

Abstracted from “*The Shock Doctrine The Rise of Disaster Capitalism*” by Naomi Klein

The intellectual guidance for what has been going on in the United States and the rest of the world for the past four decades has been provided to a considerable extent by Milton Friedman and his disciples at the University of Chicago, known as the ‘Chicago School’ or the ‘Chicago Boys.’

According to their doctrine, radical shifts in the economy in the interest of unfettered capitalism can occur only through large-scale shocks or crises:

- Wars and violent coups: Pinochet’s coup in Chile in 1973, the ‘disappearance’ of 30,000 activists in Argentina in the seventies, the Tiananmen Square massacres and the national witch hunt against regime critics in China in 1989, Margaret Thatcher’s Falklands War in 1982, the economic meltdown and heavy debt load when Solidarity took over in Poland in 1988, Boris Yeltsin’s burning of the parliament building in Russia in 1993, the NATO attack on Belgrade in 1999, the destruction of the World Trade Center in 2001, the 2003 invasion of Iraq etc.
- Financial crises: hyperinflation, depression, recession, capital flight, debt crises in Latin America and Africa in the eighties, when loans from the IMF and the World Bank were passed on unjustifiably from autocratic rulers to democracies, decisions by the US Federal Reserve to allow interest rates to soar, the financial crisis in Asia in 1997-1998, price shocks when the price of an export commodity drops by 10% or more, currency shocks when currency traders bet against a country’s currency, causing its value to plummet, structural adjustments by the IMF and the World Bank, which seek to promote Friedman’s three trademark demands (listed below) when providing financial assistance
- Natural disasters: Hurricane Mitch in Central America in 1998, Hurricane Katrina in New Orleans in 2005, the California fires in 2007, the Asian tsunami in 2004, the Mexican floods in 2007.

Only in such moments of collective trauma can a small number of people bring about changes which the general population considers detrimental to their economic and social welfare. At the time of these shocks, the economic shifts, which themselves are shocks, are carried out quickly and sweepingly, under the guidance of the Chicago Boys and their disciples, stunning the public into inaction, suppressing their will to resist – all before they regroup and stake their claims to what was theirs.

The first of the trademark demands of those in power is the elimination of the public sphere, the privatization of the government - handing over formerly government functions to the private sector, which performs these functions in ways that transfer wealth from the majority to the few. Governments sell off assets they own that corporations then run at a profit. Examples: privatization of state-owned companies and banks in Chile, of military support systems in Iraq, of relief and reconstruction in Iraq and elsewhere, of prison systems in the US, of US military intelligence gathering, of domestic security (Homeland Security) in the US, of oil reserves, of mines, shipyards and factories in the Third World, of phone companies, power companies, TV airwaves, airlines, retirement pensions, national parks, police and fire functions, public schools, throughout the World. In some cases, politicians selling the public companies have transferred large sums of public money, which should have gone into the national bank or treasury, into private banks hastily incorporated by oligarchs, and have used those sums to purchase the public assets! These companies were then opened up to blue-chip multinationals.

The second is government deregulation of corporations, allowing them to operate unfettered, in ways that maximize profit, regardless of damage to humanity and the environment. Governments remove all rules and regulations standing in the way of profit. Examples: lowering corporate taxes, weakening OSHA, fostering globalization, NAFTA, the Bush Administration’s refusal to enforce environmental laws, eliminating government protection of labor unions, no effort by government to protect local industries or

local ownership, corporate freedom to sell their products anywhere in the world, with all prices, including labor, determined by the market, no minimum wage, flooding of Third World with cheaply produced US agricultural products, driving local farmers out of business.

The third is deep cuts in social spending, permitting those funds to be transferred to corporations.

Examples: elimination of public housing, the welfare system, food subsidies, unemployment insurance, employment counseling and assistance, health care.

Regrettable but unavoidable will be resistance by those who suffer. In extreme cases of resistance, imprisonment, torture and death are the most effective 'cures' for those who believe in a different kind of society (justice and democracy). Local police and military forces, trained and assisted by the CIA and the US military (School of the Americas), administer these 'cures': in the Southern Cone alone (Chile, Argentina, Uruguay and parts of Brazil), the murder of tens of thousands and the torture of between 100,000 and 150,000 people.

