# *The Shock Doctrine: The Rise of Disaster Capitalism.* Naomi Klein. New York: Henry Holt and Company, 2007.

#### INTRODUCTION: BLANK IS BEAUTIFUL - Three Decades of Erasing and Remaking the World

New Orleans after Katrina: businessmen seeing opportunities, e.g., replacing housing projects with condos.

"Hearing all the talk of 'fresh starts' and 'clean sheets,' you could almost forget the toxic stew of rubble, chemical outflows and human remains just a few miles down the highway." [4]

At a shelter a man comments that the politicians must be blind, and a woman retorts: "No, they're not blind, they're evil. The see just fine." [4]

Milton Friedman saw an opportunity to radically reform the education system. [4-5]

He views public schools as "an unfair interference in the market." [5]

Disaster capitalism: "orchestrated raids on the public sphere in the wake of catastrophic events." [6]

Friedman described himself as "'an old-fashioned preacher delivering a Sunday sermon.'" [6]

"... only a crisis - actual or perceived - produces real change." [6]

He sought to develop the ideas that would then be at hand for implementation after such a crisis occurred. [6]

Milton Friedman as mid-1970s advisor to Pinochet: Chile as "the most extreme capitalist makeover ever attempted anywhere." He coined the phrase "economic 'shock treatment.'" [7]

Pinochet facilitated adjustment with shock treatments administered in torture cells. [7]

"Many in Latin America saw a direct connection between the economic shocks that impoverished millions and the epidemic of torture that punished hundreds of thousands of people who believed in a different kind of society." [7]

IRAQ:

- 1. Military shock and awe;
- 2. Radical economic shock therapy;
- 3. Torture. [7-8]

Sri Lanka: Post-tsunamai efforts to use the atmosphere of panic to economic advantage. [8]

"... using moments of collective trauma to engage in radical social and economic engineering." [8]

"Most people who survive a devastating disaster want the opposite of a clean slate: they want to salvage whatever they can and begin repairing what was not destroyed; they want to reaffirm their relatedness to the places that formed them." [8] "... fear and disorder are the new catalysts for each new leap forward." [9]

"... intersection between superprofits and megadisasters" – "... the idea of exploiting crisis and disaster has been the modus operandi of Milton Friedman's movement from the very beginning." [9]

1970s Argentina; 1982, England's Falklands War; 1989, China; 1993, Russia – "… in each case a major collective shock was exploited to prepare the ground for economic shock therapy." [10]

Authoritarian conditions are required to fully implement Friedman's doctrine, because in democracies, voters resist. [11]

#### **Shock Therapy Comes Home**

At the time of 9/11, "the White House was packed with Friedman's disciples." [11]

"... a movement that prays for crisis the way drought-struck farmers pray for rain, and the way Christian-Zionist end-timers pray for the Rapture." [12]

The 'War on Terror' as "an almost completely for-profit venture." [12]

Corporate goal is "to privatize the government" – government as "a deep-pocketed venture capitalist." [12]

"... for-profit relief and reconstruction has already become the new global paradigm" – "Now wars and disasters are so fully privatized that they are themselves the new market." [13]

"... the policy trinity – the elimination of the public sphere, total liberation for corporations and skeletal social spending." [15]

Wherever implemented there has emerged "a powerful ruling alliance between a few very large corporations and a class of mostly wealthy politicians" – merger of political and corporate elites. [15]

"Corporatist" is the most apt term. [15]

# Torture as Metaphor

"From Chile to China to Iraq, torture has been a silent partner in the global free-market crusade." [15]

CIA manuals on interrogation: "create violent ruptures between prisoners and the their ability to make sense of the world around them." [16]

Shock doctrine seeks to achieve on a mass scale what torture does to the individual. [16]

"Like that terrorized prisoner who gives up the names of comrades and renounces his faith, shocked societies often give up things they would otherwise fiercely protect." [17]

# <u>The Big Lie</u>

Klein's thesis: "... this fundamentalist form of capitalism has consistently been midwife by the most brutal forms of coercion, inflicted on the collective body politic as well as on countless individual bodies." [18]

"Bush's exploits merely represent the monstrously violent and creative culmination of a fifty-year campaign for total corporate liberation." [19]

"Rooted in biblical fantasies of great floods and great fires, it is a logic that leads ineluctably toward violence." [19]

Keynes proposed a mixed, regulated economy – a system of compromises, checks and balances. It was this system "that Friedman's counterrevolution was launched to methodically dismantle in country after country." [20]

Along with other dangerous ideologues, Friedman's doctrine shares "the signature desire to unattainable purity, for a clean slate on which to build a reengineered model society." [20]

"This desire for godlike powers of total creation." [20]

Friedman's ideas can only succeed "where people, with their stubborn habits and insistent demands, are blasted out of the way. Only a great rupture "can generate the kind of vast, clean canvasses they crave." [20-21]

# PART ONE -- TWO DOCTOR SHOCKS: RESEARCH AND DEVELOMENT

# CHAPTER ONE - THE TORTURE LAB: EWEN CAMERON, THE CIA AND THE MANIACAL QUEST TO ERASE AND REMAKE THE HUMAN MIND

The Industrial Revolution was merely the beginning of a revolution as extreme and radical as ever inflamed the minds of sectarians, but the problems could be resolved given an unlimited amount of material commodities. [Karl Polanyi, The Great Transformation]

Psychiatrist who developed electroshock therapy got the idea from a hog slaughterhouse. [25]

Gail Kastner, subject of Cameron's CIA funded research. [25]31]

Her memory is frail, fragmentary, and fleeting, so she makes lists of everything whenever she recalls it: "proof that her life actually happened." [27]

Relationship in her 40s with a Holocaust survivor, "also preoccupied with questions of memory and loss." [28]

Women had gone to Cameron for minor psychiatric complaints, "and had been used, without their knowledge or permission, as human guinea pigs to satisfy the CIA's thirst for information about how to control the human mind." [28]

"Cameron believed that by inflicting an array of shocks to the human brain, he could unmake and erase faulty minds, then rebuild new personalities on that every-elusive clean slate." [29]

#### In the Shock Shop

In Gail Kastner's 138 page file of medical records, she progresses from an 18year old suffering from mild anxiety – cheerful, well-liked, sociable – through a radical personality transformation throughout her months in Cameron's care – eventually schizophrenic, able to count only to 6, unable to recognize family. [29-30]

