

Summary of **The Shock Doctrine**, by Naomi Klein.

Allen Lane / Penguin Books, 2007

The original book has 467 pages plus 70 pages of notes, in which the author mentions the sources for all her statements. Many of these sources are written records that became available to the public after 25 years.

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The summary is almost one tenth of the book, 44 pages

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PART 1: TWO DOCTOR SHOCKS *Dr Ewen Cameron and Milton Friedman*

Introduction

In September 2005 Naomi Klein is at the Red Cross shelter in Baton Rouge where dinner is being doled out to evacuees from New Orleans after hurricane Katrina. The news running around the shelter that day is that Richard Baker, a prominent Republican congressman from Baton Rouge had told a group of lobbyists: 'We finally cleaned up public housing in New Orleans. We couldn't do it, but God did'. And one of New Orleans wealthiest developers had said: 'I think we have a clean sheet to start again. And with that clean sheet we have some very big opportunities'. Lobbyists are working hard in the county offices at Baton Rouge for lower taxes, fewer regulations, cheaper workers and the replacement of public housing by condos.

Over at the shelter people lining up for food are indignant.

One of those who saw opportunities in the floodwaters of new Orleans was Milton Friedman, grand guru of the movement for unfettered capitalism. Though ninety-three years old he still found the strength to write an article for the Wall Street Journal. 'Most of the New Orleans schools are in ruins. This is a tragedy. It is also an opportunity'. His idea was that instead of rebuilding and improving the new Orleans existing public school system, the government should provide families with vouchers which they could spend at private institutions, many run at a profit, that would be subsidized by the state. Right-wing think tanks seized on his proposal and George W. Bush backed up the plans to convert the schools into 'charter schools' with tens of millions of dollars. Within nineteen months it was almost completed. Before the hurricane the School Board had run 123 public schools, now just 4. Before the storm there were 7 charter schools, now there were 31. The teachers' union's contract had been shredded and its 4700 members had all been fired. Some of the younger teachers were rehired by the charters at reduced salaries.

Klein calls orchestrated raids like this on the public sphere 'disaster capitalism'.

The suggestion to privatise the New Orleans schools was one of Friedman's last policy recommendations – he died less than a year later. He was the most influential economist of the past half century. He and his followers had been perfecting the 'disaster capitalism' strategy for three decades: wait for a major crisis, then sell off pieces of the state to private players while citizens are still reeling from the shock, then quickly make the 'reforms' permanent.

In one of his most influential essays Friedman observed that '*only a crisis – actual or perceived – produces real change. When that crisis occurs, the actions that are taken depend on the ideas that are lying around. That, I believe, is our basic function: to develop alternatives to existing policies, to keep them alive and available until the politically impossible becomes the politically inevitable*'. He estimated that 'a new administration had some six to nine months in which to achieve major changes.....' A variation on Machiavelli's advice that injuries should be inflicted 'all at once'.

Friedman first learned how to exploit a large-scale shock or crisis in the mid-seventies, when he acted as adviser to the Chilean dictator, General Augusto Pinochet. It became known as the 'Chicago School' revolution, since so many of Pinochet's economists had studied under Friedman at the university of Chicago. Friedman coined a phrase for this painful tactic: 'economic shock treatment'. Pinochet facilitated the adjustment with his own shock treatments performed in the regime's many torture cells. The formula re-emerged thirty years later, with far greater violence, in Iraq

Klein started researching the free market's dependence on the power of shock in 2004, travelling to Baghdad and later after the tsunami to Sri Lanka. '*....out of this great tragedy will come a world class tourism destination*' the Sri Lankan government announced. By the time Hurricane Katrina hit New Orleans and Republican politicians started talking about 'clean slates' and exciting opportunities, it was clear to Klein that this was now the preferred method of advancing corporate goals. She concluded there was a fundamental change in the drive to 'liberate' markets. She had witnessed business-friendly policies imposed through arm-

twisting at WTO summits, or as conditions attached to IMF loans. The three trademark demands – privatisation, government deregulation and deep cuts to social spending – were unpopular with citizens, but when the agreements were signed there was still at least the pretext of mutual consent. Now the same ideological program was being imposed under foreign military occupation or immediately following a natural disaster.

As she dug deeper into the history of how this market model had swept the globe, however, she discovered that the ideas of exploiting crisis and disaster had been the modus operandi of Milton Friedman's movement from the very beginning. Some of the most infamous human rights violations were in fact committed or actively harnessed to prepare the ground for the introduction of radical free-market 'reforms'. Terror in Chile, the shock of the Tiananmen Square massacre in China in 1989, Boris Yeltsin's decision to send in tanks to set fire to the parliament buildings in 1993, the Falklands War in 1982, the Nato attack on Belgrade in 1999: they all served similar purposes. Economics was by no means the sole motivator for these wars, but in each case a major collective shock was exploited to prepare the ground for economic shock therapy.

The traumatic episodes that have served this 'softening-up' purpose have not always been overtly violent. In Latin America and Africa in the eighties it was a debt crisis that forced countries to be 'privatized or die', as one former IMF official put it. In Asia it was the financial crisis of 1997-8.

There have also been cases in which the adoption of the free-market policies has taken place democratically – the U. S. under Ronald Reagan being the best example. In these democratic circumstances however free-market crusaders came up against public pressure and were forced to temper and modify their radical plans. The bottom line is that authoritarian conditions are required for the implementation of Friedman's true vision. Certainly Reagan had made headway, but the U.S. retained a welfare system, social security and public schools, where parents clung, in Friedman's words, to their 'irrational attachment to a socialist system'. But in 2001 that changed. When the September 11 attacks hit, the white House was packed with Friedman's disciples, including his friend Donald Rumsfeld. The Bush team seized the moment with chilling speed. An ideology hatched in American universities and fortified in Washington institutions finally had its chance to come home.

The Bush administration not only launched the 'War on Terror' but also ensured that it is an almost completely for-profit venture, a booming new industry that has breathed new life into the faltering U.S. economy. This new industry is the 'disaster capitalism complex'. The ultimate goal for the corporations at the center of the complex is to bring the model of for-profit government into the ordinary and day-to-day functioning of the state – in effect, to privatise the government.

To kick-start the disaster capitalism complex the Bush administration outsourced, with no public debate, many of the most sensitive and core functions for government – from providing health care, to soldiers, to interrogating prisoners. to gathering and 'data-mining' information on all of us. In 2003 the U.S. government handed out 3,512 contracts to companies to perform security functions; in the twenty-two month period ending in August 2006, the Department of homeland Security had issued more than 115,000 such contracts. And that's just the home front; the real money is in fighting wars abroad. Thanks to the model of for-profit warfare the U.S. army goes to war with Burger king and Pizza Hut in tow. And then there is humanitarian relief and reconstruction. *'With resource scarcity and climate change providing a steadily increasing flow of new disasters, responding to emergencies is simply too hot an emerging market to be left to the non-profits.'* Why should Unicef rebuild schools when it can be done by Bechtel? Why deploy UN peacekeepers to Darfur when private security companies like Blackwater are looking for new clients?

And that is the post-September 11 difference: before, wars and disasters provided opportunities for a narrow sector of the economy, but now wars and disaster responses are so fully privatised that they are themselves the new market. A fully articulated new economy now exists quite apart from any one administration and will remain entrenched until the corporate supremacist ideology that underpins it is identified, isolated and challenged.

The complex is dominated by U.S. firms but it is global. The 'security bubble' picked up the slack when the earlier bubbles such as the dot.com bubbles popped. Combined with soaring insurance industry profits and super profits for the oil industry the disaster economy may well have saved the world market from the full-blown recession it was facing on the eve of 9/11.

The ideology is forever changing its name and switching identities: 'conservatives', 'classical economists', 'free marketers', believers in 'Reaganomics' or 'laissez-faire'. In most parts of the world it is called 'neoliberalism' or 'free trade' or simply 'globalization'. Since the mid-nineties the intellectual movement, led by the right-wing think tanks with which Friedman has had long associations – Heritage Foundation, Cato Institute, the American Enterprise institute – has called itself 'neoconservative'.

In every country where Chicago School politics have been applied a powerful ruling alliance has emerged between a few very large corporations and a class of mostly wealthy politicians. These political and corporate elites have simply merged, trading favors to secure the right to appropriate precious resources previously held in the public domain. – from Russia's oil fields to China's collective lands to the no-bid reconstruction contracts for Iraq.

Naomi Klein prefers the term 'corporatist system'. Its main characteristics are huge transfers of public wealth to private hands, often accompanied by exploding debt, an ever-widening chasm between the dazzling rich and the disposable poor, and an aggressive nationalism that justifies bottomless spending on security. The

corporatist state tends to feature aggressive surveillance, mass incarceration, shrinking civil liberties, and often but not always, torture.

Torture has been a silent partner in the global free-market doctrine. It is also a metaphor of the shock doctrine's underlying logic. The guiding principle of torture according to two CIA manuals that were declassified in the late nineties is a set of techniques designed to put prisoners in a state of deep disorientation and shock in order to force them to make concessions against their will. The falling bombs, the bursts of terror, the pounding winds serve to soften up whole societies much as the blaring music and blows in the torture cells soften up prisoners. Prisoners give up the names of comrades or renounce their faith; shocked societies often give up things they would otherwise fiercely protect, be it public housing, schools, beachfront land, or oil reserves.

When Milton Friedman died the role of shocks and crises to advance his world view received barely a mention. Instead a fairy tale version of economic history was told which represents the single most successful propaganda coup of the past three decades.

It goes something like this:

Friedman believed history 'got off on the wrong track' when politicians began listening to John Maynard Keynes, intellectual architect of the new Deal and the modern welfare state. The market crash of 1929 had created an overwhelming consensus that laissez-faire had failed and that governments needed to intervene in the economy to redistribute wealth and regulate corporations. During those dark days for laissez-faire Friedman and his mentor, Friedrich Hayek, patiently protected the flame of a pure version of capitalism. Friedman was dismissively described in Time in 1969 as 'a pixie or a pest'. Finally, with Thatcher and Reagan there were political leaders who had the courage to implement unfettered free markets in the real world. Later the communist leaders were also eager to join the Friedmanite revolution. There was now consensus and it was, as Francis Fukuyama said, 'the end of history' - 'the end-point of mankind's ideological evolution'.

Naomi Klein says her book is a challenge to the central claim in the official story – that the triumph of deregulated capitalism has been born of freedom, that unfettered free markets go hand in hand with democracy. Instead, she will show that this fundamentalist form of capitalism has consistently been midwived by the most brutal forms of coercion (=dwang). The history of corporatism was written in shocks, but the decisive role of shocks and crises has been effectively purged from the official record of the rise of the free market.

One must be cautious in holding ideologies accountable for the crimes committed by their followers. But it is also true that certain ideologies are a danger to the public and must be identified as such. These are the closed, fundamentalist doctrines that cannot coexist with other belief systems – they demand an absolute free hand to implement their perfect system. Usually it is extreme religious or racially based systems that demand such purism. We now know that great crimes have also been committed in the name of communism. But what of the contemporary crusade to liberate world markets? If the most committed opponents of the corporatist economic model are systematically eliminated, whether in Argentina in the seventies or in Iraq today, that suppression is explained as part of the dirty fight against communism – almost never as the fight FOR the advancement of pure capitalism.

Klein is not arguing that all forms of market systems are inherently violent.

A free market in consumer products can coexist with free public health care, with public schools, with a large section of the economy – like a national oil company – held in state hands. It's equally possible to require corporations to pay decent wages, to respect the right of workers to form unions, and for governments to tax and redistribute wealth so that the sharp inequalities that mark the corporatist state are reduced. Markets need not be fundamentalist.

Keynes proposed exactly that kind of mixed, regulated economy after the Great Depression, a revolution in public policy that created the new Deal and transformations like it around the world. It was exactly that system of compromises, checks and balances that Friedman's counterrevolution was launched to methodically dismantle in country after country. Seen in that light, the Chicago School strain of capitalism does indeed have something in common with other dangerous ideologies: the desire for unattainable purity, for a clean slate on which to build a reengineered model society.

Ch 1: the torture Lab. Psychiatrist Ewen Cameron and the CIA

Naomi Klein visits Gail Kastner in an old-age home in Montreal. At first Gail is reluctant to talk to her. Naomi explains that she recently travelled to Iraq and is trying to understand the role torture is playing there. Naomi was told it is about getting information but she thinks there are parallels, in that it is about erasing people and trying to remake them from scratch. Naomi has heard that research that was done to Mrs Kastner and others in the fifties is now being applied in Iraq.

Mrs Kastner says: "that is just what Ewen Cameron and the CIA tried to do to me – they tried to erase and remake me. But that didn't work". She is now in pain all the time and can hardly walk, a reminder of the 63 times that 150 to 200 volts were sent through her, causing fractures, sprains, bloody lips and broken teeth. She is very forgetful and makes lists of everything. Her forgetfulness, along with other things like fear of

electricity, puzzled her for many years, until she read in a newspaper in 1992 about compensation for victims of brainwashing experiments and realised she had been one of these patients.

In the 1950s the CIA had funded a Montreal doctor, Dr Ewen Cameron, to perform bizarre experiments on his psychiatric patients, keeping them asleep and in isolation for weeks, then administering huge doses of electroshock as well as experimental drug cocktails including the psychedelic LSD and hallucinogen PCP. Nine of Cameron's former patients got together in the late seventies and sued Cameron as well as the CIA under the Freedom of Information Act. Cameron believed he could unmake and erase faulty minds and then rebuild new personalities on that clean slate. That is also the underlying logic of disaster capitalism of the free market economists who are convinced that only a large-scale disaster (hurricane, tsunami, military coup) can prepare the ground for their 'reforms'.

In 1992 Kastner requested and finally got her medical file. When she became Dr Cameron's patient she was an 18-year old nursing student, a good student and cheerful and well-balanced, but suffering from anxieties, caused according to Dr Cameron notes by her abusive father, an 'intensely disturbing man'. Over the months Gail spent in and out of the nurses' care in the hospital the nurses witness a radical transformation: she shows childish behaviour, is destructive, can only count to six and is hallucinating and hostile or passive and listless. Her final diagnosis is schizophrenic. The metamorphosis no doubt has to do with the treatments described.

After reading over her medical file several times Gail Kastner turned herself into an archeologist of her own life, collecting and studying everything that could explain what had happened.

Ewen Cameron, a Scottish-born American citizen, had been a well-known psychiatrist, president of the American Psychiatric Association, of the Canadian Psychiatric Association. and president of the World Psychiatric Association. In 1945 he was one of only three American psychiatrist asked to testify to the sanity of Rudolf Hess at the Nuremberg trials.

Gail read all his papers. Cameron had rejected the Freudian approach of using 'talk therapy'. His ambition was not to mend or repair his patients but to re-create them using a method he called 'psychic driving'. He believe in getting inside their minds to 'break up old pathological patterns'. He first step was 'depatterning': a return to the state where the mind was a blank slate, a 'tabula rasa' (Aristotle). He believed he could reach that step by attacking it with everything known to interfere with the mind's normal functioning – all at once. It was 'shock and awe' warfare on the mind (Shock and Awe = name of American invasion in Iraq).

Electroshock had become popular in the late 40s but the side effects were known: regression, amnesia. For Cameron it was necessary: 'massive loss of all recollections' was the essential point of the treatment, the key to bringing the patients back to an earlier stage of development. He used a new device the (Page Russell machine) which administered six consecutive jolts instead of a single one and further disoriented the patients with uppers, downers and hallucinogens. Then the psychic driving could begin. It consisted of playing tape-recorded messages such as 'You are a good mother and wife and people enjoy your company'. – for 16 or 20 hours a day for weeks, in one case for 101 days. The entire idea came to him from an advertisement of the Cerebrophone, a bedside phonograph as 'a way to learn a foreign language while you sleep'. (If Cameron had been less powerful in his field his 'psychic driving' tapes would surely have been dismissed as a cheap joke).

In the mid-fifties several researchers at the CIA became interested in Cameron's methods, they might be useful for their 'special interrogation techniques'. It was the time of the cold war hysteria. The programme was called MKUltra in 1953. Over the next decade 25 m\$ would be spent on research on ways to break prisoners suspected of being communists and double agents. 80 institutions were involved in the programme, including 44 universities and 12 hospitals.

The problem was how to test those ideas.

In the first years CIA agents hypnotised each other and slipped LSD into their colleagues' drinks to see what happened (in at least one case: suicide). Then the CIA became interested in Canadian researchers, and met with some of them in 1951. The CIA wanted to know how communists were able to get American GI's who had been taken captive in Korea to denounce capitalism and imperialism. How had they brainwashed them? One of the people in the meeting was Dr Donald Hebb, director of psychology at McGill university. He thought the communists might be manipulating prisoners by placing them in intensive isolation and blocking the input to their senses. The intelligence chiefs were impressed and Dr Hebb got a research grant and started doing experiments on students, isolating them in a room wearing dark goggles, headphones playing white noise, and tying their arms so as to interfere with all their senses. Then he began playing tapes about certain subjects such as the existence of ghosts. The students wanted to stop after a few days. Cameron then stopped because 'more clear-cut results' were not available 'because it is not possible to force subjects to spend 30 to 60 days in conditions of perceptual isolation'. In an interview before his death in 1985 he said he realised that they were describing formidable interrogation techniques.

It was not possible for Hebb but it was perfectly possible for his McGill colleague and academic archrival Dr Ewen Cameron (whom Hebb later described as 'criminally stupid')

Ewen got his first CIA grant in 1957 and the Allen Memorial Institute came to seem less like hospital and more and more like a prison. The first changes in treatment were dramatically increased dosages of electric shocks administered by the Page Russell machine twice a day for 30 days, 360 individual shocks to each patient. Far more than Gail Kastner had received. He also added pharmaceuticals and the Hebb treatment: : sensory deprivation, and moreover extended sleep.

The old horse stables behind the hospital were converted into isolation boxes and the basement was 'renovated' and equipped. He kept his patients in isolation for weeks, one of them for 35 days. He was determined to disorient his patients and ordered the kitchen to mix mealtimes up, serving soup for breakfast and porridge for dinner and varying the intervals. Even so, one patient maintained a connection with the outside world by noting 'the very faint rumble' of a plane every morning at nine.

There are strong indications that he was well aware that he was stimulating torture conditions but that as a staunch communist he relished the idea of contributing to the Cold War effort. By 1960 he was giving lectures to other psychiatrists and to military audiences. His work was funded by the CIA until 1961 and for many years it wasn't clear what, if anything, the US government did with his research. In the late 70s and 80s when it all came out in Senate hearings most of the press focussed on the sensational detail that the government had been funding acid trips, and that Cameron and the CIA had recklessly shattered lives for no good reason. The CIA preferred this media rendering to a version where the CIA would be accused of funding a torture laboratory, and called the cooperation with Cameron 'a foolish mistake- the project has not yielded any results of real positive value to the Agency'.

In 1988 however the New York Times ran a groundbreaking investigation into U.S. involvement in torture and assassinations in Honduras. In that story and in many other reports of torture in Latin America there is reference to the presence of an American in the room, someone who does not torture but gives instructions. Under threat of a lawsuit the CIA finally produced a handbook 9 years after the NYT article called 'Kubark counterintelligence Interrogation', a 128-page secret manual heavily based on the research commissioned by MKUltra and Ewen Cameron's and Donald Hebb's experiments.

It is dated 1963. It represents a new age of precise, refined torture, not the gory, inexact torment that had been the standard since the Spanish inquisition. What most captures the imagination of Kubark's authors was Cameron's focus on regression. 'As the interrogatee slips back from maturity toward a more infantile state his learned or structured personality traits fall away' 'then the source is far more open to suggestion, far likelier to comply'.

Alfred Mc Coy, a historian who wrote a history of torture writes: Dr Cameron's experiments, building upon Dr Hebb's earlier breakthrough, laid the scientific foundation for the CIA's two-stage torture method'.

In 1966 the CIA sent three psychiatrists to Saigon, armed with a Page-Russell machine, which was used so aggressively that it killed several prisoners. But this hands-on involvement was rare. Testimony from Central America torture survivors is littered with references to mysterious English-speaking men walking in and out of cells, proposing questions or offering tips.

The Kubark manual suggests that what it is teaching is illegal by international and American standards. Torture is sold as 'policing methods'- the Americans can't be held responsible for 'excesses' that happened outside their classes.

On September 11 2001 the careful phrasing went out of the window. The Bush regime dared to demand the right to torture without shame: the laws were changed: use of isolation for 30 days, hoods, using detainees individual phobias (such as fear of dogs) to induce stress and many more 'treatments' are now allowed. In Feb 2006 the Intelligence Sciences Board published a report stating that 'a careful reading of the Kubark manual is essential for anyone involved in interrogation'. There are many proofs that prisoners (e.g. in Guantanamo Bay) are 'in permanently delusional states', showing infantile behavior. Many people are shipped around to so-called black sites around the world or to foreign-run jails.

Cameron was a spectacular failure. His patients never absorbed or accepted the endlessly repeated messages on his tapes. 75% of his patients were worse off after treatment than before they were admitted. His patients weren't 'clean' after treatment, they were a mess.

Gail Kastner has bad dreams, and she is forgetful and in a lot of pain.

Ch 2: The Other Doctor Shock *Milton Friedman and the search for a laissez-faire laboratory*

The University of Chicago's Economics Department in the 1950s considered itself a Place of Thought. It was the brainchild of conservative academics whose ideas represented a revolutionary bulwark against the dominant 'statist' thinking of the day. It was Milton Friedman's energy that gave the school its revolutionary fervor. The core of the Chicago teachings was that the economic forces of supply, demand, inflation and unemployment were like the forces of nature, fixed and unchanging, supply communicating with demand the way the moon pulls the tides. Just as ecosystems self-regulate, the market, if left to its own devices, would create just the right number of products at precisely the right prices, produced by workers at just the right wages to buy those products – an Eden of full employment, boundless creativity and zero inflation.

Unable to test their theories in central banks and ministries of trade, Friedman and his colleagues had to settle for elaborate mathematical equations and computer models mapped out in the basement buildings of the social sciences building

It is a closed loop, like all fundamentalist faiths. If something is wrong with the free market economy it must be because the market is not truly free. By the time he died in 2006 at the age of 93 his rule-book and strategies had made some people extremely rich indeed, winning for them something approximating complete freedom.

He was the son of Hungarian immigrants who started a sweatshop in New Jersey which eventually went under, which probably formed him as the owner's son. He probably heard the debates among the workers

about free weekends and workers' power. His later Chicago School provided a way to defend the interests of owners that was just as radical as the leftist ideas about workers' power and Marxism. Friedman truly believed in his utopia. He thought his ideas were a form of 'participatory democracy: 'each man can vote, as it were, for the color of tie he wants'. It was an entrepreneurs' utopia.

The Chicago School saw the believers in the Keynesian 'mixed economy' as their enemies. They wanted a return to uncontaminated capitalism. Much of this purism came from Friedrich Hayek, Friedman's own personal guru who also taught at the University of Chicago for some time in the 50s. He was an austere Austrian, and the Austrians as a clique thought that any state interference was not just wrong but evil, and Keynes was their worst enemy. Keynes had warned in the 1920s that if the world took a 'laissez-faire' approach to the extreme poverty in Germany the blowback would be ferocious. That is exactly what happened in nazism, so after the second World War 'decent capitalism' was favoured – social security in the US, public health care in Canada, welfare in Britain, workers' protection in France and Germany.

Similarly, in the third world 'developmentalist economists' argued that their countries would finally escape the cycle of poverty only if they pursued an inward-oriented industrialisation strategy instead of relying on the export of natural resources. The most advanced laboratory of these developmentalists was in the southern cone of Latin America (Chili, Argentina, Uruguay) led by the U.N's economic commission headed by Raul Prebisch, based in Santiago, Chili. President Peron put his ideas into practice in Argentina. These countries began to look more like Europe and North America than the rest of Latin America.

These were dark days for the university of Chicago's Economics department. Their archrivals at Harvard, Yale and Oxford were asked by politicians to help tame the beast of the market, and hardly anyone was interested in Friedman's ever more daring ideas. There were a powerful few who were interested, however: the heads of multinational corporations. The Keynesian revolution against laissez-faire was costing them dearly. Inviting the brilliant mathematician Friedman, a skilled debater, to gatherings gave meetings an aura of scientific impartiality. Donations to the Chicago Economics Department started coming in.

To get governments back on the right track (away from Roosevelt's 'New Deal' track) he wrote 'Capitalism and Freedom', which would become the global free-market rulebook.

According to that rulebook governments must remove all rules and regulations standing in the way of the accumulation of profits. They should sell off any assets they own that corporations could be running at a profit. And they should dramatically cut back funding of social programs. All this was cloaked in the language of maths and science, but his vision of deregulation, privatisation and cutbacks coincided exactly with the interests of large multinationals.

President Eisenhower didn't want to reverse Keynesianism at home for its prescriptions like social security were far too popular and he was looking for re-election. But he was eager to defeat developmentalism abroad. Iran, Indonesia and the southern cone of Latin America were on a developmentalist road and Sukarno was even thinking of an economic bloc of developing countries that could rival the west and the Communist states. These countries had enemies outside but also within. The feudal landowners who were threatened with land redistribution and lower prices. Outside it was the American and European corporations whose products were being blocked at the borders. People like John Foster Dulles (secretary of State) and his brother Alan Dulles (head of the CIA) started accusing these countries of communism, and this communism should be nipped in the bud. (They had both worked for law firms that represented the companies that had the most to lose from developmentalism). In 1953 and 1954 the CIA staged its first two coup d'états, first replacing Mossadegh in Iran by the brutal shah, and then Guzman in Guatemala was thrown out at the direct behest of the United Fruit Company.

