open letter to Friedman, arguing that the new economic measures were so wrenching that they could not "be imposed or carried out without the twin elements that underlie them all: military force and political terror." Beginning in Chile and then in country after country, the terror of torture was needed to suppress the majority whose suffering was virtually inevitable under the Chicago School theories. In Chile 3,200 people were ultimately killed or disappeared, at least 80,000 were jailed, and 200,000 fled the country. There were, of course, other political reasons the terror was necessary, but the "bitter medicine" of the new economy would not go down without force.

Chile is sometimes held up as an "economic miracle," a tribute to neoliberal theories. But that myth overlooks key realities. "In 1982, despite its strict adherence to Chicago doctrine, Chile's economy crashed: its debt exploded, it faced hyperinflation once again and unemployment hit 30 percent—ten times higher that it was under Allende." Had Pinochet earlier hewed completely to Chicago School doctrine and privatized even the state copper mine that generated 85% of Chile's export revenue, Chile's economy would have collapsed utterly. Ultimately, even Pinochet retreated from the orthodoxy, renationalizing many of the companies. Still in 2007 the United Nations ranked Chile one of the most unequal societies in the world … hardly an economic miracle.

Similar events took place in Brazil, Uruguay, and Argentina with similar disastrous results.

The World Bank and the International Monetary Fund

During the 1980s another mechanism was used to force Chicago-style economic policies on countries in economic crisis: debt relief. The debt crisis of the Global South was born in the early 1970s as Western banks pushed low-interest loans in the developing world, some of which went into legitimate industrialization projects, but much of which went into the purchase of police and military equipment to keep military governments in power or directly into the pockets of the dictators themselves. Interest rates skyrocketed in the early 1980s, and the indebted countries found themselves unable to pay even the interest on the loans.

Enter the World Bank and the IMF, where Milton Friedman’s shock therapy was now institutionalized in policies of “structural adjustment.” To be eligible for loans, a country had to agree to privatization and free-trade policies as well as to slashing government spending, which meant shredding whatever provisions had been in place to keep the poor from utter destitution. It should be emphasized that the IMF and World Bank international lending institutions’ economists knew that free trade and privatization were not necessary to stabilize the country and create sound economic conditions; rather, as some of their officials later admitted, they were using the carrot of the loans to impose conditions to which they were *ideologically* committ ed.

The Fall of Communism

The process in Poland, Russia and other Eastern European countries after the fall of communism was somewhat different. The “shock” in these cases was the new governments’ inheritance of the disastrous economic choices of their previous communist regimes. “Authoritarian regimes have a habit of embracing democracy at the precise moment when their economic projects are about to implode,” writes Klein. “Poland was no exception.” The new Solidarity government believed that the fall of communism would be a chance to convert state-owned factories to worker-run collectives or at least to develop the economy gradually along the lines of the strong public sectors of Scandinavia. But first there was the little matter of debt relief to stabilize their economy. As the first Eastern Bloc country to oust its communist government, Solidarity leaders could understandably have expected Western help along the lines of the post-World War II Marshall Plan.

Poland, however, also presented an extraordinary economic opportunity for international capital: “All of its most precious assets were still owned by the state—prime candidates for privatization. The potential for rapid profits for those who got in first was tremendous.” The US government made it clear that Solidarity was expected “to pay the debts accumulated by the [communist] regime that had banned and jailed its members—and offered only $119 million in aid, a pittance in a country facing economic collapse and in need of fundamental restructuring," conveniently forcing Poland to accept free-market discipline … and Western multinational corporations. The IMF and some Western countries did agree to an economic bailout—debt relief and $1 billion to stabilize the country—but only on the conditions of shock therapy.

Poland became a textbook example of Friedman's crisis theory: the disorientation of rapid political change combined with the collective fear generated by an economic meltdown to make the promise of a quick and magical cure—however illusory—too seductive to turn down.

The Polish finance minister in charge later admitted

that capitalizing on the emergency environment was a deliberate strategy—a way, like all shock tactics, to clear away the opposition. He … was able to push through policies that were antithetical to the Solidarity vision … because Poland was in what he dubbed a period of 'extraordinary politics,' … a short-lived window in which the rules of 'normal politics' (consultation, discussion, debate) do not apply—in other words, a democracy-free pocket within a democracy.