Her treatment: "huge doses of insulin, inducing multiple comas; strange combinations of uppers and downers; long periods when she was kept in a drug-induced sleep; and eight times as many electroshocks as was standard at the time." [30]

She frequently tried to escape, resulting in more shock treatments. [30]

# The Quest for Blackness

Gail became "a kind of archaeologist of her own life." [30

In published papers, Cameron called his method "psychic driving," an attempt to recreate his patients, not mend or repair them (as Freud). First step was "depatterning," returning the mind to a *tabula rasa* by "attacking the brain with everything known to interfere with its normal functioning." [31]

Memory-loss as a negative side-effect of ECT, was Cameron's goal: not an unfortunate side effect, but the essential point. He was frustrated when "patients still seemed to be clinging to remnants of their personalities." He would further disorient them with drugs. [32]

After depatterning, the psychic driving consisted of playing tapes of repetitive messages for hours/days/weeks/months. [32]

Early 1950s, CIA launched a covert program (MKUltra) to develop 'special interrogation techniques' – over the next decade spending \$25 million, involving 80 institutions – among them 44 universities and 12 hospitals. [33]

Donald Hebbs' McGill experiments in sensory deprivation. There was some evidence that "the confusion from sensory deprivation partially erased their minds, and then the sensory stimuli rewrote their patterns." [34]

Hebb limited his research due to ethical concerns, but this did not stop his colleague Cameron (whom Hebb described as "criminally stupid"). [35]

Cameron's CIA funding began in 1957. He began massively increasing the number of shock treatments – and using LSD and PCP. He also added sensory deprivation and extended sleep. With the CIA money, he connected horst stables into isolation chambers. [35-36]

Cameron posited (a) continued sensory input and (b) memory as the key factors enabling us to 'maintain a time and space image' – and so he attacked both. [36]

One patient maintained a minimal connection with the outside world through the faint sound of a daily plane flight. Torture survivors often refer to such connections. "When life is shrunk to the four walls of a prison cell, the rhythm of these outside sounds becomes a kind of lifeline,

proof that the prisoner is still human, that there is a world beyond torture." By 1960, Cameron was lecturing to military audiences. [37]

When CIA involvement was revealed in the 1970s and 1980s, the Agency dismissed the research as having been pointless, without results. [38]

#### The Science of Fear

1988 *New York Times* investigation of U.S. involvement in torture in Honduras, in which an interrogator revealed CIA training. [38]

The Kubark manual (dated 1963) surfaced, revealing Cameron's and Hebb's influence: sensory deprivation, stress positions, electricity. It makes clear that the real purpose of MKUltra was torture: "a scientifically based system for extracting information from 'resistant sources.'" [89]

"... a how-to guide on dismantling personalities." [40]

A revised 1983 edition clearly intended for classroom use in Latin America. [40]

Kubark clearly repeats Cameron's focus on regression to an infantile stage of suggestibility. [40]

Wherever Kubark has been used, clear patterns have emerged: prisoners captured in disorienting ways, sensory deprivation, electroshock. [41]

"Torture is always an improvisation, a combination of learned technique and the human instinct for brutality that is unleashed wherever impunity reigns." [41]

By the mid-1950s, the French regularly used electroshock in Algeria; French military leaders conducted counterinsurgency seminars at Fort Bragg NC. [41]

In 1966, CIA sent 3 psychiatrists to Saigon with the same model of electroshock machine favored by Cameron – to engage in field testing of Cameron's theories. [41]

By the 1980s, Americans had shifted to an advisory capacity in Central America – covert because of violations of the Geneva Conventions and the UCMJ. Insistence on plausible deniability ended on 9/11/2001. Effects of the attacks: profound disorientation, extreme fear and anxiety, and collective regression." [42]

"The significant shift was that what had previously been performed by proxy, with enough distance to deny knowledge, would not be performed directly and openly defended." [42]

The Bush administration "dared to demand the right to torture without shame." [43]

Jose Padilla drugged by LSD or PCP – alternating sensory deprivation and overloads. He could offer no defense, as he had been 'regressed' to an infantile state. [44]

Australian detainee on Guantanamo as an experiment in brainwashing. [44]

Delta Block at Guantanamo for 50 prisoners who are in persistent delusional states. [45]

Italian cleric Nasr, abducted to Egypt, repeatedly tortured by electroshock. [46]

#### The Failure to Reconstruct

Gail Kastner reminded Naomi Klein of Iraq. [47]

"Cameron envisioned his acts of destruction as creation, a gift to his fortunate patients who were, under his relentless repatterning, going to be born again." [47]

"Though he was a genius at destroying people, he could not remake them." [47]

Cameron's presupposition was the problem: "the idea that before healing can happen, everything that existed before needs to be wiped out." [47]

His patients weren't 'clean' – "rather, they were a mess, their memories fractured, their trust betrayed." [47]

"Disaster capitalists share this same inability to distinguish between destruction and creation, between hurting and healing." [47]

In Iraq, "there was no blank slate, only rubble and shattered, angry people – who, when they resisted, were blasted with more shocks, some of them based on those experiments performed on Gail Kastner all those years ago." [48]

# CHAPTER TWO - THE OTHER DOCTOR SHOCK: MILTON FRIEDMAN AND THE SEARCH FOR A LAISSEZ-FAIRE LABORATORY

"Friedman's mission, like Cameron's, rested on a dream of reaching back to a state of 'natural' health, when all was in balance, before human interferences created distorting patterns." --- "depatterning societies" --- The only way to do that when an economy is highly distorted is to deliberately inflict painful shocks. [50]

Relationship of economic forces – supply, demand, inflation, unemployment – was like the forces of nature, fixed and unchanging. The market, if not interfered with, will find its balance. [50]

Each economic theory was "a sacred feature of the system" (Frank Knight). [50]

Love of an idealized system is the defining quality of radical free-market economics (Daniel Bell). [51]

"... approaching economics as a science as hard and rigorous as physics or chemistry." [51]

With no economy actually existing meeting his criteria, Friedman "had to settle for elaborate and ingenious mathematical equations." [51]

"... a closed loop," like all "fundamentalist faiths" – the first premise is that the free market is a perfect scientific system, one in which individuals, acting on their own self-interested desires, create the maximum benefits for all. [51]

Whatever is wrong, "The Chicago solution is always the same: a stricter and more complete application of the fundamentals." [51]