Eradicating developmentalism in the whole southern cone was a much greater challenge however. This was the topic of a meeting in 1953 in Santiago between Theodore W. Schulz, chairman of the Department of Economics at the University of Chicago, and Albion Patterson, head of a development agency in Chili that would later become USAID. They came up with a plan for 'relating these countries to us by using our way of economic achievement'. It could be done through education, for the maddening success of the developmentalist Prebisch in Santiago should be countered. The US government should pay to send Chilean students to study economics at the most rabidly anti-'pink' school in the world: the university of Chicago. Moreover Schultz's colleagues would be sent to Santiago to train students and professors.

Patterson's offer of Chicago teachers was turned down indignantly by the dean of the University of Chile, but the dean of the second-rate catholic university which didn't even have an economics department jumped at the suggestion. 'The Chile Project' was born.

In 1965 the program was extended to include students from across Latin America, especially from Argentina, Brazil and Mexico. The expansion was funded through a grant from the Ford Foundation and led to the creation of the Center for Latin American Studies at the university of Chicago, where about 40 to 50 students were studying at any given time, one third of the department's total student population. In comparable programmes at Harvard or MIT there were just 4 or 5. All of Chile's policies were put under the microscope in the courses and were found wanting and many students devoted their PhD thesis to dissecting Latin American follies like the strong safety nets, protection for national industry and controls on prices. The funding Ford foundation was a bit worried about the ideological narrowness but did not stop funding the program.

By 1963, twelve of the 13 fulltime faculty members of the Economics Department in the Catholic University of Chile were graduates of the Chicago program. They were called the 'Chicago Boys' and the study materials were all in English. Now students from Latin America didn't need to travel all the way to the US. There was one problem: it wasn't working. In fact the Chicago Boys were being left behind. Developmentalism was progressing and Brazil was now also on that road. It was in Chile that the defeat of the Chicago Boys was most evident. In the 1970 elections the country had moved so far left that all three major political parties were in favour of nationalising the country's largest source of revenue: the copper mines then controlled by US mining giants.

Then Richard Nixon was elected president of the US. When he heard that Allende had been elected president, he famously ordered the CIA director Richard Helms to 'make their economy scream'. Multinationals feared that Allende represented the beginning of a Latin America-wide trend. US foreign investments in Latin America were yielding staggering profits.

As soon as Allende was elected corporate America declared war on his administration. The Washington-based Ad Hoc Committee on Chile (mainly industrialists) wanted to force Allende to back off his nationalisations. They had a whole list of ideas, e.g. blocking loans. Allende appointed his close friend Orlando Letelier to be his ambassador in Washington, but even with all his charm and skill the negotiations never stood a chance of success. But Allende was still in power in 1973; eight million dollars in secret spending had not weakened his base.

In the meantime there had been military coups in Brazil and in Indonesia. In Indonesia general Suharto, backed by the CIA, began the process of seizing power and eradicating the left in 1965. In both countries many 'leftists' were imprisoned and/ or killed. In Indonesia the more indiscriminate massacres for which Suharto is infamous were delegated to religious students. In just half a month over half a million and perhaps a million people were killed.

A group of Indonesian economists who had been trained at the university of Berkeley in California, known as the Berkeley mafia, played a large role. The parallels with the Chicago boys were striking. They were not anti-state radicals like the Chicago boys, they believed government had a role to play, but they were extremely hospitable for foreign investors wanting to mine Indonesia's immense mineral and oil wealth, described by Richard Nixon as 'the greatest prize in the Southeast Asian area'. Within two years Indonesia's natural wealth was being divided up among the largest mining and energy companies in the world.

A chilling warning began to appear in red paint on the walls of Santiago; it said: "Suharto is coming. Shortly after Allende was elected the Catholic university became ground zero for the creation of what the CIA called 'a coup climate'. Many students joined the fascist 'Patria y Libertad' and goose-stepped through the streets in imitation of Hitler Youth. A year later the top business leaders decided in a meeting that Allende's government was incompatible with freedom and with private enterprise. They agreed that some of them would liaise with the military, others would prepare 'specific alternative programs'. Roberto Kelly, a businessman associated with the CIA-funded newspaper El Mercurio, acted as go-between between the economists and the military.

The alternative economic programs were designed by the Chicago Boys. A Senate investigation later proved that over 75% of the funding for this 'opposition research organization' came from the CIA.

The shock of the coup itself, when it finally came, was immediately followed by two additional forms of shock. One was Milton Friedman's capitalist 'shock treatment' and the other was Ewen Cameron's shock, drug and sensory deprivation research, now codified as 'torture' in the Kubark manual. The shock of the torture chamber terrorized anyone thinking of standing in the way of the economic shock treatment. It was the first victory in the Chicago School's global counterrevolution.

Part 2: THE FIRST TEST chapter 3: Chile

General Augusto Pinochet and his supporters called the September 11 Chilean coup in 1973 a 'war', and it certainly looked like one: tanks fired as they rolled down the boulevards and government buildings were under fire from fighter jets. But this war had only one side. The only resistance came from the La Moneda Palace where president Salvador Allende and 36 supporters made a valiant effort to defend the seat of democracy. The military launched 25 rockets into the Palace which went up in flames and the president's shrouded body was later carried out on a stretcher. It was a complete shock because Chile had enjoyed 160 years of democratic rule, the last 41 years uninterrupted.

In the years leading up to the coup U.S. trainers, many from the CIA had whipped the Chilean military into an anti-communist frenzy, persuading them that the socialists were really Russian spies, a homegrown 'enemy within'. In fact it was the military that had become the true domestic enemy, turning its weapons on the population whom it was sworn to protect.

Chileans were terrified when thousands ended up in the two main football stadiums in Santiago. Soldiers prowled around in the stadiums with hooded collaborators who pointed out 'subversives'; the ones selected were hauled off to torture chambers. In the next days 3.200 people 'were disappeared' (bodies showing up along highways or in canals); at least 80.000 were imprisoned and 200.000 fled the country for political reasons.

Several Chicago Boys were camped out at the printing press of the right-wing El Mercurio newspaper. As shots were being fired they frantically tried to get the 500-page document later to be called 'The Brick' to be printed in time. And they made it - just barely. Before midday on Wednesday, September 12 1973, The General Officers of the Armed Forces who performed government duties had the plan on their desks. It was the first concrete victory in the Chicago School campaign to seize back the gains that had been won under developmentalism and Keynesianism. Chile's U.S.-trained economists had tried to introduce these ideas peacefully but they had been overwhelmingly rejected. In the coming years the same policies were forcefully imposed in dozens of other countries under cover of a wide range of crises.

Pinochet adopted the airs of a monarch and claimed that 'destiny' had given him the job. He staged a coup within a coup to unseat the other three military leaders and named himself Supreme Chief of the Nation as well as President, and he never missed an opportunity to put on his Prussian uniform, complete with cape. To get around in Santiago he chose a caravan of gold bulletproof Mercedes Benzes.

He knew next to nothing about economics, but economics was a way to make his mark. He disliked the idea of just 'restoring order' and then handing over to the politicians, although that was what some others wanted. The Chicago Boys' vision of total country overhaul appealed to him, and like Suharto with his Berkeley mafia (a milder form of neoliberalism) he immediately appointed several Chicago Boys to top economic posts.

For the first year and a half Pinochet faithfully followed their rules, privatising some state-owned companies, including several banks, opening the borders to foreign imports and cutting government spending by 10% - except for the military which received a considerable increase.

The Chicago Boys had confidently assured him that the 'natural' laws of economics would rediscover their equilibrium and that inflation would magically go down. However in 1974 inflation reached 375 percent - the highest rate in the world and almost twice the top level under Allende. The costs of bread went through the roof and many Chileans lost their jobs. Sergio de Castro and the others argued that the theory wasn't being applied with sufficient strictness. More cuts, more privatization, more speed was the recipe. But by that time many of the country's elite had had their fill of the Chicago Boys. The only people benefiting were foreign firms and a small group of financiers known as the piranhas.

It was time to call in the big guns.

In March 1975 Milton Friedman and Arnold Harberger flew to Santiago. Friedman was greeted as a rock star. He called for 'shock treatment. That is the only medicine. Absolutely. There is no other long-term solution!' He urged Pinochet to cut government spending much further, by 25% within 6 months: people would soon get new jobs in the privatized companies.

Pinochet was converted. Sergio de Castro became minister for Finance. He proceeded to strip the welfare state to a pure capitalist utopia. In 1980 government spending was half of what it had been under Allende. Health and education took the heaviest hits. Almost 500 state-owned banks and companies were privatized, 177,000 jobs were lost between 1973 and 83.

The theory of economic shock therapy is that only a major, decisive shock is said to have the power to teach the public the harsh lesson that prices and wages will not keep rising.

The most powerful criticism of shock therapy came from Friedman's own former student André Gunder Frank. He had defected from the free-market orthodoxy under Allende, whom he came to respect. One year after Friedman's visit he wrote an angry open letter, exposing the situation in the country. 74% of a family's income now went to bread only - it used to be 17% under Allende, for bread and milk and bus fares together. Gunder Frank saw a direct connection between the brutal economic policies imposed by his former classmates and the violence Pinochet had unleashed on the country: 'Friedman's prescriptions cannot be imposed or carried out without the twin elements of military force and political terror'.

But Pinochet's economic team went even further, abolishing the public school system and privatising even kindergartens and cemeteries.

Free-market fans the world over were paying close attention. 'Here a leading economist is given the chance to test specific prescriptions for a very sick economy' wrote the New York Times. Even three decades later Chile is still held up by free market enthusiasts as proof that Friedmanism works; he was praised in American newspapers when he died in 2006, one month after Friedman. However, Pinochet changed course several times during the 17 years that he held power. The country's period of steady growth did not begin until the mid-eighties, well after he was forced to make a radical course correction. In 1982 the economy crashed after the piranhas (profiteering businessmen and politicians) had run up a debt of 14 billion. Pinochet did what Allende had done: he nationalized many of the companies, and almost all the Chicago Boys lost their influential government posts. The only thing that saved Chile is that Pinochet had never privatised Codelco, the state copper mine. That one company generated 85% of Chile's export revenues.

It's clear that Chile never was the laboratory of 'pure' free markets that its cheerleaders claimed. It was an alliance between a police state and large corporations joining forces to wage war on the third force, the workers. Even in 2007 Chile remains one of the most unequal societies in the world, 16th out of 123 countries.

Perhaps shock treatment was never about jolting an economy into health. Perhaps it was meant to do what it did: hoover wealth up to the top and shock much of the middle class out of existence. (In 1988 45% of the Chilean population had fallen below the poverty line). That was at least how Orlando Letelier, Allende's finance minister and friend saw it. When he managed to escape from Pinochet's prisons after one year he went into exile and criticized the Chilean government from there. He couldn't know at the time that Chile was

offering a glimpse of the future of the global economy, a pattern that would be repeated again and again. If you were on the right side of the free market the profits flowed free and fast.. And that is why the financial world reacted with the junkie' s logic: 'Where' s the next fix?'

For a time, the next fix came from other countries in South America' s Southern cone. In 1973 Friedman traveled to Brazil after the junta took over and called its economic experiment 'a miracle'. In Uruguay the military staged a coup in 1973 and decided to go the Chicago route and invited some Chicago Boys over. Real wages soon dropped by 28% and hordes of scavengers appeared on the streets of Montevideo for the first time.

Next to join the experiment was Argentina in 1976, when a junta seized over from Isabel Perón.

A week before the Argentine generals seized power they contacted Pinochet and the Brazilian junta and 'outlined the main steps to be taken by the future regime.' However, they did not go as far as Pinochet did. The top job went to Martinez de Hoz, from an old feudal family. It was clear the coup represented a revolt of the elites, a counterrevolution against 40 years of gains by Argentina' s workers. Martinez de Hoz immediately banned strikes and allowed employers to fire workers at will. Within a year wages lost 40% of their value, factories closed, poverty spiraled.

When Argentina' s generals were preparing their 1976 coup they wanted to 'avoid suffering an international campaign like the human rights campaign that has been unleashed against Chile'. Lower profile repression tactics were needed to spread terror. Disappearance had proved effective in Chile, so that was what the Argentineans were in for.

After a few public killings to inspire terror the junta went underground. Disappearances, officially denied, were very public spectacles enlisting the silent complicity of whole neighborhoods. Military vehicles arrived, sometimes a helicopter hovered above, and a victim was dragged from his home in broad daylight, often shouting his or her name before disappearing into the waiting Ford Falcon. People were dragged from buses; in Santa Fé a couple was even kidnapped right at the altar on their wedding day in front of a church filled with people. There were more than 300 torture camps, many of them in densely populated areas where screams could be heard through the badly insulated walls and odd body-shaped parcels were spotted being carried in and out. Dead bodies showed up everywhere. Most Argentines claimed not to know what was going on. 'We did not know what nobody could deny'.

Many left the country, but the neighboring countries collaborated with each other in the notorious Operation Condor and gave each other's agents safe passage to retrieve refugees from neighboring countries - aided by a state of the art computer system provided by Washington.

There were countless opportunities for exchanges of experience between the juntas, many of them running through the US and involving the CIA. According to court testimony in Brazil's 'truth commission's' report '*Brazil Never Again*' (1985) military officers attended formal 'torture classes' at army police units in different countries. Dan Mitrone, an American police officer introduced 'practical demonstrations'. He insisted, like the CIA manual, that effective torture was not sadism but science.' The precise pain in the precise place in the precise amount' was his motto.

Many reports from former prisoners, and evidence from buildings still standing such as the Villa Grimaldi In Chili, testify to what went on. In Villa Grimaldi the wooden compartments were so small that prisoners could not kneel or lie down. Others had their senses starved in cells the size of coffins. Mauricio Rosencrof saw the sun for a total of eight hours over eleven and a half years.

The only reprieve from isolation was the worse fate of the interrogation room. The most common form of torture was the electroshock. There were dozens of variations on how electrical currents were sent through prisoners' bodies (see p.93 for a list). Probably between 100.000 and 150.000 people went through the Southern Cone's torture machinery, tens of thousands of them killed.

To be a leftist in those years was to be hunted – an existence of safe houses, phone codes and false identities. One of the people living that life in Argentina was the writer and journalist Rodolfo Walsh. He was also able to crack military codes. His greatest investigative triumph took place when he was working as a journalist in Cuba, where he managed to intercept and decode a CIA telex that blew the cover of the Bay of Pigs invasion. That allowed Castro to prepare for it.

After the junta took over in 1976 dozens of his close friends and colleagues disappeared, and his 26-year old daughter Vicky was also dead, driving him mad with grief. Knowing his time was limited he decided to mark the one-year anniversary of junta rule with 'An Open Letter from a Writer to the military junta'. He planned to circulate it by making ten copies, then posting them from different mailboxes to select contacts who would distribute them further.

In his letter he lists the torture methods and grave sites in great detail. Then he abruptly switches to 'the greatest suffering inflicted on the Argentinean people: 'the economic policy of this government which punishes millions of people through planned misery..... Buenos Aires has become a 'shanty town' of ten million people.' (The neoliberalist system would eventually push half the Argentinean population below the poverty line.)

A few hours after he posted the letters on March 24 1977, exactly one year after the coup. he went to a meeting which was a trap. He immediately pulled out his gun and began firing; he was dead by the time the car arrived at the Navy School of Mechanics. His body was burned and dumped in a river.

The juntas justified the killings on the grounds that they were fighting a war against dangerous Marxist terrorists, funded and controlled by the Russian KGB. They used language that sounds familiar today: 'a war for freedom and against tyranny'. Allende, and in Argentina and Uruguay the montaneros and the Tupamaros, were painted as such threats to national security that the generals said they had no other choice but to suspend democracy and seize the state. The military groups in Argentina and Uruguay were dismantled soon after the juntas came to power, yet the juntas continued to 'disappear' tens of thousands of citizens afterwards. The vast majority of the victims were ordinary people, left-wing party loyalists usually without weapons, who were killed for what they believed.

Chapter 4 Cleaning the slate: terror does its work. Argentina

In 1976 Allende's finance minister Orlando Letelier who had fled the country was back in Washington D.C., no longer as an ambassador but as an activist with a progressive think tank, the Institute for Policy Studies. He used his newly recovered freedom to expose Pinochet's crimes and defend Allende against the CIA propaganda machine. The activism was having an effect: people were waking up to what was happening. What frustrated him was that people responded with horror to the reports of torture but not to the economic shock treatment. At the end of August 1976 he wrote an angry article about it and denounced Friedman. Less than a month later, on September 21 when he was on his way to work a remote control bomb planted under the driver's seat exploded, and he was dead on arrival at the hospital. An FBI investigation revealed that the bomb had been planted by a senior member of Pinochet's secret police who had been admitted to the country on false passports with the knowledge of the CIA. He was later convicted for the crime. Pinochet himself was able to evade trial until his death in 2006.

Not all criminals of Latin America's terror have been so fortunate. In September 2006, 23 years after the end of Argentina's military dictatorship, Miguel Oswaldo Etcholatz went on trial, who had been police commissioner of the province of Buenos Aires during the junta years. During this trial Jorge Julio López, a key witness, disappeared. He had been disappeared in the seventies, brutally tortured and then dismissed. Now he was disappeared for the second time, as a warning to other would-be witnesses. As of mid-2007 he was still missing..

The judge on the case, Rozanski of Argentina's federal court, called the 'plan of extermination carried out by those who ruled the country' a genocide. He acknowledged that the UN Convention on Genocide defines the crime as an 'intent to destroy, in whole or in part, a national, ethnical, religious or racial group'. The convention does not include *political* beliefs, but on December 11 1946 the UN General Assembly passed a resolution by unanimous vote barring acts of genocide 'when racial, religious, *political* and other groups have been destroyed, entirely or in part'. The word 'political' was excised from the convention two years later because Stalin demanded it. Rozanski wrote that he considered the original UN definition to be the more legitimate, also referring to earlier Spanish rulings after the Madrid attacks..

There is of course no comparison between what happened under the nazis or in Rwanda in 1994 and the crimes of the corporatist dictatorships of Latin America in the seventies. But still people in South America – economists, soup kitchen workers, trade unionists, musicians, farm organizers, politicians, leftists of all stripes, were subjected to a region-wide strategy to uproot and erase the left. Since the fall of communism free markets and free people have been packaged as a single ideology. Yet in the Southern Cone this ideology required the systematic murder of tens of thousands and the torture of between 100.000 and 150.000 people.

The Chicago Boys could hardly have selected a part of the world less hospitable to their purist form of capitalism than the Southern Cone of Latin America in the 70s. It was teeming with popular and intellectual movements in direct opposition to laissez-faire capitalism. A Chicago School transformation was about as likely to be warmly received here as a proletarian revolution in Beverly Hills. Some of the junta commanders realized that: 'We believed that the problem was Juan Perón, but by 1976 we already knew that the problem was the working class'. By the sixties the left was the dominant mass culture in Latin America – it was the poetry of Pablo Neruda, the folk music of Victor Jarra and Mercedes Sosa, the liberation theology of the Third World Priests, the radical pedagogy of Paolo Freire, and the revolutionary journalism of Eduardo Galeano and Walsh.

The junta declared war against this entire culture. The dominant metaphors used by the military regimes were of cleansing, scrubbing, uprooting and curing, and they were echos of third Reich calls for cleansing. Some of the most vicious attacks were for the 'pink' economists, and also a lot of 'ideologically suspect' educators were purged as part of 'Operation Clarity'. The folk singer Victor Jarra was among the people taken to the Chile Stadium; first the soldiers broke his hands so that he could not play the guitar any more; then they fired 44 shots into him. Then the regime ordered his master recordings to be destroyed. After the junta had taken over, the only public gatherings allowed were shows of military strength and football matches. The junta had hundreds of small water cannons with which gatherings were dispersed, even groups of school children handing out leaflets or funeral processions if they got too rowdy. Most of the 'terrorists' swept up in raids were opponents to the economic program or simply people representing values contrary to the junta's. 80% of Chile's political prisoners were workers and peasants. 'Terrorism' was seen as a smoke screen to go after non-violent worker activists. Graciela Geuna told the truth commission how the soldiers at a power plant even printed leaflets themselves which they signed with

'Monteneros'; leaflets calling on the power workers to strike. These leaflets became the 'proof' needed to kidnap and kill the union leadership. Attacks on union leaders were often carried out in close coordination with the owners of a workplace.

The fortunes of foreign companies changed dramatically when the junta took power: now they could flood the local markets with imports, pay lower wages, lay workers off at will and send their profits home. Several multinationals expressed their gratitude for the new regime, e.g. Ford Motor Company in a New Year advertisement in the first year of the new regime. Several multinationals even banded together and funded their own terror campaigns: Operation Bandeirantes, funded from various multinationals, including Ford and General Motors.

In Argentina the involvement of Ford was most overt – Ford supplied the junta with cars and the Ford Falcons were everywhere. Workers have testified to the presence of one hundred soldiers permanently stationed at the factory. 'It looked like we were at war at Ford'. Soldiers grabbed and hooded the most active union members. 'virtually all shop-floor delegates (= trade union delegates) have been purged from the country's biggest firms'. Complaints have been filed but both Ford and Mercedes-Benz deny that their executives played any role in the repression. The cases are ongoing.

Particularly brutal throughout the region were the attacks on farmers. The junta's economic policies were a windfall for the landowners and cattle ranchers, and any opposition was oppressed. In slums the targets were community workers. An Argentine priest who collaborated with the junta explained the guiding philosophy: 'the enemy was Marxism – Marxism in the church and in the mother nation'.

In unguarded moments some of those on the front lines of the economic transformation have acknowledged that achieving their goals required mass repression. Victor Emmanuel, the Burston-Marsteller public relations executive who was in charge of selling the Argentine junta's new business-friendly regime to the outside world told a researcher that the violence was necessary: 'A lot of innocent people were probably killed, but, given the situation, immense force was required.'. Sergio de Castro: 'authoritarian governments are best suited to safeguarding economic freedom because of their impersonal use of power.' And it worked. People were in shock. The region was not just beaten; it was broken.

Inside the prisons torturers tried to cleanse minds, 'for that is where the error was born'. Many torturers adopted the posture of a doctor or surgeon and imagined that their tortures were therapeutic. The prisoners were often referred to as 'apestosos', the dirty or diseased ones. Solidarity was undermined. The torturers were far less interested in information than in achieving the act of betrayal itself, in getting the prisoners to do irreparable damage to themselves. Small gestures of kindness between prisoners were met with harsh punishment (similar tactics of undermining islam values are practiced at Abu Graib. Everything that comprises a prisoner's personality must be systematically stolen – from his clothes to his beliefs'.)

Both groups of 'shock doctors' working in the southern cone – the generals and the economists - resorted to nearly identical methods for their work. The language is the same intellectual construct that allowed the Nazis to argue that by killing diseased members of society they were healing the 'national body'. The Khmer rouge used the same language in Cambodia: 'what is infected must be cut out.'

An estimated five hundred babies were born inside Argentina's torture centers, who were sold or given to couples linked to the dictatorship. The Grandmothers of the Plaza d Mayo have painstakingly tracked down dozens of them. This chapter in Argentina's history has striking parallels with the mass theft of indigenous children in the US, Canada and Australia.

Four years after the Argentine dictatorship had ended an abandoned torture center was discovered in the basement of the Galerías Pacifico, one of Buenos Aires' plush downtown malls. The walls still bore the markings: names, dates, pleas for help.,

Today Galerías Pacifico is the crown jewel of Buenos Aires shopping district, evidence of its arrival as a globalized consumer capital. But it was quite literally built on the secret torture camps where thousands who believed in a different country disappeared.

chapter 5: Entirely unrelated *Economic shock dissociated from military shock; two Nobel prizes*

For a brief time it appeared that the neoliberal movement might be discredited because of the crimes in the southern Cone that stuck to it. There were articles and questions and debates about the issue, which Friedman countered by revisionist arguments (saying in his memoirs that the Chicago boys only intervened two years after the junta took over, when there was a depression in Chile) and by stating repeatedly there was no relationship with the repression. But especially after the murder of Orlando Letelier Milton Friedman couldn't give a lecture without being interrupted by someone quoting Letelier, and he was forced to enter through the kitchen at several events where he was being honored.

Three weeks after Letelier was assassinated news came that cut short the debates. Milton Friedman had been awarded the 1976 Nobel Prize for Economics for his 'original and weighty work' on the relationship between inflation and employment. Friedman used his Nobel address to argue that economics was as rigorous and objective a science as physics, chemistry and medicine, relying on impartial examination of the facts. He conveniently ignored the facts of the breadlines, typhoid outbreaks and shuttered factories in Chile, the only regime ruthless enough to put his ideas fully into practice.

One year later Amnesty won the Nobel Peace Prize which is awarded by a different committee and in a different city. But it seemed as if the most prestigious jury in the world had issued its verdict: the shock of the

torture chamber was to be condemned, and the shock of economic treatment was to be applauded, and they seemed entirely unrelated.

Amnesty is closely related to the human rights issue. In 1948 the United Nations Universal Declaration of Human rights had been adopted. It was immediately used by both sides in the Cold War to accuse the other side of being the next Hitler. In 1967 press reports revealed that the prestigious International Committee of Jurists that focused on Soviet abuses was receiving secret funding from the CIA. In this context Amnesty developed its doctrine of strict impartiality: its financing would come exclusively from members and it would remain independent politically. Each Amnesty chapter (Dutch: afdeling) was instructed to 'adopt' three prisoners of conscience, one each from western, communist and Third World countries. It was not necessary to investigate *why* abuses were taking place.

This narrow scope is most problematic in its report on Argentina, which qualified it for the Nobel peace prize. It asks the question 'why?' and gives the answer that the junta provided: 'to establish security', and then the report concludes that the junta's response to the threat posed by left-wing guerillas was 'not commensurate' (Dutch. niet evenredig). It does not question whether there were other goals and does not refer to the deepening poverty.

