

Sociological Theory II
SOS3506
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Disaster capitalism

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Shock Therapy in the USA

- 2001 Sep 10
 - During 90ies peripheral military activities had been outsourced similar to a lot of public tasks like public security
 - Rumsfeld declares war on the Pentagon bureaucracy, the core military activities should be outsourced
- 2001 Sep 11
 - Everything changed. It was a new opportunity to privatize gov.ment
 - Homeland security and military intelligence became big business within 3 months
- 2006
 - The track record of Guantanamo is also an indictment of the quality of this information. The incentives are wildly wrong
 - Today larger than the economies of most countries, larger than Hollywood or the music industry
 - Why is it not studied more extensively?

A corporatist state

- There is a tradition for top administration in USA to be recruited from business and for top intellectuals to leave the administration for business
 - To enter office they have had to abandon their ownership interests conflicting with their public duties. Under Bush this has largely been relaxed or worked around
 - Rumsfeld held on to Gilead Sciences profiting from avian flu scares and government contracts for vaccines and AIDS drugs, other examples abound
 - Previous top administrators were called on as advisors on issues where their companies might profit
- Their ideological commitment to the neoconservative cause is based on maximization of personal profits so there is no difference between pursuing personal economic gains and their ideological beliefs

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3

Erasing Iraq

- Middle East had escaped the economic remaking that South America, Soviet Union and Asia had experienced, they were too rich and did not borrow money
- Iraq was chosen as entry point for a “liberalisation” of the Arab world
- Shock and awe tactic (Ullman et al. 1996) would be used including allowing
 - Public infrastructure (including history and culture) to be looted and destroyed
 - Using prison procedures like in Guantanamo, Bagram, and Abu Ghraib and extraordinary renditions
- Even while Baghdad was burning and the looting on-going the auctioning off of Iraqi public resources started and completely free trade was introduced, steered by a neo-colonial blindness to the existing society

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Ideological blowback

- Reconstruction started with promulgation of business designed laws of the most radical shock therapy variety
- Big American companies, Haliburton, Bechtel, Parsons, KPMG, RTI, Blackwater were awarded big contracts for reconstruction (paid for by public money)
- Nothing went to Iraqis or Iraqi companies
- It did not work
 - 400.000 soldiers laid off soon went to the resistance
 - Antagonized and infuriated Iraqi business class started funding the resistance
 - The constitution was designed to lock in the legal changes (this failed eventually)
 - Efforts to privatize 200 state companies antagonised their workers
 - The free market ideology ensured that the management of the US funds were understaffed and incompetent
 - It turned out that Bremer's reconstruction authority was not a public agency and went free as charges of fraud came up
- The reconstruction failure predates the resistance
- The most important result in Iraq may be religious fundamentalism

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Full circle

- Iraqis spontaneous democratic elections after Saddam's fall were stopped and cancelled by Bremer instead appointing Saddam officers as managers and appointing a governing council
- Major attacks on foreign presence started
- The response was Chilean style disappearances, Kubark style torture, and Salvador style death squads. The worst occurring in Iraqi run prisons.
- Industrial developments in the midst of chaos:
 - A few discovered that local companies were more efficient than the foreign contractors
 - Kidnappings and torture to extract ransom boomed
 - A new oil law was drafted and enacted Feb 2007 allowing transfer of all oil revenue to foreign companies
 - Private warfare contractors boomed thanks to Rumsfeld's radical downsizing of the US military
- Out of Iraq comes a full fledged disaster capitalism

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The second tsunami

- Feb 2002: cease-fire in Sri Lanka
 - Planning for tourist development starts
 - Supported by WB&IMF on condition of the usual shock therapy structural adjustments of privatization
 - Plan required removing people and fishing villages from the beaches
- April 2004 plans were defeated at the polls
- Dec 2004 the tsunami cleared the beaches
 - Within a few weeks the legislation clearing the way for the tourist companies were in place and reconstruction donations went mostly to develop the tourist industry
 - The big beneficiaries were some of the same companies that profited on the "reconstruction" of Iraq
 - The victims of the tsunami were left in temporary camps far inside the land
 - The developments made NGOs villains and contributed to the return of war
- Similar developments took place in Thailand, Indonesia, and most extensively in the Maldives
- It followed a pattern developed in 1998 in Honduras, Nicaragua, Guatemala in the wake of hurricane Mitch (there it took a couple of months)