"Friedman promised 'individual freedom,' a project that elevated atomized citizens above any collective enterprise and liberated them to express their absolute free will through their consumer choices." [52]

Parallel to Marxism as scientific system – idealism combined with radicalism. But Keynes was the true enemy. [53]

They sought "a capitalist Reformation." [53]

Friedrich Hayek as Friedman's guru. [53]

"... when Europe was rebuilt after the Second World War, the Western powers embraced the principle that market economies needed to guarantee enough basic dignity that disillusioned citizens would not go looking once again for a more appealing ideology, whether fascism or Communism." [54]

This pragmatic attitude led to social security (U.S.), public health care (Canada), welfare (Britain), Workers protection (France and Germany). [54]

By the 1950s, developmental economists in the third world argued for "an inward-oriented industrialization strategy instead of relying on the export of natural resources." [55]

The Southern Cone of Latin America (Chile, Argentina, Uruguay, Brazil) experienced a "dizzying period of expansion" from 1950-1963: Argentina, the largest middle class in South America; Uruguay, a literacy rate of 95% and universal free health care. This success became a potent symbol for poor countries elsewhere. [55]

Success of managed economies – in the Keynesian north and the developmentalist south – made for dark days for the Chicago School. [55]

To the U.S. multinational corporations, it appeared thus: "The economy was growing fast, enormous wealth was being created, but owners and shareholders were forced to redistribute a great deal of that wealth through corporate taxes and workers' salaries. Everyone was doing well, but with a return to the pre-New-Deal rules, a few people could have been doing a lot better. [56]

The Chicago School became the medium through which this argument was made, and they received an influx of corporate cash to do so – along with a global network of right-wing think tanks. [56]

"Friedman's single-minded message: everything went wrong with the New Deal." [56]

Capitalism and Freedom became the global free-market rule book, forming the economic agenda of U.S. neoconservatism:

- 1. Governments must remove all rules/regulations standing in the way of the accumulation of profits;
- 2. 2. Governments should sell off any assets that corporations could run at a profit; and
- 3. 3. Governments should dramatically cut social spending. [56-57]

In calling for deregulation/privatization/cutbacks, Friedman was calling for the breaking of the New Deal. But even beyond that, the Chicago School "wanted to expropriate what workers and governments had built during those decades of frenetic public works." [57] "Friedman's vision coincided precisely with the interests of large multinationals." As colonialism had appropriated land and resources without paying for them, now "the state itself would be the new frontier, its public services and assets auctioned off for far less than they were worth." [57]

## The War against Developmentalism

Mossadegh (Iran) and Sukarno (Indonesia) were developmentalists of concern at the beginning of the Eisenhower administration. [58]

Re: Latin America – "Under pressure from these corporate interests, a movement took hold in American and British foreign policy circles that attempted to pull developmentalist governments into the binary logic of the cold War." [58]

John Foster Dulles and Allan Dulles urged that Third World nationalism was a step toward totalitarian Communism. [58]

Both had represented corporations that stood to lose from developmentalism. [59]

Two immediate coups d'ètat: Iran (1953) and Guatemala (1954). [59]

U.S. established a training program which connected Chile to Chicago – "effectively telling Chileans that the U.S. government had decided what ideas their elite students should and should not learn." Chile's Catholic University participated in this effort to produce "ideological warriors." Beginning in 1956, in 1965 the program expanded to include Argentina, Brazil, and Mexico. [60]

Students were taught disdain for any attempts to alleviate poverty. [61]

Santiago's Catholic University economics department was completely staffed by graduates of the University of Chicago program, sharing "the same unyielding claim to 'pure' and 'scientific' knowledge." [62]

"... an organized transfer of ideology from the United States to a country within its direct sphere of influence" (Juan Gabriel Valdés). [62]

Despite this program, by the early 1960s "the Southern Cone was surging to the left." [63]

By 1970, all three of Chile's major political parties favored nationalizing the copper mines; Allende won that year's election promising to nationalize large sectors of the economy. [63]

After Allende's election, Nixon ordered the CIA to "make the economy scream." [64]

In 1968, 20% of U.S. foreign investment was in Latin America. U.S. firms had 5,436 subsidiaries there. U.S. mining companies had invested \$1 billion in Chile and had sent \$#7.2 billion home. [64]

Corporate interests teamed with Nixon administration to force Allende to forego nationalization or face economic collapse. [64-65]

Orlando Letelier was Chile's ambassador to Washington, tasked with negotiation terms of expropriation with the same corporations that were plotting to sabotage Allende's government. [65]

A 1972-1973 Senate investigation revealed ITT-CIA plot to prevent Allende's inauguration and subsequently undermine his government. [65]

1973: Allende's party gained in midterm elections. [66]

## Lessons in Regime Change: Brazil and Indonesia

1964 military coup in Brazil aimed to end pro-poor programs and to open Brazil to foreign investment. By 1968, there were widespread protests against the generals' economic agenda, leading to brutal repression. [66]

In Indonesia in 1965, CIA compiled a list of leftists; General Suharto proceeded to kill them – perhaps as many as 1 million were killed. [67]

Berkeley economists served as Suharto's advisors. They were not anti-state ideologues like the Chicago School, but were very encouraging of foreign investment. Soon, all Indonesian natural wealth was being divided up by corporations. [68-69]

For those plotting Allende's overthrow, these two coups were instructive. Suharto's immediate use of terror appeared successful, as had partnership with U.S. economists. [69]

Red paint graffiti in Santiago: "Jakarta is coming." [70]

Catholic University assisted in creation of what CIA called "'a coup climate.'" Students joined a fascist party. [70]

Prominent businessmen coordinated plans with the military, recruiting 'Chicago boys' to design economic "proposals for how to radically remake their country along neoliberal lines." Funding came from the CIA. [70]

Chile's coup featured three forms of shock: (1) the coup itself; (2) economic shock; (3) torture. [71]

"These three forms of shock converged on the bodies of Latin Americans and the body politic of the region, creating an unstoppable hurricane of mutually reinforcing destruction and reconstruction, erasure and creation." [71]

# PART TWO -- THE FIRST TEST: BIRTH PANGS

#### CHAPTER THREE -- STATES OF SHOCK: THE BLOODY BIRTH OF THE COUNTERREVOLUTION

In an April, 1975 letter to Pinochet, Milton Friedman refers to the "'shock approach'" that should take effect at once. [75]

