

Sociological Theory II  
SOS3506  
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## The shock doctrine

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## The Shock Doctrine

- Introduction
  - The flooding of New Orleans from Hurricane Katrina
  - Key real estate developers express the sentiment that this is a great opportunity to start with “clean sheets”
  - Milton Freedman writes in the Wall Street Journal that New Orleans school system can now be radically reformed: provide the parents with vouchers and delegate the provision of schools to private actors
- How much does Capitalism depend on disasters?

## Doctor Shock 1

- Ewen Cameron and his torture lab
  - CIA funded research into how to erase and remake the psyche (“brainwashing”)
  - “Shock and awe” and sensory deprivation used to destroy a personality. BUT rebuilding was unsuccessful
  - Cameron was a true believer in his own theories of curing personality disorders
  - His ethics was that the goal sanctioned the means

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## Doctor Shock 2

- Milton Friedman (died 2006) and his laissez-faire capitalism
  - Friedman was a true believer that any and all government interference with the “free” market created imperfections and costly distortions
  - For 30 years he was looking for a “laboratory” to demonstrate the superiority of his theories compared to Keynes’ ‘developmentalism’ approach
  - The deregulation and anti-socialism reform approaches of Brazil (1964) and Indonesia (1965) did not go so well seen from Chicago
  - Then Pinochet (died 2006) in 1973 created an opportunity for a “shock and awe” approach in Chile

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## States of shock

### Latin America's southern cone

- Chile: 9/11 1973
  - Anti communist ideology
  - Military inspired by the CIA techniques of “shock and awe”
  - Policy led by the Chicago Boys inspired by Freedman’s advice to change/ remove everything at once
  - The experiment basically ended in 1982
- Brazil 1964 – after 1973 picking up speed by looking to Chile
- Uruguay 1973 joining the experiment in 1974
- Argentina 1976 joined, but did not go quite as far in implementation of it,
  - They were satisfied to keep the old rural aristocracy in power and were afraid of the public relations disaster of Chile
  - Tried a less conspicuous version of the shock and awe strategy

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## Cleaning the slate

- The revolutions of Latin America had two components
  - A bold experiment in economic transformation
  - An evil system of torture and terror
- Were these two causally connected in the sense that the economic experiment could not have happened without the terror?
- The language used was to “cleanse” the nation from Communism, Socialism and Collective action
  - In particular economists (non-Chicago) and trade union activists
  - But also artists with any kind of “radical” leanings
- The big international companies were more or less active co-operators with the juntas
- Torture was used with the idea of curing these of any kind of solidarity, goaded into being perfectly individualistic as the economic beliefs demanded

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## Cleansing an ideology

- The connection economics – terror got blurred by
  - Letelier, accusing Friedman of complicity in the atrocities, was assassinated in Washington in 1976
  - Friedman got the 1976 Nobel memorial prize in economics
  - Amnesty International got the 1977 Nobel Peace prize for its work on human rights abuses (particularly in Latin America)
    - Amnesty did good work saving a lot of people but never asked why?
  - But was terror a necessary tool? If not why was it happening and in whose interest?
- In general abuse of prisoners is a sure indicator that politicians are trying to impose a system against the will of a majority of the people
- Is neoliberal economics an inherently violent ideology in this regard?

## Thatcher saved by war

- Hayek encouraged Thatcher to emulate Chile and Friedman thought Nixon would do so in the USA
- Thatcher pointed out the obstacle of democratic acceptance. Nixon went Keynesian with price controls
- The Falkland war saved Thatcher from losing in the 1983 election proving strength take on trade unions and launch pervasive privatisations
- Friedman concluded about the importance of crisis to produce real change. Change will then depend on ideas available

## Sachs as a new Dr Shock

- Bolivia's election in 1985 in the midst of hyperinflation and based on a possible backroom deal between contenders made possible a deep shock therapy
- Sachs was a main architect for the policy
- The economy came around 2 years after the new policy inflation was down to 10%
- But contrary to claims it was not a democratically based revolution and illegal cocaine production and trade seems to be the main reason for the economic recovery

## Crisis works

- Williamson noted that Bolivia had proved Friedman's point about crisis: hyperinflation worked as well as Pinochet's war on Allende and the Falkland war
- Hyperinflation was not a problem it was an opportunity
  - Created by ballooning debts of dictators and
  - Soaring interest rates
- The Volcker shock increased interest rates drastically in the USA and created hyperinflation in developing countries
- The WB and IMF had been taken over by Chicago economists
  - Now they created the structural adjustment programs for all countries asking for assistance
- Chicago school: democracy and free market went hand in hand
- Whether it did or not: crisis opportunism became the guiding logic for the international financial institutions