The human rights activists inside the affected countries did not talk about the political or economic agendas behind the disappearances either because they risked being disappeared themselves. The Mothers of the Plaza de Mayo were careful to present themselves as grieving 'Madres' only. They kept their political ideas to themselves. The human rights movement was a way of engaging in politics without mentioning politics. For many groups there was another factor at play: money. By far the most significant source of funding for this work was the Ford Foundation. In the 60s it had spent a lot of money on the Chicago School and its Latin American branch, but after Chile and Indonesia it transformed itself from a producer of 'technical expertise' for the so-called Third World to the Third World's leading funder of human rights activism. In the 70s and 80s it spent a staggering \$30 on work devoted to human rights in Latin America. So after the left in Chile and Indonesia had been obliterated by the regimes that Ford had helped shape it was none other than Ford that funded the lawyers dedicated to freeing the prisoners of the same regimes.

Ford took care to be 'objective'. One Ford foundation officer expressed its philosophy thus: 'How can we do this work and not get involved in politics?' It funded human rights groups that in their work tried to achieve 'rule of law', 'transparency' and 'good governance', carefully avoiding any really political issues.

There was still the question of the foundation's inescapable association with the Ford Motor Company. The foundation was started in 1936 but the ties with Ford Motor stock were only completely broken in 1974, the year after the coup in Chile, and the Foundation had Ford family members on its board until 1976. In the Southern Cone, the contradictions were surreal: the philanthropic Ford legacy was the best and often the only chance to put an end to the worst of the abuses. But the junta drove around in Ford Falcons and the Ford Company was accused of having secret torture facilities on its own premises and of helping to disappear its own workers.

Ford Foundation's assistance came at a price, and that price was the intellectual honesty of the human rights movement. The foundation's decision not to get involved in politics made it almost impossible to ask the question: Why was it happening, in whose interests? There was only one major human rights document by a really independent investigation from that time: 'Brazil, Nunca Mais' (Brazil, Never Again'). They asked the 'Why?' question and answered matter-of-factly: 'Since the economic policy was extremely unpopular among most of the population it had to be implemented by force.'

The radical economic model lasted longer than the generals who implemented it. As Rodolpho Walsh said, in the end many more lives would be stolen by 'planned misery'; than by bullets. Latin America was treated as a murder scene when in fact it was the site of an extraordinarily violent armed robbery.

The debate about the impartiality of human rights arises wherever states use torture as a weapon of policy. Just as ecologists define ecosystems by the presence of certain 'indicator species' of plants and birds, torture is an indicator species of a regime that is engaged in a deeply anti-democratic project. As a means of extracting information torture is notoriously unreliable but as a means of terrorizing and controlling populations it is quite effective. Robbery, whether of land or of a way of life, requires force or at least its threat.

In May 1990 Sergio Tomassella, a tobacco farmer who was tortured and imprisoned for years, travelled to Buenos Aires to speak in the Argentine tribunal. He stood before the urban audience in his farming clothes and work boots and instead of naming the soldiers who abused him he chose to name the corporations, both foreign and national, that profit from Argentina's continued economic dependence. 'The oligarchy that owns this land is controlled by the monopolies of Ford Motors, Monsanto and Philip Morris. It's the *structure* we have to change. That is what I have come to denounce. That's all.' The auditorium erupted in applause. Since the ideology was not held accountable for the crimes committed in its first laboratory it was given immunity and it was free to scour the world in later years.

PART III: SURVIVING DEMOCRACY Chapter 6: Saved by war. Thatcherism and its useful enemies.

When Friedrich Hayek, patron saint of the Chicago School, returned from a visit to Chile in 1981 he was so impressed by what happened there that he sat down and wrote a letter to his friend Margaret Thatcher,

Prime Minister of Britain. She was far from convinced. 'Our reform must be in line with our traditions and our Constitution. At times the process may seem painfully slow'.

In the same way Friedman had faced a great disappointment in the U.S. at the hands of none other than Richard Nixon. Friedman and Nixon and Friedman's colleague George Schultz and the then 37-year old Donald Rumsfeld met regularly in the Oval Office. But in 1971 the U.S. economy was in a slump. In his second term Nixon passed several new laws imposing higher environmental and safety standards on industry. 'We are all Keynesians now', he proclaimed.

Friedman felt betrayed. He had built a movement on the equation of freedom and capitalism, yet dictatorships were the only governments ready to put the free market doctrine into practice. So Chicago School luminaries junta-hopped their way through the seventies. They advised Turkey, South Korea and Ghana. Other success stories took place not after military coups but in one-party states like Mexico, Singapore, Hong Kong and Taiwan. Haggard, a neoliberal from the University of California, concluded: 'Good things – such as democracy and market-oriented economic policy – do not always go together'. Indeed, in the early eighties, there was not a single case of a multiparty democracy going full-tilt free market. Give all citizens the vote and they vote for jobs and land, not more free-market promises.

Yet though the Friedmans (Milton and his wife Rose) swam against a strong current they had a lot of influence. Across the ocean Thatcher was attempting an English version of Friedmanism known as 'the ownership society'. The effort centered on public housing ('council estates') which were brought on the market so that people would begin to identify with wealthier people. Those who could afford it became homeowners and those who couldn't faced rents that were almost twice as high as before. The streets showed a visible increase of homelessness, but the polls showed that more than half of the new house-owners switched their affiliation to the Tories (=Conservatives).

By 1982 the number of unemployed had doubled under her watch, as had inflation. Thatcher's personal approval rate dropped to only 25%.

Six weeks after Thatcher wrote the letter to Hayek politely informing him that a Chilean-style transformation was 'quite unacceptable' in the UK something happened that changed her mind.

On April 2 1982 Argentina invaded the Falkland Islands, a relic of British colonial rule. The eleven-week battle gave Thatcher the political cover she needed to bring a program of radical capitalist transformation to a Western liberal democracy for the first time.

A new Argentinean junta government had calculated that anti-imperialist sentiment might divert the attention from the continued suppression of democracy. Thatcher had paid so little attention to the Falklands, cutting grants to the islands and announcing cutbacks to the navy, that the generals saw that as a clear indication that Britain was ready to cede the territory. However, as soon as troops were deployed the country was swept up in a militaristic frame of mind, and Thatcher praised the 'Falklands spirit' that was gripping the nation. She was fighting for her political future, and she succeeded spectacularly. Her poll numbers rose from 25 to 59%

When the coal miners went on strike in 1984 Thatcher presented it as a continuation of the war with Argentina, calling for a similarly brutal resolve. '*We had to fight the enemy without in the Falklands and now we have to fight the enemy within, which is much more difficult but just as dangerous to liberty*'. Riot police stormed a plant picket line, leading to roughly seven hundred injuries. The union was infiltrated by multiple agents and informers, and all its phones were bugged, as were the leaders' homes and even the fish-and-chips shops frequented by the leadership. The chief executive of the union was alleged to have been an MI5 agent on the floor of the House of Commons, though he denied the charge.

By 1985 Thatcher had won this war, too. Workers were going hungry and in the end 966 members of the coalminers' union were fired, which was a devastating setback for Britain's most powerful union. (Similarly Reagan fired 11,400 air-traffic controllers in one blow – a shock from which the US labor movement has yet to fully recover.)

Between 1984 and 1988 the British government privatized British Telecom, Br Gas, Br Airways, Br Airport Authority, and Br Steel, while it sold its shares in British petroleum. It was the first mass privatization auction in a Western democracy, the first definitive evidence that a Chicago School economic program did not need military dictatorships and torture chambers in order to advance.

It was in 1982 that Milton Friedman wrote the highly influential passage that best summarizes the shock doctrine: '*only a crisis – actual or perceived - produces a real change. When that crisis occurs, the actions that are taken depend on the ideas that are lying around. That, I believe, is our basic function: to develop alternatives to existing policies, to keep them alive and available, until the politically impossible becomes politically inevitable*'. It was to become a kind of mantra for his movement.

The idea that market crashes can act as catalysts for revolutionary change has a long history on the far left, most notably in Bolshevik theories. This idea was picked up by the Chicago School and became known as 'the crisis hypothesis'. It was a clear attempt to learn from the victories of the left after the Great Depression, when Keynes and his disciples had been waiting with their ideas, the New Deal solutions. Friedman and his colleagues had attempted to mimic this process by building up a network of right-wing think tanks, including The Heritage Foundation and Cato, and by producing the most significant vehicle: the ten-part PBS miniseries 'Free to Choose' - underwritten by some of the largest corporations in the world.

But even in the U.S. recession in the eighties Reagan didn't dare implement Friedman's kind of sweeping shock therapy. Once again it would be Latin America that would be the testing ground.

chapter 7 – the new doctor shock *Jeffrey Sachs and Bolivia*

In 1985 Bolivia was part of the democratic wave sweeping the developing world. For eighteen of the previous 21 years Bolivians had been living under some forms of dictatorship. Now they were getting the chance to choose their president in national elections. That looked less than a prize though – Bolivia's debt was so high that what it owed in interest surpassed the whole national budget. A year earlier Ronald Reagan's administration had funded an unprecedented attack on its coca farmers which had triggered an economic meltdown. Less than a week later the narcodollar pipeline had been closed the government was forced to drop the peso's official value by more than half.

In those volatile circumstances, with inflation up 14,000%, Bolivia entered its 1985 elections. The race was between former dictator Banzer and former elected president Paz Estenssoro. Before the results were announced Banzer's party enlisted the help of a little-known thirty-year-old economist from Harvard named Jeffrey Sachs.

He had been spotted by a delegation of Bolivian politicians visiting Harvard a few months earlier. Sachs had been heavily influenced by Keynes' writings and shared his view that economics could fight poverty, but he was also the product of Reagan's America which was in the midst of a Friedman-inspired backlash against all that Keynes represented. Where Sachs parted ways with the Chicago School is that he believed free market politics needed to be supported by debt relief and generous aid – the 'invisible hand of the market' was not enough. This eventually led him to devote his efforts exclusively to aid, but that split was years away.

In Bolivia Sachs's hybrid ideology made for some strange contradictions. He advised sudden shock therapy to cure Bolivia's hyperinflation. He proposed raising the price of oil tenfold and a range of other price deregulations and budget cuts. (See 'the End of Poverty' by Sachs for his own version of the events in Bolivia).

The eventual vote in Bolivia was very close, and the final decision whether it was going to be Banzer or Paz Estenssoro would be left to Bolivia's congress. (Paz was a complicated fixture in the political landscape, often switching allegiances abruptly in order to hold on to power.) One elected senator called Goni who had lived in the US for a long time played a pivotal role. Four days after Paz was sworn in he made Goni head of an economic team, which met for 17 days straight in the living room of Goni's palatial home. They contemplated a radical overhaul of a national economy, so sweeping that nothing like it had ever been attempted in a democracy. Paz kept saying: 'if you're going to do it, do it now, I can't operate twice'. The reason for Paz' ideological conversion remains something of a mystery. What may have influenced him is that the US ambassador had made it clear that US aid would flow if they went the shock route.

When the members of the emergency team had finished drafting the new laws they drove as a group to the International Monetary Fund representative in Bolivia and told him what they were planning to do. His response was: "This is what every official at the IMF has dreamed about. But if it doesn't work, luckily I have diplomatic immunity and I can catch a plane and flee".

Some of the group's members were terrified of how the public was going to react. 'They are going to kill us!' the youngest member said. An older member tried to stiffen their spines: We have to be like the pilot of Hiroshima. When he dropped the bomb and saw the smoke he said: Oops. Sorry!' and that is exactly what we have to do'.

This idea is a recurring theme for economic shock therapists. In 'Shock and Awe'. the U.S. military doctrine published in 1996 that eventually formed the basis for the 2003 invasion of Iraq, paralysis or overload of the adversary's perceptions is advised. Economic shock works according to a similar theory: if dozens of changes come from all directions at once, a feeling of futility sets in, and populations go limp.

Paz's team insisted on bundling the entire economic revolution into a single executive decree consisting of 220 laws, equivalent to 'the Brick' in Pinochet's coup. When the document was complete the team made five copies: one for Paz, one for Goni, one for the treasury minister and one for the head of the army and one for the chief of police. Paz's cabinet, however, was still in the dark. They were under the impression that they were working for the man who had nationalized the mines and redistributed land all those years ago. They were told what they were in for after three weeks, and two days later the public were told in a televised presidential address titled 'Bolivia is dying'.

Sachs was correct in predicting that price increases would end hyperinflation. Within two years inflation was down to 10 %, impressive by any standard. Economists agree that rapid inflation is extremely damaging, but the debate is over how a credible program can be achieved and who is forced to bear the brunt of the pain. A Keynesian or developmentalist approach is to mobilize support and share the burden among government, employers, farmers, unions and so on. But the neoliberalist approach is to shift all the social cost onto the poor through shock therapy.

Friedman's promise that freer trade would create jobs for the jobless didn't come true. Unemployment increased from 20 to 30 % in two years, and real wages were down 40%, at one point even 70%. As in the rest of the region a small elite grew far wealthier while large portions of the working class, especially the campesinos, became surplus people. A growing number of people were forced to live in tents and thousands of kids were malnourished

Sachs returned to Bolivia as adviser and told the Bolivians to stiffen up, even though he suggested an emergency fund to help the hardest hit. Many of Bolivia's desperately poor were pushed to become coca growers, including the family of Evo Morales, who became leader of the militant coca growers' union and later president. The coca industry played an important role in resuscitating Bolivia's economy: two years later illegal drug exports were generating more income for Bolivia than all its legal exports combined. This is a fact conveniently not mentioned by Sachs in his book.

People outside Bolivia were talking about a bold, boyish professor from Harvard who had virtually single-handedly 'salvaged the inflation-wracked economy of Bolivia' according to Boston Magazine. Sachs had helped stage a neoliberal transformation within the confines of a democracy and without a war. And Sachs, with his praise for Keynes and his unabashedly idealistic commitment to improving the lot of the developing world and with his good looks, was the perfect man to steer the crusade into this kinder, more peaceful era. There is one problem: the story that this change came about democratically isn't true. President Paz had no mandate from Bolivian voters to remake the economy in a backroom deal. Voters were furious, and as soon as the decree was handed down tens of thousands took to the streets and the country's main labor federation called a general strike.

Paz's response made Thatcher's treatment of the miners seem tame. He declared the 'state of siege'; army tanks rolled through the streets, 1500 demonstrators were arrested, and from then on state permission was required to hold meetings. People needed passes to travel through their own country. The top 200 union leaders were arrested and flown to remote jails in the Amazon. When they were released the new economic plan was in place.

The plan was pushed through in 100 days and the stage of siege lasted for 3 months. One year later when there were massive layoffs in the tin mines the process was repeated exactly. This time the kidnapped leaders included two former labor ministers and a former senator. They were held in camps for two and a half weeks until the unions agreed to call off their protests and hunger strike.

It was a kind of junta light. In his book 'The end of Poverty' Sachs seems happy to take part of the credit for Bolivia's victory over inflation, but he makes no mention of the repression required to carry out the plan. He only refers to 'tense moments in the early months of the stabilization program'.

Bolivia provided a blueprint for a new, more palatable kind of authoritarianism, a civilian coup d'état carried out by politicians and economists – all unfolding within the official shell of a democratic regime.

Chapter 8 – The Packaging of Shock Therapy.

The role of the Washington financial institutions: World Bank and IMF

When Jeffrey Sachs had managed to calm hyperinflation by means of tough and drastic measures in Bolivia, John Williamson (influential right-wing economist and key adviser to IMF and WB) realised the potential of this procedure. He saw it as a breakthrough in the campaign to bring Friedman's Chicago School doctrine to the whole globe. A true hyperinflation simulates the effects of military war, spreading fear and confusion, creating the context for emergency measures.

In the eighties many countries, especially in Latin America, were spiralling into hyperinflation. The Washington financial institutions played a decisive role:

1 in passing on illegitimate debts accumulated under dictatorships

2 in a Friedman-inspired decision at the US Federal Reserve Bank to allow interest rates to soar, which massively increased those debts overnight.

During junta years in Argentina, Uruguay, Brazil and Chile foreign debts to IMF, WB and American banks ballooned. At the time of the transition to democracy powerful arguments were made that these debts were 'odious' (*Du. stinkend, afschuwwekend*) and that the newly liberated people should not be made to pay the bills of their tormentors and oppressors. Much of the foreign credit had gone straight to the military and police to pay for guns, torture-camps etc., or had simply vanished. (Pinochet maintained a Byzantine web of at least 125 foreign bank accounts under the names of various family members and combinations of his own name – the most notorious one in a Washington bank hid 27 million.) Junta members even enlisted their victims in these crimes of embezzling public money; in a torture centre in Buenos Aires prisoners with strong language skills had to perform clerical tasks, e.g. typing documents advising officers on offshore tax havens for the money they were embezzling. The junta in Argentina took over the debts of multinationals such as Ford Motor, Chase Manhattan, IBM, Mercedes-Benz, just before collapsing, so after the transition the public had to pay off between 15 and 20 m of the juntas' debts.

The lenders knew or ought to have known that the money was spent on repression and corruption. Kissinger offered new loans to Guzzetti, the foreign minister under the Argentinan dictatorship, before 'your human rights problem' tied the hands of the U.S. government. 'We would like your economic program to proceed'. Added to the debt load there was a new shock: the Volcker Shock. US federal Reserve Chairman Volcker increased interest rates as high as 21 percent in 1981 and lasting through the mid-eighties. This sent the developing world into convulsions (*Du.: krampen*); the debt spiral was born. (Brazil from 50 billion to 100 billion in six years, Nigeria from 9 to 29, etc.) Then there were the 'price shocks', when the price for export commodities like coffee or tin dropped by 10% or more. (140 price shocks between 1984 and 1987: more convulsions for the developing countries). One hit Bolivia in the year after it swallowed Sachs's bitter medicine: the price of tin, Bolivia's main export besides cocoa, dropped by 55%.

In this way, crisis is built into the Chicago School model. When limitless sums of money are free to travel the globe at great speed and speculators are able to bet on everything the result is great volatility (Du grilligheid). Just as citizens had escaped from the torture chambers they were hit by a storm of financial shocks.

The new governments often had to resign soon.

Why didn't they join with neighbouring countries to form a debtors' cartel? Few of the elected politicians were willing to risk another round of US-supported coups d'état by pushing the very policies that had provoked the coups in the seventies. The generals, having negotiated immunity, were still in their barracks, watching. And then, in the early eighties, Washington's rules got a great deal stricter: the era of 'structural adjustment'. Also known as 'the dictatorship of debt'. Countries had nowhere to turn to for their spiralling debts but the International Monetary Fund and the World Bank – where by that time a conveyor belt had landed many Chicago Boys in top jobs. The institutions had been established in 1944 in Bretton Woods, where John Maynard Keynes headed the U.K. delegation and was convinced that the world had finally recognised the political perils of leaving the market to regulate itself. 'If the institutions stay true to their founding principles', he said at the conference's end, 'the brotherhood of man will have become more than a phrase.'

The IMF would act as a global shock absorber, and leap in with stabilising grants and loans when a country fell into crisis, with the goal of never again repeating the mistakes that had allowed fascism to rise in the heart of Europe. The WB would make long-term investments in development to pull countries out of poverty. However, the WB and IMF did not live up to Keynes' universal vision; from the start they allocated power not on the basis of 'one country one vote' but on the size of each country's economy. This gives the US a veto over all major decisions, with Japan and Europe controlling most of the rest.

The colonisation of the WB and the IMF by the Chicago School became official in 1989 when John Williamson unveiled the 'Washington consensus' a 'common core of wisdom embraced by all serious economists' which included advice such as 'all state enterprises should be privatised', and 'barriers impeding the entry of foreign firms should be abolished'. When the list was complete it made up Friedman's triumvirate of privatisation, deregulation/free trade, and drastic cuts to government spending. (Stiglitz: Keynes would be rolling over in his grave')

The recommendations by WB and IMF now turned into demands. From then on, the international debt crisis was being leveraged to advance the Chicago School agenda, which was admitted in specialised forums and publications. Dani Rodrik, a renowned Harvard economist who worked extensively with the WB called Structural Adjustment 'an ingenious marketing strategy for free trade', and he had to concede that privatisation and free trade had no direct link with creating stability. It was a staggering admission. The Bank and the Fund insisted that governments had seen the light, yet everybody knew developing countries were submitting to them only through a combination of false pretences and bald extortion. Want to save your country? Sell it off!

By 1999 the Chicago School international alumni included more than 25 government ministers and more than a dozen Central Bank presidents from Israel to Costa Rica.

In Argentina Carlos Menem had run a pro-union campaign, promising to revive Perón's nationalist economics. But after a year he appointed Cavallo, the junta-era official responsible for bailing out the debt of the corporate sector in the previous period. Cavallo stacked the government with homegrown Chicago boys. All that was still in government hands, from the national airline to Patagonia's oil reserves, was sold off rapidly and completely.

In January 2006, long after Menem and Cavallo were out of office, Argentines received the news that the Cavallo Plan wasn't Cavallo's at all, nor was it the IMF's; it was written in secret by JP Morgan and Citibank, two of Argentina's largest private creditors. An Argentinean historian uncovered a 1.400 page document written by the two banks for Cavallo, where all the policies carried out by the government from 1992 are drawn up.

PART 4 LOST IN TRANSITION Chapter 9 *Poland, China*

Before the Berlin Wall fell there was another image that held out the promise of Soviet barriers coming down: it was Lech Walesa, laid-off electrician, climbing over a steel fence in Gdansk, Poland. The workers' strike was unprecedented: would Moscow send in tanks? The workers did not wait for permission to found their own independent trade unions, and they called it Solidarnosc, solidarity. It spread through the country's mines, shipyards and factories with ferocious speed. It sparked a mass exodus of members from the communist party. In September nine hundred workers gathered once again in Gdansk and drew up a plan. The centrepiece was a vision for the state-run companies to break away from government control and become democratically run workers' cooperatives.

Under intense pressure from Russia Poland's leader General Jaruzelski declared martial law in December 1981. Tanks rolled through the snow and thousands were arrested, including Walesa, and Solidarity was forced underground. In 1983 Walesa received the Nobel Peace Prize, but the laureate's seat was empty. By 1988 the terror of Jaruzelski's initial crackdown had eased and Polish workers were once again staging huge strikes. This time, with the economy in free fall and the new moderate regime of Gorbachev in power in Russia, the Communists gave in. They legalized Solidarity and agreed to hold elections. The results were

humiliating for the Communists: of the 261 seats in which Solidarity ran candidates it won 260. 'To our misfortune, we have won!' declared Walesa prophetically. The national debt was \$40 billion and the inflation was at 600 %, there were severe food shortages and a thriving black market. A cruel entry into democracy. In a matter of months Solidarity activists were responsible for paying out the salaries to the police and others. They weren't at all clear about what could replace the state-run economy. Workers' cooperatives? The gradual approach that Gorbachov was promoting?

First Poland needed debt relief, and the function of the IMF is to provide funds to stabilise the economy. But no such aid was on offer. The IMF was now in the grips of the Chicago School economists. Poland was in the perfect weakened position to accept a radical shock therapy program, and all of its state-owned assets were prime candidates for privatisations.

The IMF let the country fall deeper and deeper into debt and inflation. The White House under George W Bush congratulated Solidarity but made it clear that debt would have to be paid and that the US offered only 119 m. in aid.

In this context Jeffrey Sachs, then 34, started working as an adviser to Solidarity. George Soros the billionaire currency trader and financier had contacted him and they had travelled to Poland together. David Lipton, a staunch free-market economist and then working at the IMF, set up an ongoing Poland mission. Sachs was a free agent in the eyes of many of Solidarity's top officials and he possessed almost messianic powers with his high-level contacts in Washington and his legendary reputation of taming inflation in Bolivia. Sachs said that Solidarity should simply refuse to pay the debts and he expressed confidence that he could mobilise \$3 billion in support – a fortune compared with what Bush had offered.

That help, however, came at a price: Solidarity would have to adopt what became known in the Polish press as 'the Sachs Plan', or 'shock therapy'. Everything had to be sold off, which was a direct clash with Solidarity's economic program of worker ownership, even though the movement's national leaders had by that time stopped talking about that. Sachs and his colleague Lipton wrote the plan for Poland's shock therapy in one night. It was 15 pages long.

Sachs gave one-to-one seminars, explaining the plan to several key Solidarity officials and he also addressed them as a group. They had spent the years from 81 to 89 in the underground, in jail and in exile, and had lost touch with their base. They were sceptical, but hesitated. They had heard a lot about Bolivia – it had worked there!. One Solidarity leader told a reporter: 'I'm surer Bolivia is very exotic, very lovely. I just don't want Bolivia *here*' The most persuasive argument was that Poland would become 'normal', as in 'a normal European country'.

Sachs formed an alliance with the newly appointed finance minister, a Warsaw economist who saw himself as an honorary Chicago Boy. For three months the Solidarity inner circle debated.

On September 12 1989 the Polish prime minister Mazowiecki rose before the first elected parliament to announce the plans. But he became unwell, from extreme fatigue. When he came back after some time he said: Excuse me. The state of my health is the same as the state of the Polish economy' And the verdict came: privatization of state industry, the creation of a stock exchange and capital markets, a convertible currency, and the shift from heavy industry to consumer goods production. And budget cuts. As one of Poland's leading advocates of cooperatives put it: 'If we had enough time, we might even be able to pull it (= cooperatives) off. But we don't have time.

Only two months after Poland announced that it would accept shock therapy, something happened that would change the course of history. In November 1989 the Berlin wall was joyously dismantled and the MTV flag was planted in the rubble, as if East Berlin were the face of the moon.

Moreover apartheid in South Africa seemed on its last legs; authoritarian regimes continued to crumble in Latin America: the whole world seemed to be in fast forward mode, in transition.

Many were claiming that countries would finally be able to choose the best of both worlds, some hybrid of political freedom and economic security. In Chicago circles, such talk of mix-and-match ideologies was met with open contempt. A sort of revival meeting for those who embraced the worldview of the Chicago School was held that eventful winter of 1989 in the university of Chicago. The occasion was a speech by Francis Fukuyama titled 'Are we approaching the end of history?' For Fukuyama, then a senior policy maker at US State Department the answer was clear. The collapse of Communism, he told his audience, was leading to an unabashed victory of economic and political liberalism. It was not ideology that had ended, but 'history as such'. Fukuyama argued that deregulated markets in the economic sphere combined with liberal democracy in the political sphere represented the final form of human government. 'Those who objected to the merger were not just wrong but 'still in history'.