Pinochet and his supporters consistently referred to the coup as a "'war'" – but it was a strange war, having only one side. [75]

There were only 36 Allende supporters in the palace, yet the army fired 24 rockets into it. [75]

"... a Chilean precursor to Shock and Awe." [76]

Chile "had enjoyed 160 years of peaceful democratic rule, the past 41 uninterrupted." [76]

In the years leading up to the coup, U.S. trainers (many of them CIA) "had whipped the Chilean military into an anti-Communist frenzy," and persuaded them that the socialists were de facto Russian spies. [76]

Letelier and other top officials were imprisoned in "freezing Dawson Island"... Pinochet's approximation of a Siberian work camp." 13,500 citizens were arrested. [76]

Hooded collaborators pointed out "subversives," who were tortured; hundreds were executed, and bodies "started showing up on the side of major highways." [77]

General Sergio Arellano Stark led a death squad to a string of prisons. Four days known as the Caravan of Death conveyed a clear message to the entire country: "resistance is deadly." [77]

3,200 people were disappeared, 80,000 imprisoned, 200,000 fled the country. [77]

#### The Economic Front

On the day of the coup, 9/11, Chicago Boys were at a right-wing newspaper; by midday 9/12, copies of the economic document 'The Brick' were being distributed. The program closely resembled Milton Friedman's *Capitalism and Freedom*: privatization, deregulation, cuts to social spending – ideas which had been rejected democratically. [77]

"... the first concrete victory in the Chicago School campaign to seize back the gains that had been won under developmentalism and Keynesianism." [78]

While Allende's partial revolution had been "tempered and compromised by the push and pull of democracy," Pinochet's counter-revolution was "free to go all the way." [78]

Pinochet loved to dress in his Prussian uniform, and "had a knack for authoritarian rule." [78]

To the Chicago Boys, economics "meant forces of nature that needed to respected and obeyed because 'to act against nature is counter-productive and self-deceiving.'" (Piñera) [79]

These economic advisors told Pinochet that if he followed their program "the 'natural' laws of economics would rediscover their equilibrium." For the first year and half, Pinochet did so. [79]

But by 1974, inflation reached 375%, the highest rate in the world; unemployment hit record levels, "hunger became rampant." [79-80]

The Chicago Boys argued for even stricter measures. In March 1975, Milton Friedman flew to Santiago. [80]

In public speeches, "he called for 'shock treatment;'" in a follow-up letter, he emphasized the importance of shock repeatedly. [81]

Pinochet followed this advice, and "deliberately sent his country into a deep recession, based on the untested theory that the sudden contraction would jolt the economy into health." [82]

This was strikingly similar to the psychiatric ECT experiments of the 1940s and 1950s. [82]

Business Week: "a 'Dr. Strangelove world of deliberately induced depression.'" [83]

Unemployment: 3% under Allende, hit 20%, a crisis that lasted for years. [83]

A Friedman student, André Gunder Frank, went to Chile to teach at the University of Chile and serve as an economic advisor to Pinochet. [83]

A year later, he wrote a highly critical letter to Friedman, describing the results: under Pinochet, a typical family spent 74% of its income simply to buy bread. Children were so malnourished that many stopped going to school. Frank "saw a direct connection between the brutal economic policies imposed by his former classmates and the violence Pinochet had unleashed on the country." [84]

Undeterred, Pinochet's economic team pushed further – eliminating public schools and subsidized health care, privatizing cemeteries and social security. [84]

#### The Myth of the Chilean Miracle

In 1982, after almost a decade of strict adherence to the Chicago doctrines Chile's economy crashed: hyperinflation, exploding debt, 30% unemployment. "The situation was so unstable that Pinochet was forced to do exactly what Allende had done: he nationalized many of these companies." His Chicago economic advisors were fired. Speculative investors were investigated for fraud. [85]

The only thing preventing complete economic collapse was the copped company, which Pinochet had never privatized. [85]

"When the hype and salesmanship behind the miracle are stripped away, Chile under Pinochet was not a capitalist state featuring a liberated market but a corporatist one." [86]

Corporatism, a la Mussolini: "a police state run as an alliance of the three major power sources in society – government, business and trade unions – all collaborating to guarantee order in the name of nationalism." [86]

Under Pinochet, Child was an evolution of this: an alliance of a police state and corporations waging all-out war on workers. [86]

By 1988 when the economy stabilized, 45% of the population lived below the poverty line, but the wealthiest 10% had seen their incomes increase by 83%. [86]

In 2007, Chile remains among the world's most unequal societies: 116<sup>th</sup> out of 123 U.N. ranked countries. [86]

Yet Friedmanites continue to refer to the Chile Miracle. "Perhaps it was meant to do exactly what it did – hoover wealth up to the top and shock much of the middle class out of existence." [86]

This was Orlando Letelier's judgment from exile. [86]

"Chile under Chicago School rule was offering a glimpse of the future of the global economy, a pattern that would repeat again and again, from Russia to South Africa to Argentina: an urban bubble of frenetic speculation and dubious accounting fueling superprofits and frantic consumerism, ringed by ghostly factories and rotting infrastructure of a developmentalist past; roughly half the population excluded from the economy altogether; out of control corruption and cronyism; decimation of nationally owned small and medium-sized businesses; a huge transfer of wealth from public to private hands, followed by a huge transfer of private debts into public hands." [86-87]

To those who prospered, the easy wealth made possible by economic shock therapy became the crack cocaine of financial markets, and they continually seek out their next fix. [87]

# The Revolution Spreads, the People Vanish

U.S. supported junta in Brazil had a number of Friedman's students in key positions; military coup in Uruguay in 1973 went the Chicago route the next year. [87]

"The effects on Uruguay's previously egalitarian society were immediate: real wages dropped 28 percent, and hordes of scavengers appeared on the streets of Montevideo for the first time." [87]

Argentine coup in 1976. Now all four countries that had been the showcase of developmentalism were run by U.S. backed military governments enforcing Chicago school economic 'reforms.' [87]

Argentina did not go as far as Chile, but did attack "the policies and institutions that had lifted Argentina's poor into the middle class." [88]

The coup "represented a revolt of the elites, a counterrevolution against forty years of gains by Argentina's workers." [88]

"The human impact was unmistakable:" wages lost 40% in value, unemployment and poverty spiraled, poor neighborhoods lacked water, preventable diseases ran rampant. [89]