## Slamming the door on history

- Authoritarian regimes will usually hand over their run down economies to democracy
- Poland's run down economy 1989
  - Needed debt relief
  - Sachs invited as adviser on shock therapy
  - Solidarity won the election, implemented the reforms partly, 1993 lost the election
- China 1983 introduces economic reforms
  - Friedman invited as adviser 1989
  - Tiananmen Square crackdown on demands for democracy to bolster the shock therapy advised by Friedman
  - Capitalism triumphed

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## South Africa's constricted freedom

- Mandela freed from 27 years of jail 1990
  - still convinced that nationalisation was the right policy
- Negotiations
  - Political questions by Mandela-Klerk
    - Agreed to protect private property in the constitution
  - Economic questions by Mbeki
    - Negotiated away control of the Reserve Bank and the Finance ministry
    - Accepted to honour debts to the international economic system (WB, IMF, GATT, etc) and be bound by their structural adjustment policies (privatization, wage restraints, free trade, etc)
- The power behind much of this was fear for reactions by actors in the economic markets
  - By 1996 ANC was convinced it needed a "shock therapy"
  - Unveiled in June 1996 but it did not work
- The Truth and reconciliation Committee was unable to convince ANC that a small one time 1% corporate "solidarity tax" to compensate victims of apartheid was needed

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## Russia chooses the “Pinochet Option”

- 1991:
  - June: G7 meeting rejected Gorbachev’s slow reform approach: shock therapy like Poland’s was needed and even faster reforms
  - Oct.: Gorbachev resigns. Price controls lifted.
  - Parliament grants Yeltsin one year of legislative power (making him a tyrant)
  - A team of economists well read in the Chicago orthodoxy started to prepare reforms
  - Dec.: Yeltsin declares Soviet Union for dissolved. Sachs called in as adviser to secure debt relief.
- 1992:
  - The therapy did not work, Gaidar was sacked, and
- 1993
  - March: parliament recalled Yeltsin’s powers, Yeltsin declared a state of emergency, WB threatened to stop a big loan, Yeltsin abolished the constitution and dissolved the parliament, the parliament voted to impeach Yeltsin, US Congress votes big loan to Yeltsin, Yeltsin sends troops to blockade the parliament, after Poland sacked Solidarity Yeltsin abandoned plans for election and
  - 4 Oct: Yeltsin took the Pinochet option and opened fire on the crowd protecting the parliament. All elected councils were dissolved
  - Then the Chicago boys set to work .....

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“Privatization, stabilization, and liberalization must all be completed as soon as possible”

(Lawrence Summers)

- Free-market ideologues: are they true believers, driven by ideology and faith that free markets will cure underdevelopment? Or do the ideas and theories frequently serve as a rationale to allow people to act on unfettered greed while still invoking an altruistic motive?
- Evaluating the reforms: When in doubt blame corruption!
- Countries emulating Russia’s privatizations also experienced milder versions of coups-in-reverse
- The neo-liberalism may be called “the second colonial pillage”

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## The capitalist ID

- Jeffery Sachs was genuinely disappointed by the West's refusal to grant help to Russia
- A possible explanation might be that now the competition from communism was ended. No concession to ordinary people was necessary
- John Williamson in a seminar on "The Political Economy of Policy Reform" wondered if one might artificially create crises to force privatization on a people
- Canada and Trinidad/ Tobago show evidence of such policy interventions

## The Looting of Asia

- Summer 1997:
  - A rumour that Thailand's money reserves were running out turned into panic taking down the economies of Thailand, Indonesia, Philippines, South Korea, and Malaysia
  - In the early nineties these countries only grudgingly had opened their financial markets to global capital
  - Now IMF responded slowly and then by demanding its usual structural adjustment program supported by the usual Chicago school economists (but now opposed by Sachs) "What we need now in Asia is more bad news." (Pelosky from Morgan Stanley)
  - The announced deals with IMF only deepened the crisis inaugurating a flurry of business takeovers by Western multinationals including public services
- 2007
  - The human cost was staggering. By 2007 the previous Tiger economies are not yet back to pre 1997 levels
  - After 1998 it became increasingly difficult to impose shock therapy and the anti-globalisation movement grew to become a significant force