This 'treatment' has been visited on many countries since Friedman's first success in Chile in the early seventies: Argentina, Uruguay, Brazil, Bolivia, South Africa, Sri Lanka, the United Kingdom, Poland, Russia, China, Thailand, Malaysia, the Philippines, Mexico, Singapore, Taiwan, Indonesia, South Korea, Guatemala, Honduras, Nicaragua, the Maldives, the United States, and now Iraq and Afghanistan.

From Chile to China to Iraq, torture has been a silent partner in the global free-market crusade. Torture, or in CIA language 'coercive interrogation' is a set of techniques designed to put prisoners into a state of deep disorientation and shock in order to force them to make concessions against their will. CIA manuals explain that the way to break 'resistant sources' is to create violent ruptures between prisoners and their ability to make sense of the world around them. First, the senses are starved of any input (with hoods, earplugs, shackles, total isolation), then the body is bombarded with overwhelming stimulation (strobe lights, blaring music, beatings, electroshock).

The goal of this softening-up stage is to provoke a kind of hurricane in the mind. Prisoners are so regressed and afraid that they can no longer think rationally or protect their own interests. It is in that state of shock that most prisoners give their interrogators whatever they want. There is an interval – which may be extremely brief – of suspended animation, a kind of psychological shock or paralysis. It is caused by a traumatic or sub-traumatic experience, which explodes, as it were, the world that is familiar to the subject as well as his image of himself within this world. At this moment the victims are far more open to suggestion, far likelier to comply, than they was just before they experienced the shock.

The shock doctrine, when administered to a society or portion of one, mimics this process precisely, attempting to achieve on a mass scale what torture does one-on-one in the interrogation cell. The clearest example was the shock of September 11, which, for millions of people, exploded 'the world that is familiar' and opened up a period of deep disorientation and regression that the Bush Administration expertly exploited. Suddenly we found ourselves living in a kind of Year Zero, in which everything we knew of the world before could now be dismissed as pre-9/11. Never strong in our knowledge of history, North Americans had become a blank slate. A new army of experts instantly materialized to write new words on the receptive canvas of our post-trauma consciousness: 'clash of civilizations', 'axis of evil', 'Islamofascism', 'homeland security.' With everyone preoccupied by the deadly new culture wars, the Bush Administration was able to pull off what it could only have dreamed of doing before 9/11: wage privatized wars abroad and build a corporate security complex at home.

That is how the shock doctrine works: the original disaster – the coup, the terrorist attack, the market meltdown, the war, the tsunami, the hurricane – puts the entire population into a state of collective shock. 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. Like the terrorized prisoner who gives up the names of comrades and renounces his faith, shocked societies often give up things they would otherwise fiercely protect.

For economic shock therapy to be applied without restraint – as it was in Chile in the seventies, China in the late eighties and Russia in the nineties, Iraq in the present day – some sort of additional major collective trauma has always been required, one that either temporarily suspends democratic practices or blocks them entirely. This ideological crusade was born in the authoritarian regimes of South America. In its largest newly conquered territories – Russia, China and, most recently, Iraq – it coexists most comfortably, and most profitably, with an iron-fisted leadership to this day.

The entire thirty-year history of the Chicago School experiment has been one of mass corruption and corporatist collusion between security states and large corporations, from Chile's piranhas, to Argentina's crony privatizations, to Russia's oligarchs, to Enron's energy shell game, to Iraq's 'free-fraud' zone. The point of shock therapy is to open up a window for enormous profits to be made very quickly – not despite the lawlessness, but precisely because of it. Today's multinationals see government programs, public assets and everything else that is not for sale as terrain to be conquered and seized – the post office, national parks, schools, social security, disaster relief and anything else that is publicly administered. Such as Chile's phone system, Argentina's airline, Russia's oil fields, Bolivia's water system, the US public airwaves, Poland's factories – all built with public wealth, then sold for a trifle.

There have been cases in which the adoption of free-market policies have taken place democratically. Politicians have run on hard-line platforms and won elections, the US under Reagan being the best example. In these cases, however, free-market crusaders came up against public pressures and were invariably forced to temper and modify their radical plans, accepting piecemeal changes rather than a total conversion. The bottom line is that while Friedman's economic model is capable of being partially imposed under democracy, authoritarian conditions are required for the implementation of its true vision.