Before the coup, Argentina had fewer people living in poverty than France or the U.S., just 9% -unemployment was only 4.2%. [89]

The Argentine junta was aware of the negative international publicity occasioned by Pinochet's violence in Chile. [89]

The disappeared in Argentina were not thrown into roadside ditches, but into mass graves or the ocean. [90]

"... disappearances turned out to be an even more effective means of spreading terror than open massacres, so destabilizing was the idea that the apparatus of the state could be used to make people vanish into thin air." [90]

By the end of the junta's reign, 30,000 people had been disappeared. [90]

The junta struck a balance between public and hidden terror – public to be effective, hidden to be deniable. [90]

300 torture camps were spread across the country, often located in densely populated areas. Mass graves were barely concealed. [91]

Complicity: "All Argentines were in some way enlisted as witnesses to the erasure of their fellow citizens, yet most people claimed not to know what was going on." [91]

As people took refuge in neighboring countries, governments collaborated with each other in Operation Condor, sharing information about subversives, "aided by a state-of-the-art computer system provided by Washington." [91]

CIA had trained Pinochet's military "in methods for 'controlling subversion.'" Throughout the region, the methods outlined in the Kubark manual were manifest. "And everywhere, the terrible legacy of the McGill experiments in deliberately induced regression." [92]

Prisoners' testimonies re: isolation and sensory deprivation. [93]

Electroshock was "the most ubiquitous technique." [93]

#### A Witness in Difficult Times

"To be a leftist in those years was to be hunted." [94]

Rodolfo Walsh, a legendary investigative journalist, became the intelligence expert for the Montañeros, an Argentine resistance movement. [94]

Walsh compiled lists of the dead and disappeared, and the locations of mass graves and torture centers. [94]

He wrote an open letter in 1977, "the decisive condemnation of both the methods of state terror and the economic system they served." He described the economic system as "a greater atrocity," and as the explanation for the torture. "Planned misery." [95]

After distribution of his letter, he was killed in an attempt to arrest him. His "body was burned and dumped in a river." [96]

#### The "War on Terror" Cover Story

The junta's propaganda portrayed any opponents as dangerous Marxist terrorists, thus justifying their harsh methods. [96]

The threat was always either wildly exaggerated or completely manufactured. [97]

Just two days after the Argentine coup, minutes of a U.S. State Department meeting reveal knowledge that the violence was primarily directed at trade unionists, not 'terrorists.' [97]

The vast majority of victims were non-violent activists, killed because of their beliefs. [97]

# CHAPTER FOUR - CLEARING THE SLATE: TERROR DOES ITS WORK

Letelier in exile in D.C. exposing Pinochet's crimes and defending Allende's record. [98]

He argued that Chilean torture was intrinsically related to Pinochet's economic program; he insisted that Milton Friedman "shared responsibility for Pinochet's crimes." [99]

Less than a month after The Nation published Letelier's essay, he was killed. [99]

An enforcer of Argentine terror, Miguel Osvaldo Etchecholatz, was convicted and sentenced to prison for life, even though a key witness had been disappeared. [100]

Imposition of the Chicago model in the Southern Cone "required the systematic murder of tens of thousands and the torture of between 100,000 and 150,000 people." [102]

A regime committed to application of Friedman's ideal "cannot accept the presence of competing or tempering worldviews." [103]

The vast majority of the population of these nations opposed Chicago school policies, so they could not be attempted democratically. [103]

In Pinochet's Declaration of Principles, there was a stated need to change the Chilean mentality; Director of USAID's Chile Project spoke of the need "to change the formation of the men." [104]

"... a declaration of war against this entire culture." [104]

#### **Cleansing Cultures**

"... massive ideological cleanup operations." [104]

In Argentina's Operation Clarity, leftist educators were purged. In Chile a legendary leftist folk singer, Victor Jara, had both his hands broken so he could not play the guitar; he was then killed and his master recordings were destroyed. Dramatists and poets were tortured, exiled, and had their books burned. [105]

"A culture was being deliberately exterminated." [105]

"Meanwhile, another sanitized, purified culture was replacing it." [105]

Public gatherings were dispersed, in Chile usually by water cannons." [105-106]

#### Who Was Killed - and Why

In Brazil, trade union leaders were arrested and tortured. They were not terrorists, but needed to be eliminated because "they were inspired by a political philosophy opposed by the authorities." [106]

"In 1976, 80 percent of Chile's political prisoners were workers and peasants." [107]

Argentinian Truth Commission: "... 'terrorism' was used as a smoke screen to go after nonviolent worker activists." [107]

#### **Corporate-Sponsored Torture**

Attacks on union leaders were often coordinated with business. [107]

Multinational corporations – including Ford and GM – funded "an extralegal police force," which gained a reputation for unparalleled sadism. Ford's involvement was most overt in Argentina. [108]

Preemptive attack threatened "anyone who represented a vision of society built on values other than pure profit" – e.g., farmers who had struggled for land reform. [109]

"... while the shock therapists were trying to remove all relics of collectivism from the economy, the shock troops were removing the representatives of that ethos from the streets, the universities and the factory floors." [110]

People needed to become more docile in order to the 'reforms' to be implemented. [111]

"Just a decade earlier, the countries of the Southern Cone – with their exploding industrial sectors, rapidly rising middle classes and strong health and educational systems – had been the hope of the developing world. Now rich and poor were hurtling into different economic worlds..." [111]

Those who gave in "were called quebrados, the broken ones." [111]

# Torture as "Curing"

"While the policies attempted to excise collectivism from the culture, inside the prisons torture tried to excise it from the mind and spirit." [111]

Torturers often adopt a medical posture, referring to prisoners as *apestosos* (diseased ones) who need to be healed of the sickness, e.g., of socialism. [112]

The torture system seeks to force prisoners to betray a principle integral to their sense of self: solidarity. "The torturers understood the importance of solidarity well, and they set out to shock that impulse of social interconnectedness out of their prisoners." [112]

Torture is often less about obtaining information than about achieving the act of betrayal itself. [112]

"The point of the exercise was getting prisoners to do irreparable damage to that part of themselves that believed in helping others above all else, that part of themselves that made them activists, replacing it with shame and humiliation." [112]

Small acts of prisoners caring for each other tend to be met with harsh punishment. "Prisoners were goaded into being as individualistic as possible." [113]