The argument was a magnificent example of the 'democracy avoidance' cherished by the Chicago School. It was not a coincidence that the World Bank and the IMF chose that same volatile year to unveil the Washington Consensus - a clear effort to halt all discussion and debate about any economic ideas outside the free-market lockbox.

The Shock of Tiananmen Square.

Two months after Fukuyama's speech (April 1989) a pro-democracy movement exploded in Beijing with mass protests and sit-ins in Tiananmen Square. In China the government was pushing hard to promote the market but determined to resist calls for democracy. Democracy and the Chicago School economics were on opposite sides of the barricades surrounding Tiananmen Square.

In 1980 the government had invited Friedman to come and tutor hundreds of top-level civil servants, professors and party economists. The example of Hong Kong was held up. Friedman's vision of freedom coincided nicely with the vision taking shape in the Chinese politburo, something close to Chile under Pinochet: free market combined with authoritarian political control.

Deng understood that repression would be crucial. In 1983 he opened up the country to foreign investment and also ordered the creation of the 400,000 strong People's Armed Police charged with quashing all signs of 'economic crimes' (= strikes and protests). The police kept American helicopters and electric prods in its arsenal, and several units were sent to Poland for anti-riot training.

Many of Deng's first reforms were successful and popular – farmers had more control over their lives and commerce returned to the cities. But his later reforms were unpopular: price controls were lifted, job security was eliminated, and deep inequalities were opening up between the winners and losers.

There were protests, and Friedman was once again invited to China. 'I emphasized the importance of privatization and free markets, and of liberalizing at one fell stroke', Friedman later recalled. But the pictures in the official papers of the professor offering his blessing did not have the desired results. The most visible signs of the opposition were the demonstrations by students strikers in Tiananmen Square. In his 2003 book 'China's New order', Wang Hui, who was one of the organizers of the 1989 protests explains that the protesters spanned a huge range of Chinese society. They were dissatisfied with Deng's 'revolutionary' economic changes., which were lowering wages and raising prices. There was a general request for democratic means to supervise the process.

These demands forced the Politburo to make a definite choice. On May 20 1989 the government declared martial law, and the tanks rolled into the protests. Estimates vary between two thousand and seven thousand killed, and about thirty thousand were injured. Some forty thousand were arrested and many were executed. As in Latin America the harshest repression was reserved for the factory workers.

Five days later Deng addressed the nation and made it perfectly clear that it wasn't communism he was protecting but capitalism. 'this was a test, and we passed. Perhaps this bad thing will enable us to go ahead with reform...."

The free market possibilities were now limitless. China was cracked open to foreign investment, with special export zones constructed throughout the country. China turned into the sweatshop of the world. For foreign investment and for the party it has been a win-win arrangement. According to a 2006 study, 90% of China's billionaires (calculated in Chinese yuan) are the children of Communist Party officials. As in Chile, there is a revolving door between corporate and political elites. Foreign multinational media and technology help the state to spy on its citizens and control the internet.

Tiananmen revealed the stark similarity between the tactics of authoritarian Communism and Chicago School capitalism: blank the slate of all resistance and begin anew.

In a strange coincidence the Tiananmen Square massacre took place on the same day as Solidarity's historic election sweep in Poland on June 4 1989. In Poland there was no overt violence and the effects of the shock eventually wore off, and the results were far more ambiguous. The transition was prepared behind closed doors, but once the Poles recovered from the initial surgery they had questions about both the doctor and the treatment. The change caused a full-blown depression and the number of people in poverty rose dramatically. That was felt as a bitter betrayal. A Solidarity militant who had spent eight and a half years in Communist jails said: 'I would not have spent a week nor a month, let alone eight and a half years in jail for capitalism.

When the promised recovery didn't arrive, at least not in the form of jobs after about 18 months of 'extraordinary politics' Solidarity's base had had enough and demanded an end to the experiment. There were many strikes, almost 7.300 in 1993, and by the end of that year the government was forced to slow down the privatization plans. 62% of Poland's industry was still public. The economy began growing quickly. In September 1993 a coalition of left parties won 66% of the seats in parliament and a splintered Solidarity won less than 5%.

Yet somehow in the next years Poland would be held up as a model, proof that radical free-market makeovers can take place democratically and peacefully.

Chapter 10 Democracy born in chains *South Africa*

In January 1990 Nelson Mandela, age 71, sat down in his prison to write a short note to his supporters among whom there was a debate about the possible economic transformation of South Africa's apartheid state. He put the matter to rest: Nationalisation of mines, banks and monopoly industries is the policy of the ANC....In our situation state control of certain sectors of the economy is unavoidable'.

That belief had already been spelled out in the ANC's statement of core principles, the Freedom Charter.

The process of the charter's drafting began in 1955, when 50.000 volunteers were dispatched to the townships and countryside. Their task was to collect 'Freedom Demands' from the people. Land, living wages, shorter hours of work, free and compulsory education were written on scraps of paper and synthesized into a final document which was adopted in June 26, 1955, at the Congress of the People in Kliptown. On the second day of the congress the gathering was violently broken up by the police.

In the next three decades the Freedom Charter continued to circulate, passed from hand to hand. At the time of its drafting it was seen as too centrist by some and too weak by others, but all agreed that apartheid was

not only a political system but also an economic system that used racism to enforce a highly lucrative arrangement in favour of a small white elite.

On Feb 11 1990, two weeks after writing the above note, Mandela walked out of prison a free man, as close to a living saint as existed anywhere in the world. He suffered such a culture shock that he mistook a camera microphone for a new sort of weapon. A lot had happened in the 30 years since he had been arrested in 1962, but there was no time for reflection: he had a people to lead to freedom while preventing a civil war and economic collapse – both looked like distinct possibilities.

In the years that passed between Mandela's writing his note from prison in 1990 and the 1994 election sweep in which he was elected president, something happened to convince the party hierarchy that it could not reclaim and redistribute the country's stolen wealth. The ANC adopted policies that gave the people political freedom, but economically South Africa has surpassed Brazil as the most unequal society in the world.

Negotiations with the old regime took part on two separate tracks: political and economic. The economic negotiations were lower profile, primarily managed on the ANC side by Thabo Mbeki, then a rising star in the party, now president. In the talks, the de Klerk government had a twofold strategy. First they drew on the growing Washington Consensus that there was only one way to run an economy, and decision making in those areas was just a 'technical', or 'administrative' matter. Secondly it used a wide range of new policy tools (international trade agreements, structural adjustment programmes) to hand control to supposedly impartial experts from IMF, World Bank, National Party – anyone except the liberation fighters. It was a strategy for Balkanisation of the economy.

Naomi Klein talked to Mr Padayachee, one of the few classically trained economists active in the ANC. He suspected things were going wrong when late in 1993 he got a phone call asking him and a colleague to write a position paper on the pros and cons of making South Africa's central bank an independent entity, run with total autonomy from the elected government. The paper was needed by morning. They stayed up all night and wrote their paper that gave the negotiating team the arguments to resist the National Party proposals. An independent bank could restrict the ANC's ability to keep the promises in the Freedom Charter. Besides – if not to the ANC government, to whom exactly would the Bank then be accountable? To the IMF? The Johannesburg Stock Exchange?

Padayachee (in 2005 still a lecturer and a bookshop-owner) faxed the paper in the morning and didn't hear back for weeks. When asked what happened they were told 'Well, we gave that one up'. It was give and take in the negotiations', and control over the Central Bank was given away. The central Bank's independence would even be enshrined in the new constitution. It would be run by the same man who ran it under apartheid, Chris Stals. Moreover Derek Keyes, the white finance minister under apartheid would also remain in his post.

Padayachee realised everything would be lost in terms of economic transformation. The negotiators probably didn't realise how much they had lost. In his view the ANC leaders were simply out-manoeuvred on a series of issues.

The ANC found itself in a new kind of web, and the ABC administration discovered that its powers were tightly bound. ('Hey, we've got the state, where's the power?' was the in-house quip at the time.) Land redistribution, subsidising essential factories, raising the minimum wage: all impossible. A lack of commitment to 'reform' in the Chicago way would lead to currency crashes, aid cuts and currency flights, was the threat. It was a process of infantilization that is common in transition countries – new governments are, in effect, given the keys to the house but not the combination of the safe.

Everyone was interested and involved in the political negotiations, but when the economic negotiations reported back people thought it was technical and no-one was interested. 'We are going to be the government – we could fix it later,' people thought. It was understandable that people were more involved in the politics; the country was on the brink of a civil war and townships were being terrorized by gangs who had been armed by the National Party.

In the first two years after the elections there was a flurry of public investment in housing and water, electricity and phone lines. But the government, weighed down by debt and under international pressure to privatize the services, soon began raising prices. After being connected to water and electricity people were cut off again because they couldn't pay. The 'banks, mines and monopoly industry' that Mandela had pledged to nationalise remained firmly in the hands of the same four white-owned mega-conglomerates that also control 80% of the Johannesburg Stock Exchange. 70% of SA's land is still controlled by 10% of the population. Since 1990 the average life expectancy has dropped by 13 years.

As soon as Mandela walked out of prison the stock market collapsed in panic, the rand dropped by 10% and a few weeks later the diamond corporation De Beers moved its headquarters from South Africa to Switzerland. These sort of 'punishments' would have been unimaginable 30 years before in the banking world when Mandela went to prison. But now it happened several times; every time a top party official said something that hinted at the Freedom Charter the market responded with a shock. In this way unfettered capitalism is self-enforcing. Once countries have opened themselves up any departure from the Chicago School orthodoxy is instantly punished by traders in New York and London.

The person inside the ANC who seemed to understand how to make the shocks stop was Thabo Mbeki. He had spent many years of exile in England, studying at the university of Sussex, then moving to London. In the eighties while the townships were flooded with tear gas he was breathing in the fumes of Thatcherism. Of

all the ANC leaders he mingled most easily with business leaders. He took the role of free-market tutor within the party. So, rather than calling for nationalisation of the mines, Mandela and Mbeki began meeting regularly with Harry Oppenheimer, former chairman of the mining giants Anglo-American and De Beers, and even submitted the ANC's economic program to him for approval shortly after the 1994 elections. . Mbeki convinced Mandela that what was needed was a complete break with the past. A completely new economic plan was prepared with great secrecy. In June 1996 Mbeki unveiled the results: a neoliberal shock treatment program for South Africa, calling for more privatization and cutbacks and freer trade. To make sure his message would be heard by international traders Mbeki said at the presentation: 'Just call me a Thatcherite'. But Mbeki's grand gesture failed to attract long-term investment; it resulted only in speculative betting that ended up devaluing the currency even further.

Some members of the Truth and Reconciliation Commission felt that multinational corporations had benefited from apartheid and should be forced to pay reparations, but in the end the Commission made the modest recommendation of a onetime 1% corporate tax to raise money for the victims. But the government rejected even this suggestion. So the Commission left the economic system served by the abuses of the apartheid system completely untouched.

The government even continues to pay apartheid debt. Nelson Mandela has cited the debt burden as the single greatest obstacle to keeping the promises of the Freedom Charter. In the first years after the handover the debts cost 30 billion rand (\$4.5 billion) annually, which provides a stark contrast to the % 85 million paid out to the victims of apartheid killings and torture and their families. But the fear is that any move to default would make SA look dangerously radical in the eyes of investors, so the government makes tangible sacrifices to meet each payment. For instance, between 1997 and 2004 the SA government sold 18 state-owned firms, raising \$4 billion, but almost half the money went to servicing the debt. So the government is selling off national assets to make good on the debts of the oppressors. Moreover 40% of the government's annual debt payment goes to the country's massive pension fund, whose beneficiaries are mainly former apartheid employees. (This was part of the transition negotiations).

In Mozambique the Portuguese civil servants broke machinery, stuffed their pockets and then fled, but in South Africa the dismantling of the state and the pillaging of its coffers continues to this day.

In 2005 Klein visits SA when the 50th anniversary of the signing of the Freedom Charter is approaching. It was to be celebrated in Kliptown, the place where it was signed originally but which is still an impoverished township with an unemployment rate of 72%, far higher than under apartheid. Preparations for a Freedom Charter Monument were in progress. A PR firms, Blue IQ, had launched a project to move the people to another township and build a Freedom Charter Theme park, to attract tourists. In this, Blue IQ is following the free-market textbook – providing the incentives for business to invest, in the hope that it will create jobs down the road; experiments with Thatcherism that are supposed to have 'trickle-down' effects on the poor. However, after more than a decade the results of the South African 'reforms' are:

- the number of people living on less than \$1 a day has doubled to 4 million
- unemployment has more than doubled from 23 to 48%
- of the 35 million black citizens only 5000 earn more than \$60.000 a year – the number of whites earning that or much more is 20 times higher
- the government has built 1.8 million homes but 2 million people have lost their homes.

In the end, the most persuasive argument for abandoning the redistribution promises of the Freedom Charter is: 'everybody is doing it'. 'The World has changed; none of that left stuff means anything anymore; this is the only game in town'. This is the message the leadership gets everywhere. One example Klein mentions is the words of a Dutch finance minister to Mandela at the World Economic Forum in Davos in 1992: 'The process of globalisation is taking root. No economy can develop separately from the economies of other countries'. That is the message by the team of experts hopping from war-torn country to crisis-racked city. They are a hypermobile class but they are narrowly focused on their own narratives and power struggles.

If the ANC leadership had been able to cut through the transition spin and find out for itself what was happening in Moscow, Warsaw, Buenos Aires and Seoul, it would have seen a very different picture.

Chapter 11: Bonfire of a young democracy *Russia*

When Soviet president Mikhail Gorbachev flew to London to attend his first G7 summit in July 1991 he had every reason to expect a hero's welcome. He was lovingly called 'Gorby' in the western press and strided across the international stage picking up several peace prizes on the way, including the Nobel prize in 1990. With his twin policies of glasnost (openness) and perestrojka (restructuring) he had led the Soviet Union through a remarkable process of democratisation. As for the economy he was moving toward a mixture of a free market and a strong safety net, with key industries under public control. His end goal which he hoped to achieve within 15 years was a social democracy on the Scandinavian model.

So what happened at the G7 meeting was totally unexpected. The nearly unanimous message was that if he did not embrace radical economic shock therapy the others would let him fall. They thought the Soviet Union had to follow Poland's lead of privatisation on an even faster timetable. After the meeting Gorbachev got the same marching orders from the IMF, the World Bank and every other major lending institutions. Later that

year when Russia asked for debt forgiveness the stern answer was that the debts had to be honoured. Since Sachs had marshalled aid and debt relief for Poland, the political mood had changed; it was meaner. Gorbachev knew that the only way to oppose the kind of shock therapy that was advocated was with force. This was also openly hinted at in the American press, e.g. in an article in the Washington Post under the heading 'Pinochet's Chile a Pragmatic model for Soviet Economy'.

Gorbachev soon had an opponent who was willing to play that role. Boris Yeltsin was only Russian president and had a lower profile than Gorbachev who headed all the Soviet Union. That was to change dramatically on August 19 1991, a month after the G7 meeting. A group from the Communist old guard drove tanks up to the Russian parliament building and threatened to attack it. Yeltsin stood on one of the tanks and denounced their aggression. . That made him, at least for the time being, a people's hero.

Four months later, In December 1991, he pulled off a political masterstroke: he formed an alliance with two other Soviet republics, a move that had the effect of abruptly dissolving the Soviet Union, thereby forcing Gorbachev's resignation. It was the first of 'three traumatic shocks' that Russians would endure over the next three years.

Jeffrey Sachs was in the room at the Kremlin when Yeltsin made his announcement. Yeltsin had invited him as an adviser, but he also wanted the kind of gold-plated fund-raising that Sachs had pulled off for Poland. Sachs was confident that he could raise something in the area of \$15 billion. But Sachs's luck was about to run out.

In late 1991 Yeltsin went to the parliament and proposed: if they would give him one year of special powers, under which he could issue laws by decree rather than bring them to parliament for a vote, he would solve the economic crisis and give them back a thriving, healthy system. The answer was yes.

He immediately assembled a team of communists, many of whom, in the final years of Communism, had formed a kind of free-market book club, reading and discussing the basic texts of the Chicago School thinkers. At the same time Yeltsin put the notorious strongman Yury Skokov in charge of the defence and repressive departments. The link with Chile was quickly made in some Russian papers.

The US funded its own transition experts, awarded a \$2.1 million contract to the Harvard Institute for International Development, and made Sachs its head. Once again a group of self-described revolutionaries huddled in secret to write a radical economic program. 'It was really a romantic period' as one of the reformers later recalled.

One week after Gorbachev resigned the economic shock therapy program was announced – the second of the three traumatic shocks. . One element was the rapid-fire privatisation of the country's approximately 225,000 state-owned companies. After one year, shock therapy had taken a devastating toll: millions of middle-class Russians had lost their life savings when money lost its value, and abrupt cuts to subsidies meant millions of workers had not been paid in months. The average Russian consumed 40% less in 1992 than in 1991, and a third of the population fell below the poverty line.

As in Poland, Russians eventually began to demand an end to the sadistic economic adventure, and in March 1993 the elected parliament voted to repeal the special powers they had given to Yeltsin. But Yeltsin had grown accustomed to power and went on television and declared a state of emergency. The Constitutional Court ruled that he violated the constitution on eight different counts. Nevertheless, the West threw its weight behind Yeltsin. Clinton said Yeltsin was 'genuinely committed to freedom and democracy, and to reform'. In the western press parliamentarians were dismissed as 'communist hardliners', trying to roll back democratic reforms. An immense pressure campaign began. An unnamed official leaked that the IMF was unhappy with Russia's backtracking on reforms and that a promised \$1.5 billion loan would be withdrawn. The day after the IMF leak Yeltsin issued decree 1400, announcing that the constitution was abolished and parliament dissolved.

Two days later parliament voted for impeaching him. Some kind of armed conflict was now inevitable. Clinton continued to back Yeltsin and the American Congress voted to give Yeltsin \$2.5 billion in aid. Emboldened, Yeltsin sent in troops to surround the parliament. There were two weeks of peaceful demonstrations which led to partial unblocking of the parliament buildings, and both sides considered early elections. But in the same days Solidarity in Poland got pounded at the polls, and Yeltsin realised early elections were far too risky. Having just doubled military salaries he had most of the army on his side, and he surrounded the parliament with Interior Ministry troops and barbed wire and water cannon. Crowds of supporters of the parliament marched to the Ostankino TV center to demand that the news be announced. They were met by Yeltsin's troops and machine-gunned. About one hundred demonstrators and one member of the military were killed. All city and regional councils in the country were dissolved.

Finally, on the morning of October 4, 1993, Yeltsin became Russia's very own Pinochet in what was the third traumatic shock inflicted by Yeltsin on the Russian people: he ordered a reluctant army to storm the White House (parliament), setting it on fire. He called in 5000 soldiers, dozens of tanks and armoured personnel carriers, helicopters and elite shock troops armed with automatic machine guns – all to defend Russia's new capitalist economy from the grave threat of democracy. Congressional deputies and staff workers marched single-file out of the building with their hands up. By the end of the day there were 500 dead and almost 1000 wounded. Some of the arrested were interned in a sports stadium.

The US Secretary of State Warren Christopher travelled to Moscow to stand with Yeltsin and Gaidar and declared, 'The US does not easily support the suspension of parliaments. But these are extraordinary times'.

Jeffrey Sachs completely glosses over this dramatic episode in his book 'the End of Poverty', just as he left out the state of siege and attacks on labor leaders that accompanied his shock program in Bolivia. Russia was now under unchecked dictatorial rule. The Chicago Boys went on a law-making binge. 'Now there is a chance to do something', Sachs said. The day after parliament was dissolved the word came to the market reformers: start writing decrees. Charles Blitzer, the World Bank's chief economist for Russia, told the Wall Street Journal: "We're working day and night, but I've never had so much fun in my life". Change was so rapid that it was impossible for Russians to keep up. Factories and mines were sold off to create an economic boom. A clique of nouveaux milliardaires known as 'the Oligarchs' teamed up with Yeltsin's Chicago boys and stripped the country of nearly everything of value, moving the enormous profits off shore at a rate of \$2 billion a month. Yeltsin and his team did not allow foreign multinationals to buy up Russia's assets directly; they kept the prizes for Russians, and then opened up the newly privatised companies to foreign shareholders.

There was only one cloud on the horizon: Yeltsin's plummeting popularity. In December 1994 he did what so many desperate leaders have done to hold on to power: he started a war. His defence minister predicted that the army could easily defeat the forces in the breakaway republic of Chechnya. That didn't really work, and in the 1996 elections Yeltsin only just won thanks to a \$100 million financing by the oligarchs and thanks to the oligarch-controlled tv stations. After the elections the most lucrative part of the program was carried out: the public riches – Russia's oil companies – were auctioned off for a fraction of their worth, with public money that went into private banks. Then the new companies were opened up to multinationals such as Shell and BP who snapped up large portions. But the principal share of the wealth in Russia was in the hands of Russian players, not their foreign partners. An oversight that the IMF and the US Treasury would rectify in future auctions in Bolivia and Argentina. And in Iraq, where they would cut out the local elite entirely.

Some of the 'reformers' (Russian and American likewise) couldn't resist getting in on the action and were later exposed as profiteers. For two Harvard professors and their wives who profited personally from their high-level work Harvard paid a settlement of \$26.5 million. (By that time Sachs was no longer working on the ground in Russia and he has not been implicated in any of the questionable actions).

This points to a nagging and important question about free-market ideologues. Are they true believers or just greedy people posing as altruists? There are certainly honest neoliberals, but Chicago School economics seem conducive to corruption. Once you believe that profit practised on a mass scale creates the greatest possible benefits for a society, any act of personal enrichment can be justified as contributing to the great creative cauldron (*Du: kookpot*) of capitalism – even if the wealth is only generated for yourself and your colleagues. George Soros is a case in point. He funded Sachs's travels through the region and there is no doubt that he was committed to the cause of democratisation in the eastern bloc, but as the world's most powerful currency trader he also had clear economic interests. For a time he barred his companies from investing in countries where his foundations were active. But by the time Russia was up for sale he could no longer resist. 'I have no right to deny my shareholders, the possibility of investing there'. By the late nineties, however, he had an apparent change of heart, becoming one of the leading critics of shock therapy and directing his foundations to fund NGOs that focus on putting anticorruption measures in place before privatisation occurs.

That epiphany (= *seeing the light*) came much too late to save Russia from casino capitalism. In 1998 when the Asian financial crisis started spreading Russia was left wholly unprotected and its already precarious economy crashed definitively. In September 1999 the country was hit with a series of very cruel seemingly terrorist attacks: 4 apartment buildings were blown up. This blasted every other issue off the political map. The man put in charge of hunting down the 'animals' was Russia's prime minister Vladimir Putin.

Immediately after the apartment bombings he launched air strikes on Chechnia, attacking civilian areas. The fact that Putin was a 17-year veteran of the KGB suddenly appeared reassuring to the Russians. With Yeltsin's popularity at an all-time low Putin the protector was perfectly positioned to succeed Yeltsin, and on December 31 1999 several oligarchs engineered a quiet handover from Yeltsin to Putin.

Putin's first act was signing a law protecting Yeltsin from any criminal prosecution.

By the mid-nineties more than 80% of Russian farms had gone bankrupt and roughly 70.000 factories had closed. In 1989 2 million people were living in poverty, on less than \$4 a day; in the mid-nineties, only eight years later, 74 million Russians were living in poverty. Although millions have been pulled out of poverty thanks largely to soaring oil and gas prices Russia's underclass of extremely poor has become permanent. Homeless kids, alcohol, drugs, aids, a high suicide rate, crimes: 'the 15 years of criminal capitalism have killed off 10% of our population' said Vladimir Gusev, a Moscow academic, at a demonstration. The population is shrinking. Three decades ago André Gunder Frank had accused Milton Friedman of 'economic genocide'. Many Russians describe the slow disappearance of their fellow citizens in similar terms.

The wealth accumulated by the elite is flaunted in Moscow as nowhere else outside of a handful of oil emirates. Anyone who dared question the wisdom of the 'reformers' was dismissed as nostalgic for Stalin, just as the critics of Iraq's occupation were, for years, met with accusations that they thought life was better under Saddam Hussein. When it was no longer possible to hide the failures of Russia's shock therapy program the spin turned to Russia's 'culture of corruption', as well as speculation that Russians 'aren't ready' for genuine democracy because of their long history of authoritarianism. In this way the Washington think-tank economists hastily disavowed the Frankenstein economy they helped create in Russia. 'What went

wrong? Corruption, corruption, corruption!' (The entire charade would be replayed a decade later to explain away the billions of missing reconstruction dollars in Iraq).

Corruption wasn't an intruder into Russia's free-market reforms: it was part of the game. Quick and dirty deals were actively encouraged by Western powers at every stage as the fastest way to kick-start the economy.

Forbes in 1997 described Russia and Central Europe as 'the new frontier', as if there were new green fields to be colonised, as in the days of the forefather of the neoliberalists, Adam Smith. But where Smith's colonists earned their record profits in the American West by seizing what he described as 'waste lands' for 'only a trifle', today's multinationals see government programs and public assets as terrain to be conquered and seized: the post office, national parks, schools, social security, disaster relief and anything else that is publicly administered. The state acts as the colonial frontier which corporate conquistadors pillage with ruthless determination. And ever new profit frontiers are searched: price-tags in the form of patents are put on life forms such as seeds, genes, and carbon in the earth's atmosphere. The frontier is constantly shifting location.

Immediately following the Soviet collapse the US Treasury and the IMF became much tougher in their demands for instant privatisations from other crisis-racked countries. The most dramatic case was Mexico in 1994 (the tequila crisis): in 1990 only one of Mexico's banks was foreign owned, by 2000 24 out of 30 were in foreign hands. The process had minted 23 new billionaires.