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7

Disaster Apartheid

- Disasters hit the poor more severely than the rich. Now reconstruction favours the rich leaving the poor worse off
- In New Orleans reconstruction, including planning and management, is outsourced to private companies (the same as in Iraq)
 - What happened in Iraq including "significant overcharges, wasteful spending, or mismanagement" is also found here
 - Public workers are laid off and their services are replaced by private companies for a fee
 - Green zones appeared with concomitant red zones outside
- Together with the growth of private security/ paramilitary services the private sector contractor infrastructure now looks like a state within the state
- What happens to this market when the state goes broke?
 - Taking over municipal services (e.g. wealthy suburbs around Atlanta opting out of Fulton county by means of contracting out governance completely, potentially leaving the less prosperous parts as a red zone)
 - Next may be anybody's guess

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8

Losing the peace incentive

- Since 2003: The Davos Dilemma (economic growth go together with increasing insecurity: war terror)
- Profits from insecurity does not require conspiracy. It may be worse: the system has adapted
- Israel is the first well adapted economy
 - 1993 looking for peace to improve its economy in the ongoing globalisation: Oslo accord
 - Influx of Russian Jews made Palestinian workers redundant and created new demand for settlements, doubling in size bnetween 1993 and 2000
 - Border closures and checkpoints were introduced
 - Russian immigrants were highly educated from IT and military industries
 - The Israeli economy boomed. The 2000 Camp David deal fell and the economy crashed (the dot-com bubble), 2002 being the worst year since 1953
 - The government intervened with increased military spending on homeland security and in 2003 its economy was coming back now ready to profit from increased demand for security around the world
 - Palestinians are rebranded as terrorists and there is no peace dividend in sight
 - The state has been restructured less on social security and more stratification
 - The 2006 Lebanon war led to a boom on the stock market
- War on terror is not fought to win, but to generate business

Shock wears off

- USA republican power 1994-2006
 - Political corruption, mismanagement of Iraq war, increasing class divisions
- Terror shocks like in South America will wear off in one generation (max)
 - Observed in Latin America, Eastern Europe, South Africa
 - In South America there is a uprising against WB and IMF and states make ALBA to barter directly rather than rely on world markets
- People take reconstruction into their own hands
 - Cooperatives in South America and their political movements are less centralized (thus more shock resistant)
 - Lebanese rebuilding their own city defying the conditions attached to proposed IMF reconstruction funds (the first national revolt against disaster capitalism)
 - Fishers rebuilding their own villages in Thailand defying the government
 - People of New Orleans rebuilding themselves not waiting for FEMA

About neo-classical economics

- Klein is not an academic and cannot be judged as one. There are many places in her book where she oversimplifies. But Friedman and the other shock therapists were also guilty of oversimplification, basing their belief in the perfection of market economies on models that assumed perfect information, perfect competition, perfect risk markets. Indeed, the case against these policies is even stronger than the one Klein makes. They were never based on solid empirical and theoretical foundations, and even as many of these policies were being pushed, academic economists were explaining the limitations of markets — for instance, whenever information is imperfect, which is to say always. (Joseph E. Stiglitz, **New York Times**, September 30, 2007)
- Stiglitz got the Nobel Memorial Prize in Economics for 2001

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11

Why?

- Some readers may see Klein's findings as evidence of a giant conspiracy, a conclusion she explicitly disavows. It's not the conspiracies that wreck the world but the series of wrong turns, failed policies, and little and big unfairnesses that add up. Still, those decisions are guided by larger mind-sets. Market fundamentalists never really appreciated the institutions required to make an economy function well, let alone the broader social fabric that civilizations require to prosper and flourish. Klein ends on a hopeful note, describing nongovernmental organizations and activists around the world who are trying to make a difference. After 500 pages of "The Shock Doctrine," it's clear they have their work cut out for them. (Joseph E. Stiglitz, **New York Times**, September 30, 2007)

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12