Even greater shock therapy was in store for Russia following the fall of the Soviet Union. Some idea of the stakes involved when government industry is privatized can be gathered from the following examples from Russia's experiment in neoliberalism:

- A company producing 20% of the world's nickel, was sold for $170 million; its profits alone were soon $1.5 billion annually.
- The state oil company Yukos was sold for $309 million; controlling more oil than Kuwait, its income is now more than $3 billion a year.
- Over half of the oil giant Sidanko was sold for $130 million; within two years that investment was worth $2.8 billion on the international market.
- A huge weapons factory sold for $3 million.

The new owners needed cash infusions and quickly invited Western investors in who frequently made 2000% on their investments within a few years. The transition to a free-market economy was lucrative for a very few but a disaster for the Russian economy. Over 80% of Russian farms went bankrupt. 70,000 state factories closed causing massive unemployment.

Poverty (living on less than four dollars a day) went from two million in 1989 to seventy-four million by the mid-nineties.

Creating a Free-Market Economy in Iraq

There are multiple other examples of free-market policies sprung on an unsuspecting public after a disaster: in Sri Lanka after the 2005 tsunami, the highly privatized Homeland Security apparatus in the United States after 9/11, private charter schools in New Orleans after Katrina. But for audaciousness nothing can match the United States' government attempt to wipe the economic slate clean in Iraq after the 2003 invasion for an unfettered free market.

There are undoubtedly many reasons for the Iraq invasion, but it is remarkable how quickly the Bush Administration moved to impose free-market shock therapy after the fall of Saddam's government. What distinguished Iraq from other attempts, however, was that both the war itself and its reconstruction were also privatized, usually by firms—such as Halliburton or Blackwater—that had political connections to the Bush Administration. The shock therapy in Iraq has been, according to former World Bank economist Joseph Stiglitz, even more radical than in Russia.

L Paul Bremer was the head of Iraq's Coalition Provisional Authority and had virtual autocratic power over Iraq's policies. His plan was to integrate the economic plan directly into the country's constitution so that future Iraqi governments would not be able to change it. He attempted to lower Iraq's corporate tax from 45% to a flat 15%. Although limiting foreign corporations to only part-ownership of major industries would have made sense if the real purpose were to encourage the economic redevelopment Iraq, Bremer pushed to allow them to own 100% of Iraqi assets. There was no requirement to use Iraqi workers or Iraqi materials in the reconstruction. Investors would not only be able take 100% of the profits from Iraq, untaxed and without requirements to reinvest, but they would also be able to sign leases and contracts that would last for forty years, again saddling future elected governments with free market policies. Fortunately, the Iraqi government did their homework and knew enough to keep these provisions out of the constitution, but the intent of the US government was clear enough.

The US failure to invest in real reconstruction—that is, reconstruction using Iraqi companies, Iraqi laborers, and Iraqi materials—has been a significant aspect of its failure in Iraq. The unemployment rate is well over 50%, sending hundreds of thousands of well-armed former soldiers and others into the insurgency. The failure of the US multinationals to do even the job for which they were hired has encouraged a cynicism in Iraq as people realize that even the "reconstruction" isn't reconstructing anything of value for them. And the privatization of many military functions to companies such as Blackwater—whom the US government has indemnified from suit in Iraq but which (at least one judge has ruled) also can't be sued in US court has created a class of international mercenaries accountable to almost no one.

Unfettered, free-market capitalism is the new colonialism. Naomi Klein spells it out in remarkable (but highly readable) detail the mechanisms by which the developed world continues to mine the rest of the world of natural resources in return for enriching a small native minority. In most important books I read, it's usually the introduction and first chapters that move and educate me, with many other chapters serving as obvious fillers to what perhaps ought to be a lengthy magazine article. Too many radical critiques of government policy or economic doctrine are long on anecdotes and loosely supported assertions and very short on proof. Rarely have I come across a book like *The Shock Doctrine* in which (with very few exceptions) every chapter brings revelation and power to the argument. Rarely has a radical critique been so well supported by facts and figures.

This is a significant book. An understanding of the last thirty-five years of economic/political history will be vital to understanding the economic, social, and political turbulence likely in the next few years. There is a fundamental conflict between democracy and the radical free market. Yet the United States has been captured by the neoliberal orthodoxy. We have privatized vast swaths of our government and almost no one has objected. But do we really want to give that much power in time of crisis to an institution whose only legal purpose is to make a profit for shareholders? We have believed—despite virtually all the evidence—that an unconstrained free market is really the best way to help the poor. As Katrina demonstrated, we have virtually lost the capacity to provide essential government services. And we tarry far too long in taking the hard steps to control global warming, believing the very convenient fiction that if we just free the market a little more, it will handle the problem on its own.

Naomi Klein is a superb journalist. Read her book.