"To predict where the next burst of billionaires will issue, look for countries where markets are opening'. In the mid-nineties 'Goni' was president of Bolivia and he sold off the national oil company, railway, electricity and phone companies directly to foreign firms who were all gathered in the Radison Plaza Hotel. Similarly, Carlos Menem sold the Argentinean assets, and the lifestyles of the Argentinean politicians grew increasingly lavish. In much of the southern hemisphere neoliberalism is frequently spoken of as 'the second colonial pillage'

Chapter 12 the Capitalist ID *the Washington Consensus*

Klein goes to see Jeffrey Sachs in October 2006 because she wants to understand why he was so unsuccessful in Russia, and why his famous luck ran out there and then. (It was in Russia that Sachs began his own transition from global shock doctor to one of the world's most outspoken campaigners for increasing aid to developing countries. He is the man behind the Millennium Development Goals.)

Securing a major aid infusion was a central pillar of his plan for Russia – that was also Yeltsin's incentive for submitting to the entire program. Sachs was confident he could shake a new Marshall Plan out of the US Treasury and the IMF. (Marshall Plan = the \$12.6 billion for Europe after the second World War. Sachs counted on \$30 for the whole Soviet Union forty years later.). 'But there was absolutely no interest at all. None. The IMF just stared me down as if I was crazy'.

The problem was that Sachs had pushed hard for shock therapy with Yeltsin before he had any guarantee that the US Treasury and the IMF would listen to him. He had misread Washington's political mood. It was 1992, the year of the US election in which Bill Clinton was about to defeat Bush Sr. The core of Clinton's campaign was that Bush had neglected economic hardship at home to pursue glory abroad. ('It's the economy, stupid!'). Moreover many of Washington's power brokers were still fighting the Cold War: if Russia collapsed economically it would ensure US supremacy. And mostly, Sachs said, 'it was sheer laziness'.

Klein thinks there is more to the west's refusal to come to the rescue. Communism had been like a loaded gun pointed at the west. The Marshall Plan had been meant to win the allegiance of the German people and other Europeans fast, before they succumbed to the lures of communism. After the war the European economy was in crisis, there was a substantial left movement: it was a battle for the soul of Germany. The Marshall plan came out of fear of popular revolt. The same can be said of Roosevelt's New Deal, drawn up according to Keynes' economic theories: that was an acceptable compromise in the face of the militant demands of American trade unionists and socialists.

When Yeltsin abolished the Soviet Union the 'loaded gun' was disarmed however and the free market now had a global monopoly. Poland and Russia had believed they would suddenly wake up in a 'normal European country', but in those normal European countries the strong social safety nets, workers' protection, powerful trade unions and socialized health care were now also under threat. Such policies were not about to be introduced in Russia, certainly not subsidized with western funds.

So while Sachs was ready to roll up his sleeves and start helping in Russia his colleagues were ready to let the market do its worst in Russia.

The new rules of the game were on display in Washington D.C. on January 13 1993 during a conference in the Carnegie conference Centre. It had been convened by John Williamson, the powerful economist known for shaping the missions of both the World Bank and the IMF. Sachs was to deliver the keynote address. He was determined to use the speech to try to get the powerful crowd to grasp the gravity of what was unfolding in Russia, and to plead for aid. 'The Russian reformers won't make it without large-scale external assistance..... we are close to missing a historic opportunity'. He got a round of applause of course, but the response was tepid (*Du lauw*).

It was left to John Williamson to steer the conference back to pragmatic priorities. Williamson later coined the phrase 'The Washington Consensus' to denote the unanimous voice of the US think tanks, the World Bank

and the IMF. He organised many conferences and seminars, and at this one he wanted to test what he called 'the crisis hypothesis' once and for all. He suggested the idea of actively creating a serious crisis so that shock therapy could be pushed through.

At least one conference participant, an Englishman, felt obliged to distance himself in his own speech from these ideas. He thought Williamson suggested the idea to provoke and tease. But there was no evidence that Williamson was teasing. In fact his ideas were already being acted on at the highest levels of financial decision making in Washington and beyond.

In February 1993 there was a 'pseudo crisis' in Klein's own country, Canada. 'Debt Crisis Looms' screamed the headline of the national newspaper the 'Globe and Mail'. Canada's credit is running out.....our lives will change dramatically.' Canada was spending too much – investors would pull their money out: spending would have to be cut on unemployment insurance and health. And that is what the Liberal party did. Two years later an investigative journalist exposed that a sense of crisis had been carefully stoked and manipulated by a handful of think tanks funded by the largest banks and corporations in Canada. But by that time the budget cuts had already been made and locked in, and social programs for the unemployed have never recovered. The crisis strategy was used again and again. In 1995 a video of Ontario's education minister was leaked, telling civil servants to create 'a useful crisis' before announcing cuts to education and other unpopular reforms.

Two years after Williamson made his observations about 'stoking up crisis' Michael Bruno, chief economist of development economics at the World Bank, publicly echoed the same line in a lecture, later published as a paper by the World Bank. He informed five hundred assembled economists from 68 countries that 'a large enough crisis may shock otherwise reluctant policymakers into introducing productivity-enhancing reforms'. He pointed to Latin American countries as prime examples. International agencies should cut off aid to make those crises worse. 'An adverse shock may actually increase welfare because it shortens the delay [before reforms are adopted]. In fact, a high-inflation crisis may leave a country better off than if it had muddled along through less severe crises.' So here was a chief economist at the World Bank, an institution funded with tax dollars from 178 countries and whose mandate was to rebuild and strengthen struggling economies, advocating the creation of failed states because of opportunities they provided to start all over in the rubble. The most extensive testimony that the international financial institutions had been dabbling in the art of 'pseudo-crisis' came from David Budhoo, an IMF staffer turned whistle-blower.

He was a Grenadian-born London School of Economics-trained economist whose job was designing Structural Adjustment Programs for Africa, Latin America and the Caribbean. After the organisation's sharp right turn during Reagan / Thatcher era he felt increasingly ill at ease. When Budhoo quit in 1988 he decided to devote himself to exposing the secrets of this former workplace, and he wrote a remarkable open letter to the then managing director of the IMF, Michel Camdessus. In the letter he adopted the 'j'accuse' tone of André Gunder Frank's letters to Friedman a decade earlier.

He accused the fund of using statistics as 'lethal' weapons. He documented he had been involved in making Trinidad and Tobago look far less stable in the statistics than they actually were, doubling labor costs and inventing huge unpaid debts. The deliberate gross irregularities in the books made the financial markets cut off their financing, and the IMF's 'medicine' was applied: layoffs, wage cuts and the 'whole gamut' of structural adjustment. In his letter Budhoo characterised the IMF's entire program of structural adjustment as a form of mass torture.

The government of Trinidad commissioned two independent studies and found that the allegations were correct. But Trinidad and Tobago is a collection of small islands and its complaints are unlikely to capture world attention. The letter was turned into a theatre play, and a review of the play was the only mention ever made of Mr Budhoo in the New York Times.

Chapter 13 *The Asian Crisis*

In 1997 within Southeast Asia's Tiger economies nothing observable had changed, and yet suddenly the investors had pulled out. High inflation, and prices rocketed. What began as a rumour - Thailand did not have enough dollars to back up its currency – had triggered a stampede by the electronic herd. Banks called in their loans and the real estate market promptly popped.

Because mutual fund brokers had marketed the Asian Tigers as part of a single investment package, when one Tiger went down they all did: after Thailand Indonesia, Malaysia, the Philippines and even South Korea, the eleventh largest economy in the world and a star in the globalisation firmament.

The crisis provoked desperate measures. In South Korea tv stations ran a massive campaign calling on citizens to donate their gold jewelry so that it could be melted down and used to pay off the country's debts. But even with the two hundred tons of gold that were collected Korea's currency continued to plummet. The crisis led to a wave of suicides, as had happened during the Great Depression.

Asia's crisis was caused by a classic fear cycle and a quick, decisive loan might have arrested it. However, the message from the financial establishment was: 'Don't help Asia'. Milton Friedman himself, now in his mid-eighties, appeared on CNN to state that 'the market should be left to correct itself'. 'Well professor, I can't tell you what it means to have your support in this discussion' said an embarrassingly starstruck reporter. Jay Peloski, Morgan Stanley's hotshot strategist, told a conference 'What we need now in Asia is

more bad news. Bad new to keep stimulating the adjustment process.' So the US Treasury and the IMF did nothing. Instead it came up with a long list of demands: this catastrophe was an opportunity in disguise. In the early nineties the Asian Tigers were seen as miracle economies, supposedly because they had flung open their borders to unrestricted globalisation. In fact they still had highly protectionist policies that barred foreigners from owning land and from buying out national firms. They had proved that mixed, managed economies grew faster and more equitably than those following the Wild West Washington Consensus. But western and Japanese investment banks longed for unfettered access to the region to sell their products and for the right to buy up the best of the Tiger's corporations.

In the mid-nineties, under pressure from the IMF and the newly created WTO (World Trade organisation), Asian governments agreed to split the difference: they would maintain the laws that protected national firms from foreign ownership but they would lift barriers to their financial sectors. In 1997 the flood of hot money suddenly reversed current in Asia and Asia was broken. José Pinera, Pinochet's star minister now working in the Cato Institute in Washington said; 'The day of reckoning has arrived....The fall of the Tigers represents nothing less than the fall of a second Berlin Wall, the collapse of the notion that there is a 'Third Way' between free-market democratic capitalism and socialist statism.'

This perspective was openly shared by Alan Greenspan, chairman of the US Federal Reserve and by Michel Camdessus, head of the IMF. He spoke of the crisis in Asia as an opportunity for Asia to shed its old skin and be born anew.

The IMF finally entered into negotiations with the ailing governments of Asia. (The only country to resist the fund in this period was Malaysia, thanks to its relatively small debt. Its prime minister said that 'he did not think he should have to destroy the economy in order that it should become better', which was enough to brand him as a raving radical.) Some countries suggested it might make sense to put some barriers back up: 'capital controls', but Fischer and the rest of the IMF team dismissed the idea out of hand. To miss this window of opportunity seemed professional negligence to them. So all the 'trade and investment protectionism and activist state intervention that were the key ingredients of the Asian miracle' had to be abolished, observed Walden Bello, political scientist. And budget cuts had to be implemented of course, even though there had been no question of government overspending. The IMF even set strict layoff targets: Western multinationals wanted assurances that they could radically downsize the Asian firms they were about to buy.'

The temporary meltdown gave governments the licence to declare temporary authoritarian rule. It didn't last long: just long enough to impose IMF decrees. Thailand issued four emergency decrees. In South Korea the end of the IMF negotiations coincided with scheduled presidential elections; the IMF refused to release the money until they had commitments from all of the four main candidates that they would stick to the new rules if they won. Each candidate pledged his support in writing. (The day the deal was signed was instantly dubbed Korea's 'National Humiliation Day'.)

In Indonesia Suharto had first enriched others but now in his advanced aged he was mainly looking after himself and his relatives. He tried to resist the IMF but after a threatening article in the Washington Post Indonesia's currency fell through the floor, losing 25 % of its value in a single day. 'Can someone find me an economist who knows what's going on?' Indonesia's foreign minister reportedly pleaded. Suharto called in his old friends, the Berkely mafia, by now also in their seventies, to advise him. Of course the IMF got almost everything it wanted – 140 'adjustments' in all.

The IMF expected that after these extreme makeovers the hot money that had fled Asia the previous year would have come rushing back to buy up the Tigers' now irresistible stocks, bonds and currencies.

Something else happened: the market panicked and promptly yanked out even more money. The reasoning was: if the fund thought that the Tigers were such hopeless cases then Asia was obviously in much worse shape than anyone had feared. As Jeffrey Sachs, now in open warfare with the international financial institutions, put it: 'Instead of putting out the fire the IMF in effect screamed 'fire!' in the theatre'.

The human costs were devastating. 24 million people lost their jobs and by 1999 South Korea's and Indonesia's unemployment rates had nearly tripled in two years. The region's miracle, its large and growing middle class, disappeared. As always, women and children suffered the most. In Thailand there was a 20% increase in child trafficking in just one year – the year after the IMF reforms. The poor's limited access to schools and health care began to disappear.

Even the IMF's own internal audit came to the conclusion that the 'help' didn't work. But while the IMF failed the people of Asia it did not fail Wall Street. When the crisis deepened and Asian firms became desperate to sell, the large investment houses and multinational firms were emboldened. Two months after the IMF came to its final agreement with South Korea The Wall Street journal ran an article titled 'Wall Street Scavenging in Asia-Pacific.' Western prominent houses scouted for brokerage firms, asset management firms and even banks that they could snap up at bargain prices. One of the winners was the Carlyle Group, the secretive Washington-based firm known for being the preferred soft landing for ex-presidents and ministers, from former secretary of State James Baker to former UK president John Major, to Bush Sr, who served as a consultant. Calyle snapped up Daewoo's telecom division and became a major shareholder in one of Korea's largest banks.

Within two years hundreds of local brands were replaced by multinational giants. It was dubbed 'the world's biggest going-out-of-business sale' by the New York Times. In fact, it was a preview of the kind of disaster capitalism that would become the market norm after September 11. The foreign firms came in not to build

their own businesses and compete but to snap up the entire apparatus, work force, customer base and brand value built over decades by Korean companies, often to break them apart, downsize them or shut them completely in order to eliminate competition for their own imports.

Klein lists many firms here. Not only American firms got a piece of the Asian distress sale. According to business Week the Saudi prince Alwaleed bin Talal was 'jetting across Asia in his cream-colored Boeing 727, collecting bargains'- including also a stake in Daewoo. And it wasn't only private Asian firms that were being sold. The crisis also forced governments to sell public services to raise badly needed capital. Bechtel got the contract to privatize the water and sewage systems in eastern Manila, etc etc.

The IMF, while admitting some errors in its early responses to the crisis, claims that it quickly corrected them and that the 'stabilization' programs were successful, as if countries were ships being tossed around on the market's high seas. It's true that Asia's markets eventually calmed down, but at a tremendous and ongoing cost. When 24 million people lose their jobs in a span of two years it expresses itself in different forms across the region, from a significant rise in religious extremism in Indonesia and Thailand to the explosive growth in the child sex trade. In Indonesia the population took it out on the Chinese minority. The ugly secret of 'stabilization' is that many people never climb back on board. They end up in slums, now homes to 1 billion people, and in brothels or cargo ship containers.

Unlike the former Soviet Union, where the planned misery of shock therapy could be passed off as part of the 'painful transition' from Communism to market democracy, Asia's crisis was plainly a creation of the global markets. The result was that these missions lost the comfortable anonymity they had previously enjoyed. At IMF negotiations in Seoul, Korea, the IMF representatives were beleaguered in their hotel rooms and were forced to go in and out through the kitchens.

The defiant new mood coming from the south made its global debut when the WTO talks collapsed in Seattle 1999. Though the college-age protesters received the bulk of the coverage the real rebellion took place inside the conference centre, where developing countries formed a bloc and rejected demands for deeper trade concessions. Within a few years the global investors and the US government had to give up their ambitious dream of creating unified free-trade zones encompassing all of Asia-Pacific, or the Free Trade Area of the Americas stretching from Alaska to Chile.

In retrospect, it is striking that capitalism's monopoly period was extremely brief – only eight years, from the collapse of the Soviet Union in 1991 to the collapse of the WTO talks in 1999. But rising opposition would not slow its determination to advance this extraordinarily profitable agenda; its advocates would simply ride the waves of fear and disorientation created by bigger shocks than ever before.

PART 5 SHOCKING TIMES – the rise of the disaster capitalism complex.

Ch 14 Rumsfeld-Cheney-Bush and privatisations

Since Donald Rumsfeld had taken office as defence secretary he had had a reputation as high-handed, secretive and arrogant. Since setting foot in the Pentagon he had been bent on downsizing the number of personnel. He had spent the past twenty-odd years heading multinational corporations and sitting on their boards, often leading companies through dramatic mergers and acquisitions and painful restructurings. His mission was to 'modernize' the army, which meant an attempt to bring the revolution in outsourcing and branding that he had been part of in the corporate world into the heart of the US military.

During the 1990s many companies embraced either what became known as the Nike model (produce products through an intricate web of contractors and subcontractors and pour your resources into design and marketing) or the Microsoft model (maintain tight control of your 'core competency' and outsource everything else to temps. Some called such companies 'hollow corporations' because they were mostly form, with little or no content left over.

Rumsfeld was convinced that the US Department of Defence needed an equivalent makeover. He wanted a small core of staffers propped up by cheaper temporary soldiers from the Reserve and National Guard. Contractors from companies such as Blackwater and Halliburton would perform duties ranging from high-risk chauffeuring to prisoner interrogation to catering to health care.

The generals soon became deeply hostile to Rumsfeld's vision of a hollow military. It was rumoured his days were numbered.

It was at this moment that he called a rare 'town hall meeting' for Pentagon staff. The hundreds of Pentagon staff that filed into the auditorium that Monday morning were curious. Rumsfeld declared war on a dangerous enemy, a bastion of central planning that stifles free thought and crushes new ideas.....It's the Pentagon bureaucracy'. Every department would need to slash its staff by 15% and he wanted to know which functions could be performed better and more cheaply through commercial outsourcing. Picking up the garbage, mopping floors, health care, housing for soldiers.... 'We should seek suppliers who can provide these services more efficiently and effectively.'

After the speech plenty of Pentagon staffers griped that the only small matter standing in Rumsfeld's way was the US Constitution, which says national security is a duty of government, not of private companies.

There was not much coverage in the newspaper of Rumsfeld's speech and that was because the date of his address was September 10, 2001. The next morning 125 Pentagon employees were killed and 110 seriously wounded.

It was the central tenet of the Bush regime that the job of government is not to govern but to subcontract the task to the more efficient private sector. For the advocates of this task it was a world-changing crusade, something like defeating communism. The privatisation mania of the eighties and nineties had successfully sold off or outsourced the large, publicly owned companies, from water and electricity to highway management and garbage collection. After these limbs of the state had been lopped off what was left was 'the core'- the military, police, fire departments, prisons disease control, border control, intelligence agencies, public schools, and the administering of government bureaucracies.

By the late nineties a powerful move was afoot to break the taboos protecting 'the core'; the last bastions of public control. At the vanguard were Dick Cheney, Donald Rumsfeld and George W. Bush himself.

For Rumsfeld the idea dated back four decades, when he used to attend seminars at the University of Chicago's Economics Department and became close with Milton Friedman, who took him under his wing as a young Republican Congressman. Friedman was deeply disappointed when Reagan chose Bush and not Rumsfeld as his vice-presidential candidate. Rumsfeld became a CEO of a pharmaceutical corporation, using his connections to get FDA approval for the drug aspartame and cashing in \$12 m when his firm Searle was sold to Monsanto. But having been a Defence Secretary he was mainly on the board of firms in 'the military industrial complex'. He was probably involved in the nuclear reactor sale to North Korea in 2000. He was active in the patenting of drugs and vaccines and was involved in companies that are banking on future diseases, for which governments may be forced to buy whatever lifesaving products the private sector has under patent. (Such as Tamiflu for the avian flu, *Du vogelgriep*)

Dick Cheney, a protégé of Rumsfeld in the Ford administration saw a boom market not in plagues but in war. As secretary of Defence under Bush Sr he had already begun to contract Halliburton to find out what could be taken over by the private sector. The winner of the 36 bidders for the implementation of the plans was none other than Halliburton. . In 1995 with Clinton in the White House Halliburton recruited Cheney as its new boss. Halliburton expanded dramatically, until it was responsible for creating the entire infrastructure of a US military operation overseas. All that the army needed to do was provide the soldiers and the weapons. The result, first on display in the Balkans, was a kind of McMilitary experience. US bases sprang up as mini Halliburton cities: neat, gated suburbs, built and run entirely by the company. 'Everything with Halliburton was gold-plated' one senior officer told Klein. The higher the costs, the higher the profits. In just five years at Halliburton Cheney almost doubled the amount the company extracted from the US treasury, from \$ 1.2 billion to \$2.3 billion. And Cheney was well rewarded for his efforts. His wife was a board member at Lockheed Martin, the world's largest defence contractor. It was a powerful husband-and-wife team, but sometimes they were in direct competition. In 1996 when Texas announced that corporations could bid to run its welfare program both Lockheed and the IT giant Electronic Data Systems, which boasted Dick Cheney as a board member, bid on the contract. In the end, the Clinton administration intervened and halted the auction.. The two firms cried foul, as did George W Bush, the governor of Texas, who thought privatising the welfare system was terrific idea.

As a governor George W. Bush excelled in parcelling out to private interests the various functions of the government that he was elected to run, especially security-related functions. Under his watch the number of private prisons increased from 26 to 42 .

All this was a preview of the kind of state the three men would create together: a vision of a perfectly hollow government.

September 11

Then came 9/11. The nature of the 9/11 security failures exposed the results of more than 20 years of chipping away at the public sector. Radio communications broke down in the middle of the rescue operation; air traffic controllers didn't notice the off-course planes in time, and the attackers had passed through airport security checkpoints staffed by contract workers some of whom earned less than their counterparts at the food court. 20 years after Ronald Reagan's attacks on the air traffic controllers' union it appeared that the airlines had skimmed significantly to keep costs down. And then in the anthrax outbreak in October questions were asked: Why did a private lab have the exclusive right to produce the anthrax vaccine? The FDA had not even authorised the firm yet to distribute its vaccines. And had it been such a good idea to privatize the postal service? Three months later Enron declared bankruptcy: its manipulation of energy prices had led to the massive blackouts in California.

The uncontested heroes of September 9/11 were the blue-collar first responders: firefighters, police and rescue workers, all of them still working in the public sector. For weeks after the attacks the president went on a grand tour of the public sector, embracing and thanking everybody.

A Corporate New Deal

But Bush and his inner circle had no intention of converting to Keynesianism. What happened in the period of mass disorientation after he attacks was, in retrospect, a domestic form of economic shock therapy. The Bush team created a whole new framework for its actions – the War on Terror – built to be private from the start. Policing, surveillance etc would have to be increased, and they were handed over to the private sector. The effect was the creation of a disaster capitalism complex, a privatized security state, both at home and abroad. For decades the market had been feeding off the appendages of the state, now it would devour the core. 'Without a public debate contractors have become a virtual fourth branch of government' the New York Times wrote in February 2007.

In November 2001 the Department of Defense brought together 'a small group of venture capitalist consultants' with experience in the dot.com sector to identify 'emergency technology solutions'. By early 2006 this had become an official arm of the Pentagon (DeVenCI). 'We're a search engine for new surveillance and related products'. Another is CIFA (Counter intelligence Field Action, a spy agency which outsources 70% of its budget to private contractors. Another one is the Department of Homeland Security. The document that launched it states 'today's terrorists can strike at any place, at any time, with any weapon', and according to Cheney's famous '1 percent doctrine' if there is a 1 percent chance that something is a threat it requires that the US respond as if the threat is 100% certainty. This has been a boon for the makers of high-tech devices: for instance we can conceive of a smallpox attack so the Department of H.S has handed out half a billion dollars to private companies to develop and install detection equipment for this unproven threat.

From a military perspective the vague traits of the War on Terror is an unwinnable proposition but from an economic perspective it is an unbeatable one. A seemingly bottomless supply of tax dollars was funnelled to private contractors from the Pentagon and the US Intelligence (amounts in both departments doubled since Bush took office) and to the new arrival Homeland Security. The Bush administration spent \$327 billion on contracts to private companies – nearly 40 cents of every discretionary dollar. In 2001 there were two security-oriented lobby firms searching for 'the next new thing'- in mid 2006 there were 543.

A Market of terrorism

One of the first booms is surveillance cameras. But the government is drowning in data so information management and data mining and software 'to connect the dots' is another massive market. In the process cell phones and web surfing have been turned into powerful tools of mass state surveillance, with the full cooperation of firms like yahoo or AT&T telecom. The dismantling of borders has been replaced by border surveillance.

The result has been a bizarre merger of security and shopping cultures. The potential for error has become harrowing. Try to find a Mohammad from Iraq to New Orleans: an apolitical family man may be flagged as a potential terrorist. Watch lists are now handled by private companies. In June 2007 there were half a million names on a list of suspected terrorists kept by the National Counterterrorism Center. Anyone can be blocked from flying and under the Bush administration people who are not US citizens don't have the right to seek evidence in court.

Boeing has been acting as 'the CIA's travel agent' and has arranged as many as 1.245 rendition voyages to take hooded prisoners to foreign destinations where they are interrogated. Half of the experts in this field work for contractors. If these free lance interrogators are to keep landing lucrative contracts they must extract useful intelligence from their prisoners. Prisoners may end up in Guantánamo, the maximum security prison constructed by Halliburton.

Then there is the low-tech version of these 'market solutions': the willingness to pay top dollars for information. 'Get wealth and power beyond your dreams' stated a typical flyer handed out in Afghanistan in the search for al Qaeda or Taliban fighters. Soon enough, the cells of Bagram and Guantánamo were overflowing with goatherds, cabdrivers, cooks and shopkeepers, who had been 'sold' for \$5.000. According to the Pentagon's own figures 86% of the prisoners were handed over after the bounties were announced. After the Pentagon had released 360 prisoners the Associated Press was able to track down 245 of them; 205 had been freed or cleared of all charges when they returned to their home countries.

The homeland security industry is now significantly larger than either Hollywood or the music business. It is amazing how little the security boom is analysed as an economy. How has it altered the way we as a culture work, travel etc.? What does it mean to be engaged in a fully privatised war built to have no end?

Part of the problem is that the disaster economy sneaked up on us. It has generated a wealth we rarely hear about. The CEOs of the 34 top defense contractors saw their compensation go up an average of 108% between 2001 and 2005; CEOs at other large American companies averaged only 6% over the same period. The disaster industry generally has the CIA levels of discretion and disaster capitalists dodge the press. But it is unmistakable that big business and big government are combining their formidable powers to regulate and control the citizenry.