Friedman framed his movement as an attempt to free the market from the state, but the real world track record of what happens when his purist vision is realized is rather different. In every country where Chicago School policies have been applied over the past three decades, what has emerged is a powerful ruling alliance between a few very large corporations and a class of mostly wealthy politicians – with hazy and ever shifting lines between the two groups. In Russia the billionaire private players are called the 'oligarchs'; in China, the 'princelings'; in Chile the 'piranhas'; in the US, the Pioneers. Far from freeing the market from the state, 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 work in Iraq.

A more accurate term for a system that erases the boundaries between Big Government and Big Business is not liberal, conservative or capitalist, but corporatist. 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. For those inside the bubble of extreme wealth created by such an arrangement, there can be no more profitable way to organize a society. But because of the obvious drawbacks for the vast majority of the population left outside the bubble, other features of the corporatist state tend to include aggressive surveillance, mass incarceration, shrinking civil liberties, and often torture.

Judged not by the words of its proponents, which focus on jolting the economy back into health, but by its results, shock treatment was meant to do exactly what it has done – transfer wealth up to the top and shock much of the middle class out of existence and much of the lower class into unemployment. In many

of the above-mentioned cases, this transfer of wealth continued long after the torture and murder ceased, with the resulting poverty and deprivations causing far more suffering and loss of life, and continuing to this day. In Russia, for example, as a result of the application of Chicago School program, more than 80% of Russian farms had gone bankrupt by 1998, seventy thousand state factories had closed, 74 million people were living below the poverty line, 37 million of whom lived in poverty described as desperate. In 2006, 3.5 million children were homeless. Alcoholism, drug use, AIDS, suicide and violent crime are rising precipitously. Life expectancy is dropping fast.

In the late 1990s, the IMF negotiated the economic equivalent of extreme makeovers for Thailand, Indonesia, South Korea and the Philippines. The human costs were nearly as devastating in Asia as in Russia. Twenty-four million people lost their jobs. Twenty million Asians were thrown into poverty. Rural families sold their daughters into the sex trade. American firms achieved deep penetration into the Asian economy. Within two years, the face of Asia was utterly transformed, with hundreds of local brands replaced by multinational giants. Foreign firms snapped up the entire apparatus: workforce, 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 imports. In addition, Asia was forced to accelerate privatization of certain key sectors – including energy, transportation, utilities and communications. All told, there were 186 major mergers and acquisitions of firms in Indonesia, Thailand, South Korea, Malaysia and the Philippines by foreign multinationals in a span of only 20 months. Countries eventually stabilize, but that new equilibrium is achieved at the expense of millions of people: public-sector workers, small-business owners, subsistence farmers, trade unionists. The vast majority never recover. They end up in slums, now home to 1 billion people in these countries, in brothels or in cargo ship containers.

Iraq was chosen to be a model for the Middle East, one of the last remaining holdouts from the drive to build a global market based on Friedman's vision of unfettered capitalism. The architects of the invasion unleashed ferocious violence because they could not crack open the closed economies of the Middle East by peaceful means. Since the entire Arab world could not be conquered all at once, a single country needed to serve as a catalyst. The US would invade Iraq and turn it into a different model in the heart of the Arab world, one that would set off a series of neoliberal waves throughout the region. The Middle East would be cleaned out of terrorists and a giant free trade zone would be created, opening the way for multinationals to feed off freshly privatized states.

After arriving as Iraq's governor, Paul Bremer, who, in effect, was the government and answered to no one, received trade and investment decrees from the Department of Defense and imposed them by fiat:

- The immediate privatization of the 200 state-owned firms that produced the staples of the Iraqi diet and the raw materials of its industry. 500,000 state workers were fired.
- The lowering of the corporate tax rate from 45% to 15%.
- Permission for foreign companies to own 100% of Iraq's assets.
- Permission for investors to take 100% of their profits out of the country, with no taxes and no requirement to reinvest.
- Permission for investors to sign leases and contracts lasting 40 years and then be eligible for renewal.

Few Iraqis were employed by the US firms. Tens of thousands of foreign workers streamed across the borders to take up jobs with foreign contractors. The role for government employees was cut to the bone. Every government function was handed over to private contractors. Private accountants designed and managed the economy. Private firms trained the Iraqi army and police. Private education companies

drafted the new curriculum. Even the job of designing ‘local democracy’ was privatized and handed over to a US company.