Milton Friedman and his colleagues also referred to themselves and their agenda in terms of medical treatment. [113]

Nazis and Khmer Rouge spoke of cutting out an infection. [114]

# "Normal" Children

Ca. 500 babies were born inside Argentina's torture chambers. They were taken from their mothers and given to couples to be raised in a normal, healthy, capitalist environment. [114]

# CHAPTER FIVE - "ENTIRELY UNRELATED:" HOW AN IDEOLOGY WAS CLEANSED OF ITS CRIMES

Three weeks after Letelier was assassinated, Milton Friedman won the Nobel Prize in economics; "Friedman used his Nobel address to argue that economics was as rigorous and objective a scientific discipline as physics, chemistry and medicine, reliant on an impartial examination of the facts available." [117]

The next year, Amnesty International won the Nobel Peace Prize, largely for its work on Chile and Argentina. [118]

## The Blinders of "Human Rights"

The human rights movement ironically helped the Chicago school avoid responsibility, because it focused on "abuses" and not the reasons behind them. [118]

"Without an examination of the larger plan to impose 'pure' capitalism on Latin America, and the powerful interests behind that project, the acts of sadism documented in the [Amnesty International] report made no sense at all – they were just random, free-floating bad events, drifting in the political ether, to be condemned by all people of conscience, but impossible to understand." [120]

Human rights groups in the Southern Cone nations – e.g., 'the Madres' – could not raise the fundamental questions for fear of becoming victims themselves. [120-121]

# Ford on Ford

Money is another factor that prevented the 'dots' from being 'connected.' [121]

The Ford Foundation was the largest financial supporter of various human rights groups; it was also the primary funder of Chicago's Latin America project. [122]

Having funded the education of those responsible for the repression, the Ford Foundation was reluctant to see its human rights funding used to point out that face, and so it defined the field of human rights as narrowly as possible. [123]

"... any serious investigation of the goals served by the repression in Chile would inevitably have led directly back to the Ford Foundation and the central role it played in indoctrinating the country's current rulers in a fundamentalist sect of economics." [123]

Also, Ford Motors was deeply implicated in the repression. [123-124]

Ford Foundation was invaluable in exposing the repression and in changing U.S. policy, but it also limited the inquiry in such a way that questions of why the violence occurred could not be asked. [124]

Chicago economists had nothing to say about that torture; human rights activists had nothing to say about the economy. [124]

The Brazil truth commission – independent of both the state and foreign foundations – was an exception. [124-125]

"Since the economic policy was extremely unpopular among the most numerous sectors of the population, it had to be implemented by force." [125]

At the time, it was difficult to grasp that violence was not the end, but the means. [125]

"The widespread abuse of prisoners is a virtually foolproof indicator that politicians are trying to impose a system – whether political, religious or economic – that is rejected by large numbers of the people they are ruling." [125]

"... there is no humane way to rule people against their will." [126]

One must either accept the violence, or reject the system. [126]

"Is neoliberalism an inherently violent ideology, and is there something about its goals that demands this cycle of brutal political cleansing, followed by human rights cleanup operations?" [126]

# PART THREE - SURVIVING DEMOCRACY: BOMBS MADE OF LAWS

Gandhi on economic was as prolonged torture. [129]

## CHAPTER SIX - SAVED BY A WAR: THATCHERISM AND ITS USEFUL ENEMIES

Milton Friedman "had built a movement on the equation of capitalism and freedom, yet free people just didn't seem to vote for politicians who followed his advice." [133]

Friedman had originally praised Nixon's economic philosophy, yet was extremely disappointed by his performance – and that of two of his former students, George Schulz and Donald Rumsfeld. [133]

"Chicago School luminaries junta-hopped their way through the seventies. [134]

Margaret Thatcher attempted an English version of Friedmanism. A focus was on home ownership, which increased; but along with that, rent also increased for non-owners, as did homelessness. Unemployment had doubled in her first term, as had inflation. [125]

Her approval rating was the lowest in British history, and she faced the prospect of electoral loss. [135]

Iranian and Nicaraguan revolutions also seemed bad signs for the prospects of a global free market. [136]

# War to the Rescue

Borges described the Falklands/Malvinas War as "a fight between two bald men over a comb." [137]

Both sides had good reason for wanting war. Argentina's economy was collapsing, and Thatcher faced dim electoral prospects. [137]

Thatcher used her increased popularity and electoral victory after the war (which itself had been codenamed Operation Corporate) to launch an economic corporatist revolution. [138]

Striking coal miners were called "'the enemy within.'" [138]

Having broken this most influential union, no others were strong enough to resist. [139]

Thatcher proceeded to engage in a massive privatization initiative; "The first mass privatization auction in a Western democracy." [139]

In a 1982 essay, Milton Friedman wrote that only crisis produces real change, and the nature of the change depends on what ideas are lying around. He perceived his role as producing the ideas to have at hand when crises occurred. [140]

"Crises are, in a way, democracy-free zones – gaps in politics as usual when the need for consent and consensus do not seem to apply." [140] After the Great Depression, Keynes's ideas were at hand for New Dealers to implement. Milton Friedman and his colleagues sought to build an intellectual infrastructure (think tanks – Heritage and Cato) available for responding to future crises. [141]

#### CHAPTER SEVEN - THE NEW DOCTOR SHOCK: ECONOMIC WARFARE REPLACES DICTATORSHIP

Jeffrey Sachs of Harvard becomes advisor to Bolivia (1985), proposing free market structural adjustments coupled with debt relief. [142ff]

He proposed sudden shock therapy to combat hyperinflation. [145]

A close election led to Congressional negotiations to name a President. Victor Paz Estenssoro was chosen after secretly agreeing to implement austere economic measures. [146]

"... a radical overhaul of a national economy so sweeping that nothing like it had ever been attempted in a democracy." [146]

One economic advisor compared what they were doing to dropping the bomb on Hiroshima. [147]

"The idea that policy change should be like launching a surprise military attack is a recurring theme for shock therapists." [147]

"... the premise is that people can develop responses to gradual change... but if dozens of changes come from all directions at once, a feeling of futility sets in, and populations go limp." [148]

A single executive decree (P.S. 21060) contained 220 separate laws covering every aspect of economic life: economic Shock and Awe. [148]