Ch 15. A Corporatist State

In the heat of the midterm elections of 2006 George W. Bush signed the Defense Authorization Act in a private Oval Office ceremony. Tucked into its 1400 pages is a rider (*Du. toevoeging*) that went almost completely unnoticed at the time. It gave the president the power to declare martial law in the event of a 'public emergency'. That emergency could be a hurricane, a mass protest or a 'public health emergency'. Before this act he had these powers only in the case of an insurrection.

With his colleagues on the campaign trail Democratic Senator Patrick Leahy was a lone voice of alarm. 'Using the military for law enforcement goes against one of the founding tenets of our democracy'.

These new powers were good news for the executive branch but also for the pharmaceutical industry in the case of any kind of disease outbreak, and for contractors such as Halliburton and Bechtel. What role did industry play in shaping the specifics of the law? US politicians have in the past often interpreted setbacks for American corporations abroad as attacks on the United States and made it part of a broadly drawn struggle of good against evil. This tendency has been especially pronounced in politicians who move directly

from the corporate world into public office. John Foster Dulles for instance, an international corporate lawyer for most of his life and eventually Eisenhower's Secretary of State, had two lifelong obsessions: fighting communism and protecting the rights of multinational corporations.

The Bush administration, packed with CEOs fresh from the boardroom, is subject to the same confusions. But there is a difference. They have maintained their interests in the disaster capitalism complex while in office. For instance, when Rumsfeld accepted Bush's nomination as Defense Secretary he was required, like all public officials, to sell everything related to national security or defense. But he had a great deal of trouble. He was so weighted down with holdings that he claimed it was impossible to disentangle himself in time to meet the deadlines. He sold off his directly owned stocks in Lockheed, Boeing and other defense companies and put up to \$50 million worth of stocks in a blind trust. But then he was still part or complete owner of private investment firms that were devoted to defense and biotechnology stocks. He asked for two three-month extensions to the time limit to look for suitable buyers. And when it came to Gilead Sciences, the company Rumsfeld used to chair and that held the patent on Tamiflu, the avian flu vaccine, he simply refused. He failed to sell off those stocks for his entire term of office, even though epidemics are national security issues.

His adamant refusal to stop making money from disaster affected his job performance in his first year of office: he had to absent himself from an alarming range of crucial policy decisions; and for the six years that he held office he had to leave the room whenever talk turned to the possibility of epidemics such as avian flu and the purchase of drugs for it. In July 2005 the Pentagon purchased \$58 million of Tamiflu. By keeping his Gilead stocks through all the avian flu scares and through his own administration's decision to invest heavily in Gilead Rumsfeld ended up with stocks which had gone up from \$7,45 each to \$67,60 each. When he left his post as Defense Secretary he was a significantly wealthier man than when he arrived - a rare occurrence in public office.

If Rumsfeld never really left Gilead behind Cheney was equally reluctant to fully sever his ties to Halliburton. He hung on to 189,000 Halliburton shares and collected millions every year from dividends from his stocks. The stocks rose from \$10 before the war to \$41 three years later. His colleagues took good care of his interests.

Saddam did not pose a threat to US security but he did pose a threat to US energy companies, since he had recently signed contracts with a Russian oil giant and was in negotiation with France's Total, leaving US and British oil firms with nothing; the third-largest proven oil reserves in the world were slipping out of the Anglo-American grasp.

Saddam's removal from power has opened vistas of opportunity for the oil giants as well as for Halliburton, which, with its move to Dubai, is perfectly positioned to sell its energy services to all these companies. During the Second World War President Franklin D. Roosevelt spoke out strongly against war profiteers. In the Bush administration the war profiteers aren't just clamoring to get access to the government; they are the government. There has always been a revolving door between government and industry, but for the most part political figures used to wait until their administration was out of office before cashing in on government connections. Under Bush the bonanza has been too tempting and many already charged for the door while still in office. The Washington Post says the exodus from the Homeland Security Department to the security industry is unparalleled. Instead of the former 'revolving doors' (*du draaideuren*) there now is an archway' as someone put it to Klein. Klein mentions some examples.

Public service is reduced to little more than a reconnaissance mission for future work in the disaster capitalism complex. The alliance between a small corporate elite and a right-wing government is not an aberration; it is where the entire Chicago School crusade - with its triple obsessions: privatization, deregulation and union-busting - has been leading.

One of the distinguishing features of the Bush administration had been its reliance on outside advisers and freelance envoys, most of them 'formers': former secretaries of state, former ambassadors and former undersecretaries of defense. While Congress played a rubberstamp role and the Supreme Court rulings are treated as gentle suggestions these mostly volunteer advisers have wielded enormous influence.

Take James Baker, a veteran of a less reckless era of US foreign policy - but who is he now, fifteen years later? He made a fortune from his government contacts, especially in Saudi Arabia and Kuwait during the first Gulf War. His Houston based law firm represents the Saudi Arabian royal family as well as Halliburton and Gazprom, and he became an equity partner in the highly secretive Carlyle Group which earned him an estimated \$180 million. Carlyle has profited enormously from the war, thanks to sales of robotic systems; the war in Iraq translated into a record-breaking \$6,6 billion payout to Carlyle's select investors.

Baker became special envoy on Iraq's debt. He did not have to cash out of the Carlyle Group or Baker Botts, he simply refused to do so. Bush backed his decision, leaving Baker in charge of persuading governments around the world to forgive Iraq's crushing foreign debt. From a confidential document that was submitted almost two months after Baker's appointment it becomes clear however that a consortium (including the Carlyle Group) offered Kuwait to collect from Iraq \$27 billion in unpaid debts from Iraq to Kuwait - in other words, to do exactly the opposite of what Baker was supposed to be doing as envoy, which was to convince governments that Saddam-era debts should be cancelled. But there was a price. In exchange for these services, the document said, the government of Kuwait would have to invest \$1 billion with the Carlyle Group.

The day after Klein's story about Baker was published in The Nation Carlyle backed out of the consortium, and several months later Baker cashed out of the Carlyle Group and resigned as a general counsel. But the real damage had been done. In 2005 and 2006 Iraq made \$2,59 billion in reparation payments for Saddam's war, most to Kuwait - resources that were desperately needed to meet Iraq's humanitarian crisis and to rebuild the country, especially after the U.S. firms pulled out with the aid money squandered and the job left undone.

Former Secretary of State George Schultz headed the Committee for the Liberation of Iraq, a pressure group formed in 2002 to help the White House build the case for war in the public mind. Schultz did his best in the papers, writing about rattlesnakes in the yard and the like. He did not disclose to his readers that he was a member of the board of directors of Bechtel, the water company that would collect \$2,3 billion to reconstruct Iraq. The Committee was headed by Bruce Jackson who had held the job of vice president for strategy and planning at Lockheed Martin just three months earlier. According to Danielle Brian of the Project on Government Oversight, a non-profit watchdog, it's impossible to tell where Lockheed ends and the committee (or the government) begins. There were two other hotshots from Lockheed on the committee. No one had to step down from Lockheed or sell their shares before joining the committee, which was certainly good for the committee members, for Lockheed's shares jumped from \$41,2 in March 2003 to \$102 in February 2007.

And then there was Henry Kissinger, who had supported Pinochet and who has monthly meetings with Cheney and with Bush half as frequently. But who does he represent? Since he started his privately held and secretive company Kissinger Associates his job has been to represent a roster of clients from Coca Cola to Union Carbide to Hunt Oil to the engineering giant Fluor, one of the biggest reconstruction contract winners in Iraq.

When he met with Cheney and Bush was it as an elder statesman or as high-priced lobbyist for his oil and engineering clients?

Then there are other figures such as Richard Perle, who was the Head of the Defense Policy Board and stepped down after the preparatory work had been done, just after the war started. These figures exist the gray zone between disaster capitalist, public intellectual and policy maker. If a Lockheed or Boeing executive went on Fox news to make the case for regime change in Iran (as Perle had done) their obvious self-interest negates any intellectual arguments they offer, yet they continue to be introduced as an 'analyst' and not as just an arms dealer with an impressive vocabulary.

Even their most committed critics tend to portray the neocons as true believers. However, with the War on Terror the neocons found a new, even more effective way to achieve their corporatist goals. Nowhere has the merger of political and profit-making goals been clearer than on the battlefields of Iraq.

PART 6: IRAQ Ch 16 Erasing Iraq

When Naomi Klein went to Baghdad in March 2004 to find out more about the privatizations going on it was hard to find people in Baghdad who were interested in talking about economics, which was understandable. Journalists and activists were exhausting their attention on the spectacular physical attacks, forgetting that the parties with the most to gain never show up on the battlefield. While Naomi and others are deliberating in a hotel room there is a bomb attack and they hurry outside. After three hours in Bagdad she is already breaking her rule: 'no bomb chasing.'

The invasion of Iraq was sold to the public on the basis of fear of weapons of mass destruction because, as Paul Wolfowitz explained, WMD were 'the one issue that everybody could agree on' - it was, in other words, the lowest common denominator (*Du: laagste gemene deler*).

The reason for the war favored by the most intellectual proponents of the war was the 'model' theory. Terrorism was coming from multiple locations in the Arab world, so the entire region was a potential terrorist breeding ground. The true cause was the region's deficit in free-market democracy. One country should serve as a catalyst; a different model should be put in the heart of the Arab-Muslim world. Thus fighting terrorism, spreading frontier capitalism and holding elections were bundled into a single unified project, a sort of three-for-one special.

When George W. Bush later simplified this agenda to 'spreading freedom in a trouble region' was he thinking of democracy or the free market? Only eight days after declaring an end to major combat in Iraq he announced plans for 'the establishment of a US-Middle East free trade area within a decade.' Dick Cheney's daughter Liz, a veteran of the Soviet shock therapy adventure, was put in charge of the project.

When the idea of invading an Arab country and turning it into a model state first gained currency after September 11 people were reminded of the first Gulf War 12 years earlier. The Pentagon had been using that battle as a template in workshops afterwards, and a paper that especially appealed to Rumsfeld was 'Shock and Awe: Achieving Rapid dominance', which addressed the question: how could we have won in half the time or less, and with far fewer forces? 'The key to success is to find out where to 'stick the needle' to make the Iraqi army collapse as soon as possible, thanks to new satellite technologies and new precision weaponry. The US military would now be in a far better position of insert the 'needles'. And there was the advantage that the Iraq military had already been weakened by United nations sanctions.

If nation-creation was going to happen in Iraq what was supposed to become of the nation that was already there? The unspoken assumption from the beginning was that much of it would have to disappear, an idea which contained the certainty of extraordinary colonialist violence.

It was the Latin American story all over again. In 1976, the year of Argentina's coup, Kissinger had said to the junta; 'If there are things that have to be done, you should do them quickly'. In that year, Gerald For was president, Dick Cheney was his chief of staff, Donald Rumsfeld was his secretary of defense, and Kissinger's executive assistant was an ambitious young man named Paul Bremer. These men faced no truth-and-justice process for supporting the juntas and went on to enjoy long and prosperous careers. They were still around three decades later to implement a strikingly similar experiment in Iraq.

In the Iraq war the architects of the war surveyed the global arsenal of shock tactics and decided to go with all of them – blitzkrieg military bombardment supplemented with elaborate psychological operations, followed up with the most sweeping political and economic shock therapy program attempted anywhere.

War as mass torture

The answer to the question 'where to stick the needles' appears to have been: everywhere. During the 1991 Gulf War roughly three hundred Tomahawk cruise missiles were fired over the course of five weeks; in 2003 more than 380 were launched in a single day. 67 % of the total number of precision guided cruise missiles ever made were fired at Iraq: a collective punishment for the whole country.

Another element was the media coverage. The invasion was conceived as a message from Washington to the world. Rumsfeld marshaled his media know-how from the business world into the marketing of fear to convey the message of the US supremacy. As the day of the invasion of Iraq drew closer U.S. news media outlets were conscripted by the Pentagon to 'fear up' Iraq. Harlan Ullman, a 'Shock and Awe' author, explained months before on CNN that 'you have this simultaneous effect, rather like the nuclear weapons at Hiroshima, not taking days or weeks but in minutes'. Iraqis who picked up the terrifying reports from relatives spent months imagining the horrors of Shock and Awe. One week before the invasion the Pentagon invited Washington's military press on a special field trip to Florida to show them the MOAB (massive ordinance Air Blast, also called Mother of All Bombs). The coverage can be compared to showing prisoners the instruments of torture.

When the war began the residents of Baghdad were subjected to sensory deprivations on a mass scale. Telephone exchanges and radio and tv transmitters went in the first days, and all the lights went out. Baghdad's residents could not speak to each other, hear each other or see outside, like prisoners.

Stripping of Comfort items

Next they were stripped: their most important institutions were desecrated, their history loaded onto trucks and disappeared. 'Gone are 80% of the museums 170.000 priceless objects' reported the Los Angeles Times. 'Baghdad is the mother of Arab culture' said 70-year old Ahmed Abdullah in the Washington Post 'and they want to wipe out our culture'. The looting was done by Iraqi's, and Rumsfeld did not plan for Iraq to be sacked – but he did not take measures to prevent it from happening either, or to stop it once it had begun. In the 1991 Gulf War 13 Iraqi museums were attacked by looters, and the Pentagon had been warned by leading archaeologists that it needed to have a strategy to protect museums and libraries, and a Pentagon memo listed 16 sites that were crucial. But nothing happened. Soldiers were hanging out by their armored vehicles watching as trucks loaded with loot drove by.

Two men who played pivotal roles in the occupation were Peter McPherson, senior economic adviser to Paul Bremer, and John Agresto, director of higher education reconstruction for the occupation. Mc Pherson: 'I thought the privatization that occurs naturally when somebody took over their state vehicle or began to drive a truck the state used to own, was just fine'. He termed the pillage a form of 'public sector shrinking'. Agresto saw his job as the 'remaking of Iraq's system of higher education from scratch. It was 'the opportunity for a clean start', a chance to give Iraq's schools 'the best modern equipment'. He explained that he didn't know anything about Iraq and that was good for he would arrive with 'as open a mind as I could have'. Apparently he didn't know that Iraq had the highest literacy rates in the Arab world and the best education system in the region. 89% of Iraqis were literate – a higher achievement than Agresto's home state of New Mexico where 47% of the population is functionally illiterate. This colonial blindness is a running theme in the War on Terror.

Then it was all made okay in a matter of weeks with the imports of cheap household goods and imported junk food. Paul Bremer announced two weeks after he arrived that Iraq was open for business. While the pick-up truck stuffed with loot were still being driven to buyers in Jordan, Syria and Iran, passing them in the opposite direction were convoys of flatbeds piled high with Chinese TVs, Hollywood DVDs and Jordanian satellite dishes. One culture was being burned and stripped and another was pouring in, prepackaged.

One of the businesses ready and waiting to be the gateway to this experiment in frontier capitalism was New Bridge Strategies, started by Joe Allbaugh, Bush's ex-head of FEMA (the agency that should have intervened after Katrina struck New Orleans). The firm promised to use its top-level connections to help US multinationals land a piece of the action. 'One Wal-Mart could take over the whole country' remarked one partner enthusiastically.

This more or less was the Bush administration's postwar plan.

Ch 17 Ideological Blowback *Iraq – erasing the economy*

In the Washington plan Iraq was going to become a frontier just as Russia had been in the early nineties, but this time it would be U.S. firms, not local ones or European, Russian or Chinese competitors, that would be in line for the easy billions. And this time Washington would cut out the middlemen: the IMF and the World Bank were relegated to supporting roles, and the U.S. was front and center. This was not free trade lite but free trade heavy.

Paul Bremer was the government. Enconced in Saddam's turquoise-domed Republican Palace, he received trade and investment laws by email from the Department of Defense, printed them out and signed them and imposed them by fiat on the Iraqi people.

By his own admission, Bremer knew little of Iraq. On September 11 2001 he had been working as managing director and 'senior political adviser' at the insurance giant Marsh and McLennan. The company had its offices in the North tower of the WTC and 295 of its workers died. Exactly one month later Bremer launched Crisis Consulting Practice, a new division of Marsh specializing in helping multinationals prepare for possible terrorist attacks and other crises. It offered services from political risk insurance to public relations and advice on what to stockpile.

This was ideal preparation for Iraq Inc. After replacing the cautious general Jay Garner as the top US envoy Bremer spent his first four months almost exclusively focused on economic transformation, passing a series of laws that together make up a classic Chicago School shock therapy program. Iraq's two hundred state firms were privatized immediately; corporate tax was lowered from 45 to 15% (straight out of the Milton Friedman playbook); foreign firms could own 100% of Iraqi assets and take 100% of the profits they made; investors could sign leases and contracts that would last 40 years and then be eligible for renewal (thus saddling future elected governments with these occupiers). The one area in which Washington held back was oil: Iraqi advisers warned that this would be seen as an act of war. Even a brand new currency was launched. A UK firm did the printing and trucks ran a thousand missions throughout the country to deliver the bills, at a time when 50% of the people still lacked drinking water, the traffic lights weren't working and crime was rampant.

The priorities were coming straight from the top. Rumsfeld later described Bremer's 'reforms' in a Senate committee as 'some of the most enlightened – and inviting – tax investment laws in the free world.' Bremer's laws transformed the invasion into an exciting fully privatized new market.

It was created, just as the homeland security market was, with a huge input of public money. For reconstruction alone the boom was kicked off with \$38 billion from the US congress, \$15 billion from other countries and \$20 billion from Iraq's own oil money.

When the initial billions were announced there were laudatory comparisons, also by Bush, with the Marshall Plan. What happened to the billions was different however. Under the original Marshall Plan American firms benefited by sending equipment and food to Europe, but the explicit goal was to help war-torn economies recover as self-sufficient markets, creating local jobs and developing tax bases capable of funding domestic social services - the results of which are in evidence in Germany's and Japan's mixed economies today. The Bush cabinet had in fact launched an anti-Marshall plan. Corporate America was enticed to come to Iraq to do the job (with a few bones tossed to 'the coalition of the willing'), which amounted to theft of Iraq's reconstruction funds from Iraqi's. Iraq was presented with a country-in-a-box, as it were – all Iraqis needed to do was to unwrap the present. Even Iraqis' low-wage labor wasn't required for the assembly process because US contractors preferred to import foreign workers whom they felt confident they could control. In Iraq the role for government employees – even US government employees – was cut to the bone. Bremer's staff was a mere fifteen hundred people to govern a sprawling country of 25 million. By contrast, Halliburton had fifty thousand workers in the region, many of them lifelong public servants lured into the private sector by offers of better salaries. In Iraq, as in the U.S., Bush's motto was: if a task could be performed by a private entity, it must be.

So private accountants designed and managed the economy. Bearing Point, an offshoot of KPMG, was paid \$240 million to build a 'market-driven economy'; private security firms and defense contractors trained Iraq's new army and police, and education companies drafted the post-Saddam curriculum and printed the new textbooks.

Meanwhile, the model pioneered by Cheney for Halliburton in the Balkans, where bases were transformed into mini-Halliburton towns, was adopted on a vastly larger scale. The Green Zone in Baghdad was from the start a Halliburton-run city-state, with the company in charge of everything from road maintenance to pest control to movie and disco nights.

The CPA (Coalition Provisional Authority) was far too understaffed to monitor all the contractors and moreover the Bush administration did not see this as a government task. So the Colorado-based engineering and construction company CH2M Hill was paid \$28 million in a joint venture with Parsons to oversee four other major contractors. Even the job of building 'local democracy' was privatized and the North Carolina based Triangle Institute, run by high-level Mormons, was paid up to \$466 million to bring democracy. James Mayfield told his mission back in Houston that he thought Muslims could be persuaded to embrace the Book of Mormon as compatible with the teachings of the prophet Muhammed.

Iraq once had one of the most sophisticated industrial economies in the region but once the foreign companies descended on the country, the machinery in Iraq's two hundred state firms stood still, frozen by chronic power blackouts. Mohamed Tofiq at the Industry Ministry told Klein that he had made frequent requests for generators, e.g. for Iraq's 17 cement factories, but American companies preferred to import their cement, like their workforce. Iraqi firms couldn't even get subscontracts. Bremer even specifically prohibited Iraq's central bank from offering financing to state-owned enterprises. While private Iraqi firms closed down in droves, Bremer's staff had few comforting words to offer. One of Bremer's deputies confirmed that many of the Iraqi businesses would indeed fail in the face of foreign competition, but that was the beauty of the free market. As Gaidar had said in Russia; 'So what? One who is dying deserves to die'. As is now well-known, nothing about Bush's anti-Marshall plan went as intended. Iraqis came to see the word 'reconstruction' as 'a joke that nobody laughs at'. Each miscalculation provoked escalating levels of resistance, and more and more violence broke out. As of July 2006, according to the most credible study, the war in Iraq had taken the lives of 655,000 Iraqis who would not have died had there been no invasion or occupation.

American officials had explanations for the failures that came down to 'blame the Iraqis'. ('The Arab world is unable to progress in any sphere of organized human endeavour' wrote a retired US Army officer in 'USA today'.) Religious extremism was far weaker before Iraq was turned into a U.S. shock lab. Before the war only 21% of the Iraqis favored an 'Islamic state' according to the Oxford Research Institute; six months later it was 70%.

After the toppling of Saddam Hussein Iraq badly needed and deserved to be repaired and united, a process that could only have been led by Iraqis. Instead the country was transformed into a cutthroat capitalist laboratory where foreign occupiers could unleash their unfettered greed with impunity. It was an ideological blowback of the Chicago School ideology.

The most widely recognized case of blowback was provoked by Bremer's first major act, the firing of approximately 500,000 state workers, most of them soldiers, but also doctors, nurses, teachers and engineers, the 'De-Baathification' as it was called. As becomes clear from Bremer's memoirs he did not stop to think how this would hinder his own work. Only someone deeply inclined to see government purely as a burden and public sector workers as dead wood could have made the choices Bremer did. Many of the 400,000 (armed) soldiers Bremer laid off went straight into the resistance. The decision to fling open the borders also infuriated Iraq's business class, and many responded by funding the resistance.

In the new constitution that the Bush administration drafted for Iraq the changes made in the wake of the crisis were locked in. Iraq's 1970 constitution, ignored by Saddam, would have been perfectly serviceable. Writing a constitution is always a difficult process for a country. The process of writing first an interim constitution and then a permanent one greatly exacerbated political strife; the social cleavages cracked open and have now in no way healed.

There were many links between the 'civil war' and the corporatist project at the heart of the invasion. The privatization of the 200 state companies provoked angry reactions in the workplaces. One worker in a factory that produced cooking oil and dishwashing liquid and other basics told Klein that fights with the management had broken out and he assured her that they would eventually set the factory on fire or blow themselves up inside it, 'but it will not be privatized'.

The occupation authority running out of the Green Zone was far too understaffed. The CPA had just three people assigned to the enormous task of privatizing Iraq's state-owned factories. (East Germany assigned 8,000 people to the project of selling off its state assets.) The CPA was staffed by people who lacked the baseline belief in the public sphere. Moreover they were young and inexperienced: a handful of twentysomething Republicans were given the key roles of overseeing Iraq's \$13 billion budget. This brat pack was not only alarmingly young, they were also frontline warriors against all relics of Keynesianism, many of them linked to the Heritage Foundation, ground zero of Friedmanism since its foundation in 1973. They shared a cultural antipathy to government and governing. In fact many seemed to believe that the governing process was unnecessary. Their job was simply to hand out the petty cash, which in Iraq took the form of handing shrink-wrapped bricks of hundred-dollar bills to contractors: government as a conveyor belt for getting public money into private hands.

The US insisted that the Iraqis should adapt to a strict free market. 'Protected businesses never, never become competitive' explained Michael Fleischer to Iraqi businessmen again and again, unaware apparently of the irony that the whole reconstruction was a vast protectionist American racket. Only 15,000 Iraqis were hired to work for the US-funded reconstruction. An American Iraqi who had moved back to Iraq told Klein: 'the economy is the number-one reason for the terrorism and the lack of security'.

If within 6 months of the invasion Iraqis had found themselves drinking clean water from Bechtel pipes, their homes illuminated by GE lights, their infirm treated in Parsons-built hospitals, their streets patrolled by competent DynCorp-trained police, many citizens would probably have overcome their anger. But none of this happened. Many corporations scammed wildly. The big contractors engaged in subcontracting e.g. to Kuwait companies, who subcontracted to Saudis who when the security situation got too rough finally subcontracted to Iraqi firms, often from Kurdistan, for a fraction of what the contracts were worth.

The first schools that Bechtel reconstructed in this way drew complaints immediately, and in the Baghdad children's Hospital that Klein visited there was raw sewage in the hallways and the men who were trying to

fix the toilets were so poor that they didn't have shoes. They were subsubsubcontractors, like the women who sew piecework at their kitchen table for a Wal-Mart contractor's contractor's contractor.

The mismanagement continued for three and a half years until all the major US reconstruction contractors pulled out of Iraq, their billions spent, the work still undone. Parsons was paid \$186 million to build 142 health clinics; only 6 were ever completed.

Bremer's CPA did not try to stop the various scams and shell games because the CPA was itself a shell game. This point was made when two former employees of Custer Battles security firm launched a whistleblower lawsuit against the company, accusing it of cheating on contracts with the CPA and defrauding the US government of millions of dollars, mostly for work done at the Baghdad International Airport. 'Probably the worst job I've ever seen in my 30 years in the army' testified a retired Brigadier. (Among other allegations Custer Battles is said to have appropriated Iraqi-owned forklifts from the airport, repainted them and billed the CPA for the cost of leasing the machines.) In March 2006 a federal jury in Virginia ruled against the company, finding it guilty of fraud, and forced it to pay \$10 million in damages. The company then claimed that the CPA was not government and therefore not subject to its laws.

The implications of this were enormous: if the CPA was not subject to US laws it meant that the contractors weren't subject to any law at all – U.S. or Iraqi. The judge ruled in the company's favor. In other words, the US government presence had been a mirage – there had been no government, just a funnel to get US taxpayer and Iraqi dollars to foreign corporations, completely outside the law. In this way, Iraq represented the most extreme expression of the antistate counterrevolution: a hollow state.