Inflation was under control within two years. All economists agree on this as an essential achievement. The debate is over who bears the brunt, and thus of making the program credible. Developmentalists seek to mobilize support by negotiations among all stakeholders. Neoliberals shift all the social cost onto the poor. [149]

In Bolivia, in the same two years inflation declined to 10%, unemployment increased from 20% to 30%; real wages declined 40%. [149]

"... the hidden story of Bolivia's shock therapy: hundreds of thousands of full-time jobs with pensions were eliminated, replaced with precarious ones with no protections at all. Between 1983 and 1988, the number of Bolivians eligible for social security dropped by 61 percent. [150]

Among other things, this pushed many of the poor into becoming coca growers, an industry that plays "a significant role in resuscitating Bolivia's economy." [150]

Illegal drug exports soon exceeded all legal exports combined. [150]

Sachs was widely heralded for accomplishing the first neoliberal transformation without violence, within a democracy. [151]

In fact, however, it was not accomplished by democratic means, but by "voodoo politics;" (John Williamson) – "most people simply call it lying." [152]

Paz had no mandate for such reforms. [152]

When miners called a general strike, Paz declared a state of siege. "Oppositional politics was effectively banned." There were mass arrests. [152

"... the country was under lockdown during the decisive shock therapy period." [153]

In response to a tin workers strike a year later, the same tactics were employed – "... a kind of junta lite." [153]

"Interning Bolivia's trade unionists so that they could not resist the reforms cleared the path for the economic erasure of whole sectors of workers; their jobs were soon lost, and they ended up warehoused in the shantytowns and slums surrounding La Paz." [153]

"Bolivia had shown that wrenching shock therapy still needed to be accompanied by shocking attacks on inconvenient social groups and on democratic institutions." [154]

Further, this corporatist crusade could be widely applauded as democratic, because elections had been held – despite the suppression of civil liberties." [154]

# CHAPTER EIGHT - CRISIS WORKS: THE PACKAGING OF SHOCK THERAPY

Hemingway re: his shock therapy - "It was a brilliant cure but we lost the patient." [155]

In Bolivia, hyperinflation simulated the effects of war – fear, confusion, refugees, death – and created the context for emergency measures, including the suspension of democratic rule. Thus, hyperinflation was not a problem, but an opportunity to be seized – as John Williamson understood. [156]

Hyperinflation was widespread in Latin America in the 1980s, largely due to two factors with their roots in Washington: (a) insistence on passing dictator-accumulated debt to new democracies; and (2) Federal Reserve allowing interest rates to soar. [156]

# Passing on Odious Debts

In Argentina, debt had been \$7.9 billion the year before the junta; it was \$45 billion when the junta collapsed after the Falklands War. In Uruguay, the figures were half a billion and \$5 billion. In Brazil, \$3 billion and \$103 billion. [156]

Much of the debt had been accumulated by spending on military and police; much had vanished in corruption. [157]

"Pinochet maintained a byzantine web of at least 125 secret foreign bank accounts listed under the names of various family members and combination of his own name." [157]

In Argentina, 46% of the total had been moved offshore. [157]

In the junta's last year, the state absorbed the debts of several multinational and domestic corporations (including Ford, Chase Manhattan, Citibank, IBM, Mercedes-Benz). [158]

#### The Debt Shock

Paul Volcker increased interest rates as high as 21%. This led to a wave of bankruptcies in the U.S., but the deepest pain was felt in developing countries carrying heavy debt loads. [159]

"... the Volcker Shock... was like a giant Taser gun fired from Washington, sending the developing countries into convulsions." [159]

Debt spiral: higher interest rates occasioned higher interest payments which could only be met by further borrowing. [159]

Brazil's debt doubled from \$50 billion to \$100 billion in 6 years. Price shocks (when export commodities drop by at least 10%) also hit frequently at the same time. [159]

Tin, Bolivia's major export, dropped 55%. [159]

"Friedman's crisis theory became self-reinforcing. The more the global economy followed his prescription, with floating interest rates, deregulated prices and export-oriented economies, the more crisis prone the system became, producing more and more of precisely the type of meltdowns he had identified as the only circumstances under which governments would take more of his radical advice." [159-160]

"... since free-trade policies encourage poor countries to continue to rely on the export of raw resources such as coffee, copper, oil or wheat, they are particularly vulnerable to getting trapped in a vicious circle of continuing crisis." [160]

Sudden price drops cause depression, deepened by currency traders betting against a nation's currency. Add soaring interest rates, debts balloon. [160]

The true story of the 1980s: "... just as citizens were finally winning their long-denied freedoms... they were hit with a perfect storm of financial shocks... created by the increasingly volatile, deregulated global economy." [160]

Few leaders of the new democracies dared turn to develomentalist policies. "Having finally escaped the darkness of dictatorship, few elected politicians were willing to risk inviting another round of U.S.-supported coups-d'état." [161]

Ascendency of Chicago School economists of IMF and the World Bank transformed those institutions away from their initial Keynesian, developmentalist policies toward a radical and profitable new mission. [161-164]

The 'Washington consensus' was unveiled by John Williamson in 1989: "structural adjustment became a prerequisite for receiving loans. [163]

Free trade policies were packaged together with other requirements, even though free trade had nothing to do with ending the crisis. [164]

# PART FOUR - LOST IN TRANSLATION: WHILE WE WEPT, WHILE WE TRAMBLED, WHILE WE DANCED

#### CHAPTER NINE - SLAMMING THE DOOR ON HISTORY: A CRISIS IN POLAND, A MASSACRE IN CHINA

Lech Walesa, 1980, "We eat the same bread!" – "It was a reference not only to Walesa's own unassailable blue-collar credentials but also to the powerful role that Catholicism played in this trail-blazing new movement." [172]

Solidarity made significant gains for workers. [172]

"Solidarity's vision was everything the party was not: democratic where it was authoritarian; despised where it was centralized; participatory where it was bureaucratic." [173]

Solidarity had "its own alternative economic and political program for Poland." [173]

"The centerpiece was a radical vision for the huge state-run companies, which employed millions of Solidarity members, to break away from governmental control and become democratic workers' cooperatives." [173]

"Margaret Thatcher and Ronald Reagan saw an opening, a crack in the Soviet armor, even though Solidarity was fighting for the very rights that both leaders were doing their best to stamp out at home." [174]

# The Shock of Power

Solidarity's electoral victory came at a time of enormous debt and extremely high inflation. "Rather than building the post-Communist economy they had dreamed of, the movement had the fare more pressing task of avoiding a complete meltdown and potential mass starvation." [175]

Two schools of thought in Solidarity: (1) conversion of state-run factories to workers cooperatives; (Gorbachev-like gradual expansion of market sector, combined with a strong public sector (Scandinavian model). [175-176]

But Poland's debt first needed to be addressed. It might have been expected that the first-ever democratic ouster of a Soviet Communist regime might have received international relief, but none was offered. [176]

The IMF and U.S. Treasury – led by Chicago School economists – perceived Poland to be "in the perfect weakened position to accept a radical shock therapy program." [176]

With so many state-owned assets available for privatization, the potential for rapid profits was enormous. [176]

The U.S. made it clear that it "expected Solidarity to pay the debts accumulated by the regime that had banned and jailed its members." [176]

Jeffrey Sachs became an advisor to the new Polish government. He proposed a radical program of shock therapy, including selling off state mines, shipyards and factories – in direct contradiction to Solidarity's economic program of worker ownership. [177]

Sachs often held Bolivia up as a model to emulate. [178]

Adam Michnik, Solidarity intellectual: "... the worst thing about Communism is what comes after." [178]

Lech Walesa had continually insisted that Poland would create a Third Way – "that will reject everything that is evil in capitalism." [179]

The Solidarity inner circle debated for three months, as the economic crisis continued to deepen." [179]

# A Very Hesitant Embrace

Solidarity leaders eventually opted for the Sachs plan, because they saw it as the only way to obtain needed debt relief. [180]

"Poland became a textbook example of Friedman's crisis theory: the disorientation of rapid political change combined with the collective fear generated by an economic meltdown to make the promise of a quick and magical cure – however illusory – too seductive to turn down." [181]

Finance Minister (Balcerowicz) referred to the period of "extraordinary politics," when the democratic norms of consultation, discussion, debate do not apply. [181]

In the early 1990s, nearly 100 countries "were in some kind of transition from one model to another." [182]

1989 lecture by Francis Fukuyama at the University of Chicago on the end of history, arguing against any "debate with the third-way crowd." Fukuyama's thesis was that "deregulated markets in the economic sphere, combined with liberal democracy in the political sphere, represented 'the end point of mankind's ideological evolution and ... final form of human government." [183]

He was smuggling the radical Chicago economic agenda "into the pro-democracy wave rising from Warsaw to Manila." [183]

"... only in the State Department's most vivid fantasies was that desire for democracy accompanied by citizens clamoring for an economic system that would strip away job protection and cause mass layoffs." [183]

Fukuyama's thesis and the 'Washington consensus' unveiled that same year, were an attempt to slam the history book shut. [184]

This was a democracy-containment strategy, "designed to undercut the kind of unscripted selfdetermination that was, and always had been, the greatest single threat to the Chicago School crusade." [184]

# The Shock of Tiananmen Square

"In China, democracy and Chicago School economics were not proceeding hand in hand; they were on opposite sides of the barricades surrounding Tiananmen Square." [184]

Deng Xiaoping was committed to converting to a corporate-based economy, but also opposed to political democracy. [184-185]

In 1980, he invited Friedman to give tutorials. Milton Friedman claimed that Hong Kong, even without democracy, was freer than the U.S., because of less government participation in the economy. [185]

"Friedman's definition of freedom, in which political freedoms were incidental, even unnecessary, compared with the freedom of unrestricted commerce, conformed nicely with the vision taking shape in the Chinese Polituro." [185]

"... the same people who controlled the state under Communism would control it under capitalism, while enjoying a substantial upgrade in lifestyle." [185]

"... free markets combined with authoritarian control, enforced by iron-fisted repression." [185]

In 1983, a 400,000-strong People's Armed Police was created, to suppress any political/labor unrest. [185]

By the late 1980s "deep inequalities were opening up between the winners and the losers in the new China." [186]

Milton Friedman visited China again in 1988, urging even more shock therapy. "In subsequent months, protests grew more determined and radical." [187]

The protests were fueled by popular discontent with Deng's revolutionary economic changes (though the international media largely missed this, interpreting the protests as political, rather than economic). [187]

The political dimension of the protests was in their opposition to the antidemocratic nature of the economic reforms being implemented. [187]

Wang Hui: calls for elections and free speech were intimately connected to economic dissent -"... 'a general request for democratic means to supervise the fairness of the reform process and the reorganization of social benefits." [187]

The state chose to protect its economic 'reform' program by crushing the demonstrations. Thousands were killed, and tens of thousands injured; "a national witch hunt against all regime critics and opponents" followed. [188]

"As in Latin America, the government reserved its harshest repression for the factory workers, who represented the most direct threat to deregulated capitalism." [188]

Systematic beatings and torture. [189]

The crackdown wasn't protecting Communism, but capitalism. [189]

"Just as Pinochet's terror had cleared the streets for revolutionary change, so Tiananmen paved the way for a radical transformation free from fear of rebellion." [189]

With the public in a state of raw terror, "Deng famed through his most sweeping reforms yet." [189]

The shock of the massacre made more radical economic shock therapy possible. [190]

"In the three years immediately following the bloodbath, China was cracked open to foreign investment." [190]

China became "the sweatshop of the world." [190]

90% of China's billionaires are children of Communist Party officials. [190]

"... a revolving door between corporate and political elites who combine their power to eliminate workers as an organized political force." [190]

"One of the truths revealed by Tiananmen was the stark similarity between the tactics of authoritarian Communism and Chicago School capitalism – a shared willingness to disappear opponents, to blank the slate of all resistance and begin anew." [190-191]

Tiananmen massacre occurred on the same day as Solidarity's electoral victory: June 4, 1989. [191]

Poland experienced 30% decline in industrial production in the first 2 years of 'reforms' – unemployment reached 25%. [191]

Its unemployment remains the highest in Europe. Between 1989 and 2003, the percent of Poland's population living below the poverty line grew from 15% to 59%. [192]

"... the same gaping disparities that have accompanied the counterrevolution everywhere it has triumphed, from Chile to China." [192]

Polish workers managed to slow the reforms; in 1993, 62% of Poland's total industry was still public. [193]

In 1993 election, a coalition of left parties won 66% of the seats in Parliament. [193]

# CHAPTER TEN - DEMOCRACY BORN IN CHAINS: SOUTH AFRICA'S CONSTRICTED FREEDOM