After handing out the billions the CPA just melted away. In Iraq the missing billions are keenly felt. People are drinking untreated water from a plant built decades ago that was never maintained, and they gather firewood in the forests because of the gas shortage.

The mosques and local militias filled the vacuum. The young Shia Moqtada al'Sadr runs his own shadow reconstruction in Shia slums from Baghdad to Basra, earning himself a devoted following. He also dressed the young men who had no jobs in black, and armed them with rusty Kalashnikovs. These militias are corporatism's legacy, too.

Bremer's Iraq was the logical conclusion of Chicago School theory: a minimal public sector with contractors shielded by full legal immunity. The purest incarnation of the ideology that gave it birth.

Ch 18: full circle Iraq- erasing democracy

America had expected Iraq to be so dazed by its firepower and so relieved to be rid of Saddam 'that they could be easily marshalled from point A to point B' - and then one morning they would be pleasantly surprised to be living in an Arabic Singapore, 'the Tiger on the Tigris'.

Instead, a great many Iraqi's immediately demanded a say in the transformation of their country. But the Bush administration's response was to dismantle democracy.

In the summer after Iraq's invasion there was so much pent-up hunger for political participation that Baghdad, for all its hardships, displayed an almost carnival-like atmosphere. Almost all summer there were daily protests against the layoffs outside the gates of the Green Zone; hundreds of newspapers flew off printing presses, and clerics preached politics during the Friday sermons – all impossible under Saddam. There were elections breaking out in cities, towns and provinces across the country, in which secular professionals and tribespeople worked together to set local priorities for reconstruction. Meetings were heated but also joyous.

This democratic enthusiasm put the Bush administration in a difficult position. Any relinquishing of power would mean abandoning the dream of turning Iraq into a model privatized economy. So Washington abandoned its democratic promises and instead ordered increases in the shock levels in the hope that that would do the trick.

When Bremer first arrived the US plan was to convene a large constituent assembly representing all sectors of Iraqi society, but after two weeks he scrapped the idea and decided to handpick an 'Iraqi Governing Council'. Picking the councilors 'is like a game of Blindman's Buff' (*Du. Blindemannetje spelen*) he wrote to president Bush, and; 'These people are hopeless; they couldn't organize a two-car parade'.

At the end of June, only in his second month, he sent word that all local elections that were breaking out spontaneously had to be stopped immediately. Iraqi's local leaders were going to be appointed by the occupation, just as the Governing Council had been. Elections were cancelled, or where governing committees were already in place they were replaced by appointed councils.

In November 2003 after conferring with Bush Bremer announced that general elections were off the table. Perhaps this was because a poll had shown that 49 % of Iraqi respondents said they would vote for a party promising 'more government jobs' and only 4.6 % said they would vote for a party promising more 'private sector jobs'.

In the first year of the occupation Bremer cut down democracy wherever it raised its head. Many people draw a link between the various decisions to delay democracy and the ferocious rise of resistance.

'Immediately after the Iraqi Governing Council was appointed in July 2003 the Jordanian mission and the UN's Baghdad headquarters were blown up. '.....the anger over the composition of this council and the UN support for it was palpable in Iraq' wrote the UN diplomat Salim Lone. Bremer's council was especially a

bitter betrayal for Iraq's Shia, the largest ethnic group. They were certain to dominate an elected government after decades of subjugation. At first the Shiites demonstrated; later especially Moqtada al-Sadr became a political force and started building up the Mahdi army.

As resistance mounted the occupation forces fought back with escalating shock tactics. These came late at night or early in the morning, with soldiers bursting through doors and shouting abuse. In the first three and a half years of the occupation an estimated 61,500 Iraqis were captured and imprisoned by US forces, usually with methods designed to 'maximize culture shock'. Roughly 19,000 remained in custody in the spring of 2007. Inside the prisons more shocks followed: buckets of freezing water; snarling, teeth-baring German shepherds; kicking, and sometimes electrical currents. The thousands of prisoners were brought to CIA agents, US soldiers and private contractors – many of them untrained – who conducted out aggressive interrogations.

This was a consequence of Rumsfeld's decision to run the military like a modern, outsourced corporation. In the early days of the occupation the Green Zone had played host to economic shock therapists from Poland and Russia; now it became a magnet for private security companies that padded their ranks with veterans of the dirty wars in Colombia, South Africa and Nepal. According to journalist Jeremy Seahill, Blackwater and other private security firms hired more than seven hundred Chilean troops – many of them special forces operators – for Iraqi deployment, some of whom had served under Pinochet. Bremer's chief security adviser James Steele had been a key figure in Central America's right-wing crusade, where he had served as chief U.S. adviser. Later he had been vice president at Enron and he had gone to Iraq as an energy specialist, but when the resistance rose he switched back to his old job.

The shock of the torture chambers emerged immediately following Bremer's most controversial economic shocks, in late August. The timing can clearly be tracked through a series of declassified documents that came to light in the wake of the Abu Ghraib scandal. On August 31 Major General Geoffrey Miller, warden of the Guantánamo Bay prison was brought to Iraq. Two weeks later Ricardo Sanchez, the top commander in Iraq, authorized a wide range of new interrogation procedures based on the Guantánamo model, which recreates the Kubark conditions.

Many of the most important prisoners were taken to a secured area near the Baghdad International Airport, run by a military task force and the CIA. The spookily ordered place and the torture menu became known when a sergeant who worked there approached Human Rights Watch because he and a few colleagues thought they were violating the Geneva Convention. There were other facilities dotted around Iraq where prisoners were subjected to the same Kubark-style sensory deprivation tactics. At the military base near al Quaim people were put in sweltering hot shipping containers, and near Tikrit in four feet by four feet boxes twenty inches deep, too small for an adult to stand or lie down, and there is evidence of electrocution. Many prisoners were released without charge, pushed off a truck after being told 'You were arrested by mistake'. The Red Cross says that U.S. military officials have admitted that somewhere between 70 and 90 % of the detentions in Iraq were 'mistakes'. Many of these human errors emerged from U.S.-run jails looking for revenge.

The situation is far worse in jails run by Iraqis. Saddam had always relied heavily on torture, and now it seemed to be condoned by the foreign authorities instead of abolished. According to an internal report from the 1st Cavalry Division 'Electric shock and choking are consistently used to achieve 'confessions' by Iraqi police and soldiers. By 2005 prisoners last seen in the custody of Iraqi commandos were found by the roadside in a way that is reminiscent of El Salvador: with a bullet hole in the head, hands still cuffed behind their backs, or with holes in the skull made by electric drills. There is also a widely watched t.v. show on the U.S. founded Al Iraquiya network where unmistakably tortured prisoners 'confess' to being insurgents, homosexuals and liars. Released prisoners have explained how this 'evidence' was all staged for this more high-tech method of inspiring terror into the civilian public.

In November 2005 173 Iraqis were discovered inside a dungeon in the Interior Ministry, badly tortured, who compiled a list of 18 people who had been tortured to death.

Iraq is disintegrating. Women have disappeared behind veils and doors, children disappeared from the schools (as of 2006 two thirds stayed home), professionals also disappeared: by February 2007 2000 had been killed and 12,000 had fled. Kidnapping is a local business that is booming; the vast majority of abductions are Iraqi professionals who are kidnapped for ransom money. By April 2007 roughly one in seven Iraqis have emigrated.

By January 2007 Bush and his advisers were still convinced that they could gain control of Iraq with 'one good surge, one that wiped out Moqtada al-Sadr.' The cheerful talk of clean slates and fresh starts has become 'pulling Islamism up from the root', and removing 'the cancer of radical islam'. The dream of total creation ('Iraq as a model for the new Middle East') has changed into a campaign of total destruction.

Failure: the new face of success

When Naomi Klein is leaving Baghdad in April 2004 every seat is filled by a foreign contractor fleeing the violence; fifteen hundred contractors pulled out of Iraq that week alone. Many would follow. By May 2007 900 contractors had been reported killed and more than 12,000 wounded in battle or injured on the job. By that time some rather dramatic policy reversals were in evidence. 'funding Iraqis to rebuild their own county was more efficient and cheaper than hiring lumbering multinationals who don't know the country or the language and surround themselves with \$900 dollars a day mercenaries and spend as much as 55% of their contract budgets on overheads' wrote the health adviser of the US Embassy. An even more dramatic

about-face came from the Pentagon. In December 2006 it announced a new project to get Iraq's state-owned factories up and running. 'They weren't quite so run-down as we thought...also we need to put these angry young men to work....' 'Why didn't we think of this earlier?' But the reconstruction money has already been spent.

At about the same time, December 2006, the Iraq Study Group fronted by James Baker issued its long-awaited report and came up with the plan to 'reorganize the national oil industry as a commercial enterprise' and to encourage investment in the oil sector by the international community'. Companies like Shell and BP would get thirty-year contracts and unheard of profits. Iraq was going through its most violent phase, and hardly any MP's had seen the proposal. When it was adopted by Iraq's cabinet in February 2007 it was even worse than anticipated – it placed no limits on the amount of profits that foreign companies can take and on how many Iraqi companies or workers would have to be involved. Most brazenly, it excluded Iraq's elected parliamentarians from having a say: it created a new body, the Federal Oil and Gas Council, which would be advised by 'a panel of oil experts from inside and outside Iraq'. This is a disgraceful resource grab: Iraq's oil profits are the country's only hope of financing its own reconstruction once some semblance of peace returns.

There was another consequence of the chaos in Iraq: the longer it wore on, the more privatized the U.S. presence became. Rumsfeld eliminated 55,000 jobs in the Department of Defense and the Department of Veteran Affairs in the first year of the Iraq deployment. An ever more elaborate privatized war industry took shape to prop up the bare-bones army – whether on the ground in Iraq or back home. Soldiers were treated at the Walter Reed Medical Center. Private security companies flooded into Iraq, providing security for top officials, guarding bases, escorting other contractors. But once they were there their roles expanded further. A year into the occupation Blackwater was engaging in all-out street combat, and during the 2004 uprising in Najaf it actually assumed command over active duty U.S. marines in a daylong battle with the Mahdi Army in which dozens of Iraqis were killed. At the start of the occupation there were ten thousand private soldiers, three years later there were 48 thousand from all over the world. CaCl International Inc was to provide information technology services but the wording was vague enough for this to be stretched to 'interrogation'. It is a typical temp agency, ready to fill whatever positions come up.

The corporation that gained most from the chaos was Halliburton. It had been awarded a contract to put out oil fires as in Kuwait, but when these did not materialize in Iraq the contract was stretched to include providing fuel for the entire nation, and also maintaining army vehicles and radios.

Even recruiting became a for-profit business. The private recruiters were paid bonuses every time they signed up a soldier in the U.S. 'If you want to eat steak, you have to put people in the army!' bragged one company spokesperson to its recruiters. Also training and health care were outsourced, which contributed to a shocking deterioration in maintenance and care.

All this was never discussed openly; it was what the military describes as 'mission creep'. During the first Gulf War in 1991 there was one contractor for every hundred soldiers, in 2003 in Iraq there was one for every ten soldiers, Four years later it was one for every 1,4 soldier.. British soldiers are already outnumbered by their countrymen working for private security firms at a ratio of three to one.

In scale, this kind of privatization has already overshadowed the United Nations. The UN budget for peacekeeping in 2006-7 was 5,25 billion – that's less than the \$20 billion Halliburton got in Iraq contracts, and the latest estimates are that the mercenary industry alone is worth \$4 billion. For companies that are clever and farsighted, like Halliburton and the Carlyle Group, the destroyers and the rebuilders are different divisions of the same corporations.

The Bush administration has taken several important and little-examined measures to institutionalize the privatized warfare model. In his State of the Union address for 2007 Bush announced the creation of a brand-new civilian Reserve Corps 'to ease the burden on the Armed Forces', in other words, a standing contractor army. Corporations and consultants are lined up on 'presigned contracts' from the office of Reconstruction and Stabilization' so that they can leap into action any time. Now a new frontier can open up wherever the next disaster strikes.

PART 7 – THE MOVABLE GREEN ZONE

Ch 19 – blanking the beach; 'the second tsunami' *The tsunami, Sri Lanka, the Maldives etc*

Naomi Klein came to Arugam Bay in Sri Lanka 6 months after the tsunami. The December 26 2004 tsunami took the lives of 250,000 people and left 2.5 million people homeless.

Before the tsunami, the restaurants bought fish straight off the boats on the beach and the fishing people provided just the splash of authenticity that most rugged travellers were looking for.

After the cease-fire agreement between the Tamil Tigers and the Colombo government in 2002 the east coast had been pumped up in the guidebooks as 'the second Phuket'. Also because of the ceasefire many fishermen who had fled returned to the plentiful waters along the eastern coast. The beach was getting crowded and local hotel owners began complaining that the fishermen's huts blocked their views. Some of them started lobbying the local government to relocate the boats. Six months before the tsunami hit there was a mysterious fire on the beach, and 24 fishing huts were reduced to ash, but the villagers became more determined than ever to stay.

When the tsunami came it did what the fire couldn't do: it cleared the beach, which became pristine again, a vacation Eden.

Fishing families were forbidden to rebuild: 'New rules' they were told. Everything had to move 200 metres back, but there was no land available there. This happened along the whole east coast: the beach was off limits. Fishing people made up 80% of the victims (35,000 killed and 1 m displaced in Sri Lanka). They were moved into temporary camps (grim barracks made of tin sheet), camps that became dirty and hot and disease-ridden and were patrolled by menacing machine-gun wielding soldiers. These 'safety measures' were not applied to the tourism industry. As long as the hotel owners classified their constructions as 'repair' they were free to build.

What the fishermen suspected became true when a document was leaked to the press: 'Arugam Bay Resource Development Plan'. It called for Arugam Bay to be levelled and rebuilt, transformed from a hippie-charming seaside town into a high-end 'boutique tourism destination' – five-star resorts, luxury 300 dollars a night ecotourism chalets, a floatplane pier and a helipad. It was to be a model for 30 new nearby 'tourism zones' turning the east coast of Sri Lanka into a south Asian Riviera. It was to be financed with aid money raised in name of the victims of the tsunami.

For the communities of Arugam Bay the 'reconstruction' meant nothing less than the deliberate destruction of their culture and theft of their land. The plan sparked outrage and demonstrators marched in front of the hotels to the district government in a neighbouring town, and accused their elected representatives of corruption and spending aid money meant for the fishing people. But that didn't have much effect. The director of the Sri Lanka Tourist Board in Sri Lanka said 'if they come back and rebuild – we will again be forced to demolish....the beach will be clean.'

In the first days after the tsunami everyone was a relief worker and the ethnic barriers that had divided the region suddenly melted away. Similar cross-cultural aid was breaking out all over the country: the tsunami also scrubbed away intractable hatreds. Help came coming from individuals and then from governments and at first it reached the victims through NGOs: emergency food and water, tents. The camps were meant as a stop gap, there was certainly enough money to get real homes built. But 6 months later progress had all but stopped, hardly any permanent homes had been built, and the temporary camps were starting to look like permanent shantytowns.

Aid workers complained that the Sri Lanka government was putting up roadblocks at every turn. In fact there was more at stake.

The grand plan to remake Sri Lanka predated the tsunami by two years. The usual players descended on the country after the cease-fire by the Tamil Tigers and the government: USAID, the World Bank and its offshoot the Asian Development Bank. A consensus emerged that Sri Lanka's advantage lay in the fact that it was one of the last places left uncolonised by go-go globalisation: beautiful beaches, a remarkable amount of surviving wildlife, mountains with lots of temples of different religions – 'all contained in the space of West Virginia' (said USAID). They planned opening it up to adventure ecotourists, with Buddhist meditation centres, Hindu ayurvedic medical clinics, etc. Just the thing for chains like Aman Resorts that had already opened up stunning properties on the south coast with rooms going for 800 dollars. USAID launched a Washington-style lobby group that managed to increase the promotion budget from \$500,000 to \$10 m a year. The American Embassy launched its own program to advance American economic interests. But before that Sri Lanka needed 'drastic improvements' – fast. These were neatly laid out in 'Regaining Sri Lanka'. This demanded many sacrifices of traditional villages and fishing ports. The fishing that remained would be dominated by large industrial trawlers operating out of deep ports. There would be mass layoffs and the prices of services would have to go up. Since Sri Lanka had driven itself deep into debt buying weapons the government couldn't pay for all these rapid upgrades all on its own. The usual deals were on offer from the World Bank and IMF.

But the Sri Lankans simply didn't believe that the sacrifices demanded in 'Regaining Sri Lanka' would pay off. It was rejected first through a wave of militant strikes and street protests, then at the polls, in April 2004, by a leftist coalition that vowed to scrap the whole plan.

8 months later the tsunami hit. The newly elected government would need billions from foreign creditors for reconstruction. The militant farmers and fishing people were otherwise occupied at the moment. The new president claimed that for her the tsunami had helped her to see the free-market light....'nature taught us a lesson'....

Four days after the wave hit the government pushed a bill through that paved the way for water privatisation, a plan citizens had been resisting for years. The government also raised the price of gasoline and began developing legislation to break up the national electricity company. Hardly anybody noticed that this 'second tsunami of corporate globalisation' was happening. The head of Sri Lanka's National Fisheries Solidarity Movement compared it to pillage following war.

Washington lenders moved in quickly.

They had had a dress rehearsal in the period following Hurricane Mitch in October 1998 in Honduras, Guatemala and Nicaragua. There help came, but at a steep price. In the two months after Mitch struck, with the country still knee-deep in rubble, the Honduran congress passed laws allowing the privatisation of airports, seaports and highways, the telephone company, the electric company, and parts of the water sector. It overturned progressive land-reform laws and rammed through a radically pro-business mining law

drafted by industry. It was much the same in the neighbouring countries. Over the next few years the sales continued, often at prices far below market value.

The buyers were mostly former state-owned companies from other countries that had been privatized themselves and were now scouring the globe for new purchases that would raise their share prices. Telmex from Mexico, Unión Fenosa from Spain, San Francisco International Airport etc. 'Destruction carries with it an opportunity for foreign investment' announced Guatemala's foreign minister on a trip to the World Economic Forum in Davos in 1999.

By the time the tsunami hit, Washington was ready to take the Mitch model to the next level – aiming not just at individual new laws but at direct corporate control over the reconstruction.

Just one week after the tsunami it created the Task Force to Rebuild the Nation. This group, and not the Sri Lankan parliament, would have full power to implement a master plan. It was made up of the country's most powerful business executives from banking and industry. Five of the ten members had direct holdings in the beach tourism sector. There was no one from the fishing or farming sectors, no environmental expert or scientist. The chair was Mano Tittawella, the former privatisation czar. 'This is an opportunity to build a model nation' he declared'. Thus the express wishes of voters were summarily brushed aside and replaced with direct unelected rule by industry – a first for disaster capitalism.

The Task Force also redirected the aid money to the superhighways and industrial fishing ports that had met with so much resistance before the catastrophe. Kumari, of the Sri Lanka Fisherman Solidarity group: 'Now just three weeks after the tsunami, they give us the same plan. It is obvious that they had it all ready to go before'.

Washington backed up the task force with the kind of reconstruction aid that was by now familiar from Iraq: megacontracts to its own companies, despite their role in the Bagdad debacle, to build a deep-water harbours, a new bridge etc. Kumari: 'it isn't just that aid isn't aiding – it is that it is hurting'. The only direct money that the US government was spending on small –scale fishing people was a 1 million grant to 'upgrade' the temporary shelters to make them permanent. The proliferation of such shacks has become as much an accepted feature of the global economy as the explosion of 800 dollar hotels. A young woman fisherwomen with two small children now going hungry with her family on a parched piece of land tells Naomi Klein: 'If you have something for me – put it in my hand'.

Sri Lanka wasn't the only country that got hit: Thailand, the Maldives, Indonesia and India also got hit. In India 150 women were driven to sell their kidneys in order to buy food. All the tsunami-struck countries imposed 'buffer zones' at the seaside. In Aceh they were initially two kilometres wide. According to a report by the respected NGO Action Aid the same patterns were repeated everywhere. It concluded that the problems were structural and deliberate. 'Governments have stood by or been complicit as land has been grabbed and coastal communities pushed aside in favour of commercial interests.'

But nowhere compared to the Maldives. There the government used the tsunami to clear its citizens out of the vast majority of the country's livable zones. The Maldives' export product is tropical leisure: 90% of the state's revenues coming directly from beach holidays of a particularly decadent, enticing kind. The elite clientele is offered the promise of total seclusion that only private islands can provide, with villas built over a lagoon and underwater restaurants and villas coming with private butlers going at 8000 dollars a night. The man who reigns over this pleasure kingdom is President Maumoon Abdul Gayoom, who has held on to power since 1978, and who keeps critics out of sight on prison islands.

Before the tsunami the government had been looking to expand the number of resort islands to meet growing demand, and they had been trying to persuade citizens of small islands to move to a handful of larger, more heavily populated islands that tourists rarely visit. They were supposed to offer better protection from rising waters, but the 'population consolidation' program was largely unsuccessful.

After the tsunami the government just announced that everyone who wanted tsunami assistance would have to move to five designated 'safe islands'. The Maldives government claims that the 'Safe Islands Program', supported and funded by the World Bank and other agencies, is being driven by public demand to live on 'bigger and safer islands'. But many islanders said they would have stayed on their home islands if the infrastructure had been fixed.

In Dec 2005, one year after the tsunami, the government announced that 35 islands were available to be leased to resorts for up to 50 years. Meanwhile on the so-called safe islands unemployment was rampant and violence was breaking out between the newcomers and the original residents.

In the tsunami areas hundreds of thousands of poor, brown-skinned people fishing people were moved against their wishes to make room for ultrarich, mostly light-skinned people, the 'high-yield' tourists. Backed up by the guns of local police and private security it was militarised gentrification; class war on the beach. As in colonial times, land was declared 'empty' or 'wasted'- an ugly historical resonance, evoking stolen land and attempts to 'civilise' the natives. Some groups tried to prevent the land grabs. In the capital posters appeared featuring caricatures of Western aid workers stuffing themselves with money while Sri Lankans starved. The NGOs bore the brunt of the anger at the reconstruction because they slapped their logos on every available surface, while the World Bank, USAID and government officials rarely left their offices in town. What the NGOs offered was inadequate, and there was a lot of resentment at 'the NGO wild life': high-end hotels, beachfront villas, and the brand new white SUV's (sports utility vehicles'), too wide and powerful for the country's dirt roads, with their tinted windows and blasting air conditioners. Resentment culminated in

17 Sri Lankans working for Action Against Hunger being massacred in their office near Trincomalee. It sparked a new wave of fighting, and many NGOs left.

Now the aid workers had to deal with a new wave of displaced people: the hundreds of thousands leaving their homes because of the violence. In July 2006 the Tamil Tigers announced that the cease-fire was over. Reconstruction was off, and the war was back on. Only a fraction of the homes hit by the tsunami had ever been rebuilt, and the new structures were now being hit by the fighting.

The enormous outpouring of generosity after the tsunami had held out the rare possibility of a genuine peace dividend – but instead it has had to face what political scientist Roland Paris called ‘a peace penalty’: a combative economic model that made life even harder. Everywhere the Chicago School crusade has triumphed it has created a permanent underclass of between 25 and 60 % of the population. But in a country ravaged by disaster and ethnic conflict the dangers are greater than poverty only. There are, as Keynes argued all those years ago in the 1930’s, political consequences, including the outbreak of even bloodier wars.

Ch 20 Disaster Apartheid: a world of Green zones and Red Zones *New Orleans*

In the second week of December 2005 Naomi Klein is in New Orleans with her husband and with Andrew the documentary maker, when they have an accident. She was worrying whether she would end up in the horrific scenes she had seen at the makeshift clinic at the New Orleans airport where evacuees were left unattended for hours, or in the Charity Hospital where staff had struggled without power to keep patients alive, and then she passed out.

She woke up in the most modern and calm hospital she had ever been in, the Ochsner Medical Center, which offers ‘healthcare with peace of mind’. Doctors, nurses and orderlies far outnumber the patients. To the veteran of the Canadian public health care that Naomi is, the luxury was a wholly unfamiliar experience. When she asks one doctor what would happen to the other place, Charity Hospital, which had barely been functioning even before the storm, the doctor said: ‘they’d better reopen it. We can’t treat those people here’. She realises that this affable young doctor must be a graduate of a private medical school who had been an intern at a private hospital and who had never been trained to see New Orleans’ uninsured, overwhelmingly African-American residents as patients.

When Katrina hit, the social divide in new Orleans became very obvious: the economically secure drove out of town, checked into hotels and called their insurance companies. The 120,000 people in New Orleans without cars waited for help that did not arrive. The idea that the state would come to the aid of the people when a disaster struck had apparently been abandoned, without any public debate. The levees were never repaired, the public transit system failed, and the city’s idea of disaster preparedness was: passing out DVDs telling people that if a hurricane struck they should get out of town.

The FEMA (Federal Emergency Management Area) was run by corporations. In the summer of 2004, a year before Katrina hit, the state of Louisiana was refused funds to develop a contingency plan, due to cutbacks, but that same summer FEMA awarded a \$500,000 contract to a firm called Innovative Emergency Management. Its task was to come up with a ‘hurricane disaster plan for Southeast Louisiana and the city of new Orleans’. The company spared no expense on expert meetings and reports; eventually the bill for the exercise doubled to \$1 million. The firm came up with good scenarios but when the hurricane hit nothing happened because 8 months after the contractor had submitted his report no action had been taken: there was no money to do the follow-up. After Katrina had hit the FEMA could not even seem to locate the new Orleans Superdome, where 23,000 people were stranded without food or water, despite the fact that the world media had been there for days.

For some free-market ideologues this ‘can’t do government’ provoked a crisis of faith, as articles in the newspapers proved. However, Milton Friedman wrote in his Wall Street Journal that Katrina was ‘also an opportunity’. Fourteen days after the levees were breached the Heritage Foundation hosted a meeting that came up with a list of ‘Pro-Free market Ideas for Responding to Hurricane Katrina and High Gas Prices’. 32 policies straight out of the Chicago School playbook all packaged as ‘hurricane relief’. ‘Suspend wage laws; make the entire region a flat-tax free enterprise zone, and also: give parents vouchers to use at (private) charter schools.

All the proposed measures were announced by President Bush within a week. He was eventually forced to reinstate labor standards though these were largely ignored by contractors when the work got going eventually. Another idea that gained presidential support, was the repeal of environmental regulations and permission for new oil refineries and for drilling in the Arctic National Wildlife Refuge.

Within weeks the familiar Iraq gang snatched up the biggest contracts for reconstruction: Halliburton, Blackwater, Parsons, Fluor, Bechtel, Shaw, CH2M: their contracts ended up totalling \$3,4 billion, no open bidding required. No opportunity for profit was left untapped. For instance a funeral conglomerate working very slowly forbade local volunteer morticians to step in to help. They charged \$12,500 a victim, failed to properly label many bodies and for a year after the flood decayed corpses were still being discovered in attics. A religious group that had never done more than organize a youth camp was paid \$5,2 million to build a crucial base camp for emergency workers that was never completed.

The Bush administration increased the amount spent on contractors by roughly \$200 billion between 2000 and 2006. The Republicans were repaid by campaign contributions and/or loyal foot soldiers for the next

elections. Since 2000 the top 20 service contractors have spent nearly \$300 million on lobbying and donated \$23 million to political campaigns.

Working together at reconstruction might have been experience that could have healed and re-empowered the communities, but the locals could only look on: again hardly any local people were hired, except as subsubcontractors. The workers who actually hammered out the blue tarpaulin sheets on the damaged roofs were paid \$2 a square foot. A quarter of the workers rebuilding the city were immigrants lacking papers, almost all Hispanics, making far less money than legal workers.

In November 2005 the Republican-controlled Congress announced that it needed to cut \$40 billion from the federal budget, and the cutbacks were from student loans, Medicaid and food stamps. So the poorest citizens subsidized the bonanza twice, first in the form of unregulated handouts straight to the contractors and then via the cutbacks.

Disasters have become windows into a ruthlessly divided future in which money and race buy survival. Baghdad's Green Zone, protected by five meter thick walls, is like a giant cruise ship in the middle of the Red Zone that is Iraq, as if the protected emit the message: 'we are the chosen, our lives are more precious'. The Green Zone emerges everywhere. In New Orleans three thousand workers were fired in the month after Katrina. Thousands of teachers were also fired, paving the way for the conversion of dozens of public schools into charter schools, just as Friedman had called for. The Charity Hospital was still closed after two years and housing projects stood boarded up and empty. The American Society of civil Engineering said in 2007 that the U.S. had fallen so far behind in maintaining its public infrastructure that it would take more than a trillion and a half dollars to bring it back up to standards. Instead, these expenditures are being cut back even further. Infrastructures are left to rot; meanwhile the well-off withdraw into gated communities, their needs met by privatised providers.

New Orleans tourism lobby had been eyeing some of the projects for some time: 'This is a great location for bigger houses and condos. The only problem is you got all these poor black people sitting on it!'

In one year the disaster response industry exploded. One of the more ambitious ventures was Help Jet, an airline in West Palm Beach, Florida. Help Jet bills itself as 'the first hurricane escape plan that turns a hurricane evacuation into a jet-setter vacation'. It books holidays for its members at five-star gold resorts, spas or Disneyland. 'No hassle with the crowds, no standing in line, just a first class experience that turns a problem into a vacation.....' In 2006 the Red Cross signed a new disaster-response partnership with Wal-Mart. In Orlando Florida there is now a fast-growing annual trade show for emergency situations. 'Man, this is huge business – I'm not in the landscaping business any more, I'm going to be a hurricane debris contractor' said one exhibitor.

Many of the private contractors spend between 20 and 50% on overhead. Much of those overheads have gone into corporate infrastructure (earth-moving equipment, planes and trucks).

In the case of Blackwater the money has gone into paramilitary infrastructure: a private army of 20,000 on a massive military base in North Carolina, humanitarian relief packages, helicopters, a Boeing 767, even a Zeppelin, a 20-acre man-made lake with shipping containers, a training facility with 80 dog teams, etc. Blackwater has been called 'al Qaeda for the good guys'; a striking analogy. Weak states create a market for alternative security forces, whether Hezbollah, Blackwater, The Mahdi Army or the gang down the street in new Orleans.

The actual state, meanwhile, has lost its ability to perform its core functions without the help of contractors. Its own equipment is out of date and the best experts have fled to the private sector. (The CIA is losing so many staffers that it has had to ban contractors from recruiting in the agency dining room.) Under Bush, the state has all the trapping of government but it no more does the actual work of governing than the employees at Nike's Beaverton campus stitch running shoes.

The companies increasingly regard both the state and non-profit organisations as competitors. A 2006 report warned that 'the compassionate federal impulse to provide emergency assistance to the victims of disasters affects the market's approach to managing its exposure to risk.' Mercenary firms have been loudly claiming that they are better equipped to engage in peacekeeping in Darfur than the UN.

The U.S. government is probably heading for an economic crisis because of overspending. Then the parallel corporate state will rent back its disaster infrastructure to whoever can afford it. Looking ahead to possible ecological and political disasters we assume we are all going to face them together, but perhaps our leaders are sanguine about climate change because they are confident they will be able to buy their way out of the worst of it. 'Security will become a function of where you live and who you work for, much as health care is allocated already', writes Fast Company Magazine.

This future sounds much like the present in New Orleans, where two very different kinds of gated communities emerged from the rubble. On the one hand were the so-called FEMA-villes: desolate, out of the way trailer camps for low-income evacuees built by Bechtel or Fluor and patrolled by private security companies who kept out journalists. On the other hand were the bubbles of functionality that seemed to have seceded from the state altogether. Between them was the New Orleans version of the Red Zone, a no-man's land where the murder rate soared. "We're livin' like Haiti without no government" sang rapper Juvenile that first summer.

Another aspect of the same development can be found in a wealthy Republican suburb outside Atlanta, Sandy Springs. The inhabitants voted to make their own area a corporation which could spend its taxes and services on its own 100,000 citizens and not have the revenues distributed throughout the larger Fulton

County. The problem was that Sandy Spring had to build government structures (tax collection, zoning, parks and recreation) from scratch. In September 2005, the same month that New Orleans flooded, CH2M Hill offered to do the job for the starting price of \$27 million a year, and a few months later Sandy Springs became the first 'contract city'. Neighbouring communities took their cue from Sandy Springs and also became stand-alone cities. They have even proposed to form their own county, which has met fierce opposition from politicians who say that partitioning the county would create a failed state on the one hand and a hyperserviced one on the other.

It was fitting that this new ground was broken by CH2M Hill. This firm had become a master of privatizing the state in extraordinary circumstances in Iraq, in Sri Lanka and in New Orleans – now it was privatizing the state in ordinary circumstances. The testing phase of extreme privatization was clearly over.

Ch 21 Losing the peace incentive *Israel*

For decades, the conventional wisdom was that relative peace and stability were required for sustained economic growth. At the 2007 World Economic Forum in Davos, Switzerland, however, political and corporate leaders were scratching their heads over what was called the 'Davos Dilemma': 'the contrast between the world's favourable economics and troublesome politics'. The world faced a series of shocks 'and yet it found itself in a golden period of broadly shared growth'.

This puzzling trend has also been observed through an economic indicator called the 'guns-to-caviar index'. This index tracks the sales of fighter jets (guns) and executive jets (caviar). For many years the one went up when the other went down, and vice versa, but since 2003 (Iraq) spending on both types of jets has been going up rapidly and simultaneously, which means that the world is becoming less peaceful while accumulating significantly more profit.

The growth of India and China played a role in the growth of the world economy, but so did the expansion of the narrow military-industrial complex into a whole disaster capitalism complex.

The scale of the revenues at stake is certainly enough to fuel an economic boom. Lockheed Martin received \$25 billion of U.S. taxpayer money in 2005 alone, more than the gross domestic product of 103 countries.

Conventional stock prices underperformed at the time but the U.S. stock markets were saved from a prolonged crash after September 11 by firms like Lockheed. Also heavy construction stocks went up: 250% between 2001 and 2007. After September 11 2001 the Dow Jones plummeted 685 points as soon as the markets reopened, but on July 2005, the day four bombs ripped through London's public transport system, the stock market closed higher than it did before (Nasdaq up 7 points). Also the oil sector's fortunes improved with every war, terrorist attack and Category 5 hurricane.

The recent spate of disasters has translated into such spectacular profits that many people around the world have come to the same conclusion: the rich must be causing the catastrophes so that they can exploit them. One thirds of U.S. residents thought so after 9/11, and most of the poor in New Orleans, and in Sri Lanka many people say the tsunami had been caused by underwater explosions detonated by the U.S..

The truth is at once less sinister and more dangerous: given the high temperatures, both climatic and political, future disasters are probable even without dark conspiracies. All indications are that by staying in the present course (appetite for easy, short-term profits without environmental regulation) disasters will keep coming. Creating disaster can therefore be left to the market's invisible hand; this is one area in which it actually delivers.

The component industries of the disaster capitalism complex work very hard to make sure that the current trends continue unchallenged. Large companies, and Washington think tanks heavily funded by weapon and homeland security industries, have spent a lot of money and energy on the climate-change denial through lobbying and through the media. The homeland security sector (e.g. data-mining) is becoming increasingly integrated with media corporations. In 2004 General Electric which owns NBC purchased InVision (high-tech bomb devices etc), which got a staggering \$15 billion in Homeland Security contracts between 2001 and 2006, more of such contracts than any other company. It is a dangerous development but makes sound business sense.

Israel

If instability is the new stability, Israel is often held up as a sort of Exhibit A. It has been experiencing its own Davos Dilemma: wars and terrorist attacks have been increasing, but the Tel Aviv Stock Exchange has been rising to record levels. Growth rates in 2007 are rivalling those of China and India.

The reasons are not mysterious. Years before U.S. and European companies, Israeli technology firms were busily pioneering the homeland security industry and they continue to dominate the sector today. There are about 350 firms in the field, and 30 new ones entered the market in 2007.

Israel's current ability to combine guns and caviar is the culmination of a dramatic shift in the nature of its economy over the past 15 years, one that has a profound impact on the parallel disintegration of the prospects for peace. The last time there was a credible prospect for peace was in the early nineties. Communism had collapsed., and seeing the explosion of 'emerging markets' around the world Israeli corporations were tired of being held back and wanted to be part of the high-profit borderless world. In 1993 Shimon Peres, then foreign minister, said to a group of Israeli journalists; 'We are not seeking a peace of flags. We are interested in a peace of markets'. A few months later in September Rabin and Arafat shook hands in the White House lawn to mark the Oslo Accords and a year later they shared the Nobel Prize.

It was merely an agreement to start a process, with all the contentious issues (occupied territories, Jerusalem, Palestinian self-determination etc.) left unresolved. The negotiators claimed that the Oslo strategy was to push ahead with a 'peace of markets' based on the idea that by flinging borders open concrete improvements in daily life might later lead to a 'peace of flags'.

Then it all went horribly wrong.

Israelis tend to blame suicide bombings and Rabin's assassination. Palestinians point to Israel's frenetic expansion of illegal settlements as proof that the peace process was founded 'on a neocolonialist basis'. But two other factors contributed to Israel's retreat into unilateralism. One was the influx of one million Soviet Jews after the collapse of communism. (the handshake on the White House lawn was exactly three weeks after Yeltsin sent in the tanks to set fire to the parliament buildings). Such a large influx into such a small state compares to the entire population of Greece immigrating into France. The Israelean population increased by 18%: a cheap workforce so there was no longer any need to employ Palestinians. The other factor was the change from an economy based on traditional goods to one disproportionately dependent on selling expertise and devices relating to counterterrorism, which created an appetite inside Israel's wealthy and most powerful sectors to specialise in a War on Terror.

On March 30 1993 Israel had begun its policy of 'closure', sealing off the border, preventing the 150.000 Palestinians from getting to their jobs and selling their goods. It began as a temporary measure but quickly became the new status quo, with territories cut off not just from Israel but from each other. Palestine used to be the run-down dormitories of the underclass of the Israeli state, but now it became a prison. In the same period, between 1993 and 2000, the Israeli settlers living in the occupied territories doubled their numbers, and many settler outposts became lush fortified suburbs with their own restricted-area access codes. In those years Israel continued to claim key water reserves in the West Bank, feeding the settlements and diverting scarce water back to Israel.

Many Russian immigrants were easily lured into the occupied territories where houses and apartments were far cheaper and loans and bonuses were on offer. Some ambitious settlements even recruited in the former Soviet Union; Ariel today stands as a kind of mini-Moscow. Many Russians made the move hardly knowing where they were going.

In the mid- and late nineties Israeli companies took the global economy by storm, particularly high-tech firms, Tel Aviv and Haifa becoming Middle Eastern outposts of Silicon Valley.

Once again, the new arrivals played a decisive role. Among the immigrants there were more highly trained scientists than had graduated from Israel's top tech institution in the eighty years of its existence. These were many of the scientists who had kept up the soviet side of the Cold War. As one Israeli economist put it: the years after the White House handshake were 'one of the most breathtaking eras of economic growth and opening up of markets in [Israel's] history.'

With the exception of a corrupt elite around Arafat, Palestinians were conspicuously absent from the post-Oslo boom. The effects of 'closure' were catastrophic; GNP plummeted close to 30% and by the following year poverty among Palestinians was up 33%. 60% of the Palestinian labor force was either unemployed or severely under-employed. For them it was not a peace of markets but of disappearing markets. Less work, less freedom, and less land.

When Ariel Sharon visited the Tremple Mount in September 2000 the tinderbox went up in flames: it set off the second intifada. Generally Arafat is blamed for the failure of the peace talks in Camp David in 2000 or at Taba in 2001. But the deals he was offered were not really the prizes they were made out to be: hardly any redress to Palestinians who had been forced from their homes in 1948, minimal rights to self-determination. One factor why Israel wasn't willing to move was that Israel's niche in the global economy turned out to be information technologies, which meant that the key to growth was sending software and computer chips to Los Angeles and London, not shipping heavy cargo to Beirut and Damascus. There was no need to have friendly relationships with the Arab neighbors and to end the occupation.

The second phase of Israel's economic transformation came after the dot-com economy crashed in 2000, and Israel's leading companies needed to find a new niche. Israel was harder hit by the dot-com crash: it went into immediate free-fall, and by June 2001 analysts were predicting that roughly 300 high-tech firms would go bankrupt, with tens of thousands of layoffs. The Israeli government quickly intervened with a powerful 10,7 increase in military spending, partially financed through a cutback in social services.

The government encouraged the tech industry to branch out into security and surveillance. Young soldiers experimented with network systems and surveillance equipment while they fulfilled their mandatory military service. A lot of new start-ups were launched, and when the market for security services and devices exploded after September 11 the Israeli state openly embraced a new economic vision: they would focus on a homeland security boom. The main proponents were finance minister Netanyahu who embodied Israel's embrace of Chicago School economics, and central bank chief Stanley Fischer, chief architect of IMF's shock therapy adventures in Russia and Asia.

By 2003 Israel was already making a stunning recovery and by 2004 the country had seemed to pull off a miracle: it was performing better than almost any western economy. Israel had become a shopping mall for homeland security technologies. The timing was perfect: governments around the world were suddenly desperate for terrorist hunting tools and for human intelligence know-how in the Arab world. Israel has hosted many homeland security conferences, which partially filled the decrease in traditional tourism. During such gatherings the delegates are taken to popular tourist destinations where the local security systems are

demonstrated. At a 2006 conference the military simulated a mass casualty disaster that started in Ness Ziona and concluded in the Asaf Harofeh Hospital. These are not policy conferences but highly lucrative trade-shows. Israel's tech sector, much of it linked to security, now makes up 60 % of all exports. The War on Terror industry saved Israel's faltering economy, much as the disaster capitalism complex helped rescue the global stock markets.

A sample of the industry's reach:

- technology developed by Nice Systems records and analyses all phone calls made to NY Police Department, L. A. Police, Time Warner, and R.Reagan airport.
- Verint video surveillance: London tube system, U.S. Dep of Defense, etc.
- 'smartcard' IDs: cities of L.A. and Columbus, European 'biometric' passports, etc.
- Check Point: security solutions for firewalls in the computer networks of many firms.,
- New Age Security Solutions has developed a system called Behavior Pattern Recognition which has been installed in many airports. New Age training has been provided for the conflict-ridden Niger Delta, the Netherlands Ministry of Defense, the guards of the Statue of Liberty, etc.
- the Golan Group (now based in Florida) provided training for work along the Mexican border and produces x-ray machines, metal detectors and rifles. Other clients are Exxon Mobile, Shell, Levi's, Sony, and Pizza Hut.
- Magal provided the new security for Buckingham Palace
- Elbit will be one of the main partners when Boeing begins building the planned \$2,5 billion 'virtual fences' on the U.S. borders with Mexico and Canada.

With more and more countries turning themselves into fortresses (high-tech fences are going up between India and Kashmir, Saudi Arabia and Iraq, Afghanistan and Pakistan) 'security barriers' may prove to be the biggest disaster market of all, so Magal and Elbit don't mind the relentless negative publicity that Israel's wall attracts – in fact they consider it free advertising.

The Israeli state's decision to put 'counterterrorism' at the centre of its export economy has coincided with its abandonment of peace negotiations and its strategy to reframe its conflict with the Palestinians as part of the global War on Terror – a war against illogical, fanatical forces.

Israel's post 9/11 growth spurt has led to a rapid stratification of society between rich and poor inside the state. The legacy of Labor Zionism has been annihilated: in 2007 24.4% of Israelis were living beneath the poverty line, with 35.2 % of all children in poverty – compared with 8% of children twenty years earlier.

In 2006 the Israeli government turned what should have been a prisoner exchange into a full-scale war with Hezbollah. Bank Leumi, Israel's newly privatised megabank distributed bumper stickers with the slogans 'We will be victorious', and 'We are Strong'. The Tel Aviv stock exchange went up, and in the final quarter of the year which had also included the escalation in Gaza and the West Bank following the election of Hamas, Israel's economy grew by a staggering 8%. The Palestinian economy meanwhile contracted by 10 to 15%, with poverty rates reaching close to 70%.

Israel has become a fortified gated community surrounded by locked-out people living in permanently excluded red zones in conditions of low-intensity grinding conflict. Similarly, in April 2007 U.S. soldiers began implementing a plan to turn several volatile Baghdad neighbourhoods into 'gated communities' surrounded by checkpoints and concrete walls where residents would be tracked using biometric technology. It is also similar to the Bantustans in South Africa's apartheid era, but there are differences too: in S.A the Bantus had jobs outside the Bantustans, but in Israel's system people are kept from working, as if the Palestinians are a surplus humanity. Millions of Russians also became surplus humanity in their own country. This discarding of 25 to 60% of the population has been the hallmark of the Chicago School crusade since the 'misery villages' began mushrooming throughout the Southern Cone of Latin America in the seventies. .

Conclusion, Shock wears off.

In 1970 USA CEOs made 43 times as much as the average worker, in 2005: 411 times as much. In December 2006, a month after Friedman died, a UN study found that the richest 2 percent of adults in the world own more than half of global household wealth. The free market promise that increased wealth would be shared has not come true. Trickle-down economics didn't happen. Many of the men who had been in the front lines promoting the free market were caught up in an astonishing array of scandals and criminal proceedings for frauds, debt deals, contracts with foreign firms that were against the national laws etc. – yet all of them denied wrongdoing and portrayed themselves as victims.

Shock resistance has spread. In two south American countries, Venezuela and Uruguay, voting has resulted in real challenges to the Washington consensus and people have renewed their faith in the power of democracy. In countries where economic policies remain largely unchanged the turnout for elections is dwindling. France and the Netherlands opposed the European constitution. Poles put the ultraconservative Law and Justice Party into power, based on the Kascynski brothers' rhetoric attacking the Chicago policies. It later switched its attacks to Jews, gays, feminists, foreigners, communists.

In Latin America the backlash takes a more hopeful turn. People realise that democratic socialism (also democratically run workplaces and land holdings) is different from authoritarian communism, and that it has worked in many regions. It was attempted by Allende and in the South African Freedom Charter. It is a version of the third way: markets existing alongside the nationalisation of the banks and mines, with the

income used to build comfortable neighbourhoods and decent schools. These ideas were never defeated in democratic a battle of ideas; they were just shocked out of the way in the neoliberal era.

Washington tried to equate democratic socialism with Stalinism to get it out of the way, but in Latin Am the old ideas are bubbling back up. (Ecuador – Rafael Correa, Brazil – Lula, Nicaragua – Ortega, Bolivia – Evo Morales, Venezuela – Hugo Chavez, Argentina – Nestor Kirchner, Chile – Michelle Bachelet, Mexico – the fraud-tainted elections of 2006 were contested).

In Dec 2006, a month after Friedman's death, Latin America's leaders gathered for a historic summit in Cochabamba. Morales began the meeting with a vow to close the 'open veins of Latin America'. It was a reference to Eduardo Galeano's book 'Open veins of Latin America: Five Centuries of the Pillage of a Government', published in 1971, two years before Allende was overthrown. Today Latin Americans are picking up the project. Nationalization of key sectors of the economy, land reform, major new investments in education, literacy and health care, measures that help reach equality. A rebuke to Friedman who said: it is not possible to do good with other people's money'. (=taxpayers' money)

The new movements are learning how to build shock absorbers into their organising models. They are less centralised than in the sixties, making it harder to demobilise whole movements by eliminating a few leaders. The barrios (= districts) will only back Morales as long as he stays true to his democratic mandate. The governments have announced they will no longer send students to the former 'School of the Americas' in Georgia to learn 'counter terrorism' attacks. (Now called the Western hemisphere Institute for Security Cooperation). Correa will not renew the agreement about an American military base that expires in 2009. In Brazil a million and a half farmers of the Landless Peoples Movement (MST) have formed hundreds of cooperatives to reclaim unused land. In Argentina 200 bankrupt businesses have been resuscitated ('recovered companies'.) Chavez has made the co-ops a top priority in Venezuela. Many communities have been given pieces of infrastructure to run. (toll booths, highway maintenance, health clinics). Radical maybe, but less radical than the favours America is bestowing on Halliburton.

The most significant protection from future shocks is the emerging independence from Washington's financial institutions. The Bolivian Alternative for the Americas is the continent's retort to the FTAA (Free trade Area of the Americas, from Alaska to Tierra del Fuego, now buried). ALBA is essentially a barter system, in which countries decide for themselves what any given commodity or service is worth. The IMF can only help when it is asked, and countries often had no other place to turn to, but that is no longer the case. Thanks to high oil prices Venezuela is emerging as a major lender to other developing countries. Latin American countries are turning away from the IMF and the World Bank and they are no longer forces on the continent. In 2005 Latin America made up 80% of the lending portfolio of the IMF – now just 1%..

This reaches beyond Lat America: in three years' time the IMF's worldwide lending portfolio has gone from 81 billion to 11,8 billion, with almost all of that going to Turkey. It is starting to wither away, and the WB is following suit. Evo Morales already announced that Bolivia is going to quit the WB's arbitration court. The World Bank is now laughed at and the WTO talks have collapsed. The three main institutions that had imposed the Chicago School ideology are at the risk of extinction.

In SA the slums began protesting in 2005 and 6 – they are no longer loyal to the ANC.

In China there were 87.000 large protests in 2005, that met with extreme state repression but also won some victories (major new spending in rural areas, better health care, pledges to eliminate education fees.)

People are just not so easily shocked any more – they know how it works; the crucial element of surprise is missing.

Lebanese citizens started a general strike when their ministers were on the point of handing over phone and electricity companies after the Israeli 2006 attacks which left the country in ruins. The strike was not a show run by Hezbollah; it was a poor and working class people's revolt against the proposals. The protest was in an area referred to as Solidere, after the private development company that was the result of Lebanon's last reconstruction effort, run by the billionaire businessman (later prime minister) Hariri. He had turned the entire downtown area into a 'Singapore of the Middle East'. Lavish shopping malls replaced the ancient soukhs. In the slums surrounding that area Hezbollah built its loyal base, providing the services that the government should have provided. By protesting in Solidere the protesters were sending a clear message: 'How can we still accept this government that steals'?

Within days of the cease-fire Hezbollah's neighborhood committees were helping people to get back on their feet – they got six times the dollar amount that victims of Katrina got from FEMA. Hezbollah's aid did not filter through the government or foreign NGOs: Hezbollah hired local construction teams. These initiatives were derided in the US press as bribery. Yes, Hezbollah is engaged in politics as well, and Iranian funds made its generosity possible, but still it is a local, indigenous organisation. And that's why they could act fast. And the alternative was Solidere.

Strong leadership, of the sort Aznar displayed after the bombings in Spain, is now suspect.

New narratives can be created. Many Thai settlements were successfully rebuilt within months. Villagers approached all government promises with intense scepticism and refused to wait in camps. The Moken people just roped off the areas near the beach where they used to live and refused to budge. Now officials come to learn about 'people-managed tsunami rehabilitation'. Dozens of Thai students and architecture teachers volunteered to help. The results are communities stronger than they were before the wave. New Orleans people came down to learn from them, and after they came back there was a wave of direct action in New Orleans.

It's the antithesis of the disaster capitalism complex's ethos, with its perpetual quest for clean sheets and blank slates on which to build model states. These new local efforts are inherently improvisations, making do with whoever and whatever is left, with the rubble that is all around. Radical only in their intense practicality, rooted in the communities where they live, these men and women see themselves as mere repair people, taking what's there and fixing it, reinforcing it, making it better and more equal. Most of all, they are building in resilience – for when the next shock hits.