All the forces tearing Iraq apart today – rampant corruption, ferocious sectarianism, the surge in religious fundamentalism and the tyranny of death squads – escalated in lockstep with Bush’s economic plan, which transformed the country into a cutthroat capitalist laboratory, a system that pitted individuals and communities against each other, that eliminated hundreds of thousands of jobs and livelihoods and that replaced the quest for justice with rampant impunity for foreign occupiers. We see a capitalist disaster, a nightmare of unfettered greed, created by a careful and faithful application of unrestrained Chicago School ideology.

Freed of all regulations, largely protected from criminal prosecution, and on contracts that guaranteed their costs would be covered, plus a profit, many foreign corporations scammed wildly, engaging in elaborate subcontracting schemes. The money went through many hands and wound up producing highly unsatisfactory products and services. This mismanagement continued for three and a half years until all the major US reconstruction firms pulled out of Iraq, their billions spent, the bulk of the work still undone.

When Bremer first arrived, the US plan was to convene a large constituent assembly, representing all sectors of Iraqi society, where delegates would vote for the members of an interim executive council. Soon this plan was scrapped in favor of handpicking the members of an Iraqi Governing Council, as well as local leaders. No elections were permitted; the first ‘sovereign’ government would be appointed. Bremer cut down democracy wherever it reared its ugly head. As soon as the Iraqis realized that their only recourse was violence, they undertook a major armed resistance, which was met with imprisonment and torture on a massive scale – 61,500 Iraqis captured and imprisoned. The torturers used all the techniques perfected in the previous 30 years by the CIA and its Third World disciples. US forces had no hope of handling a population in open rebellion and with a gaping hole where Iraqi’s army and police used to be.

In the seventies, when the corporatist crusade began, it used tactics that courts ruled were overtly genocidal: the deliberate erasure of a segment of the population. In Iraq, something even more monstrous has happened – the erasure not of a segment of the population but of an entire country. Iraq is disappearing, disintegrating. It began with the disappearance of women behind veils and doors. Then the children disappeared from the schools – as of 2006, two-thirds of them stayed home. Next came the professionals – doctors, professors, entrepreneurs, scientists, pharmacists, judges, lawyers. An estimated 300 Iraqi academics have been assassinated by death squads since the US invasion, including several deans of departments; thousands more have fled. Doctors have fared even worse. By February 2007, an estimated 2,000 had been killed and 12,000 had fled. In November, 2006, the UN estimated that 3,000 Iraqis were fleeing the country every day. By April 2007, the UN reported that four million people had been forced to leave their homes. Hardly what the Bush Administration described when it selected Iraq as a model nation for the rest of the Arab world.

In December 2006, the Iraq Study Group called for the US to assist Iraqi leaders to reorganize the national oil industry as a commercial enterprise and to encourage investment in Iraq’s oil sector by the international community and by international energy companies. The Bush Administration immediately pushed ahead by helping to draft a radical new oil law for Iraq, which would allow companies like Shell and BP to sign thirty- year contracts in which they could keep a large share of Iraq’s oil profits – hundreds of billions of dollars – and a sentence to perpetuate poverty in a country where 95% of government revenues come from oil.

The timing was revealing. One thousand Iraqis were being killed each week. Saddam Hussein had just been put to death. Bush was unleashing his 'surge' of troops. The law placed no limits on the amount of profits that foreign companies can take from the country and made no requirements about how much or how little foreign investors would partner with Iraqi companies or hire Iraqis to work in the oil fields. It excluded Iraq's elected parliamentarians from having any say in the terms for future oil contracts. Instead, it created a new unelected body with ultimate decision-making power on all oil matters. This is disaster capitalism at its most shameless.

Meanwhile, back in the US, the effort to outsource the US government continued. Rumsfeld designed the war with soldiers to provide only just-in-time combat functions, and eliminated 55,000 jobs in the Department of Defense and the Department of Veterans Affairs in the first year of the war, leaving the private sector to fill in the gaps. Thus, as the war spiraled into turmoil, an ever-more elaborate privatized war industry took shape, both in Iraq and at Walter Reed Medical Center. In Iraq, private security companies filled in the gap. Three years into the war, there were 48,000 private soldiers. Similarly for prisons and interrogation. And for transportation, recruiting, health care – corporate mission creep.

In the US, although Reagan made headway in implementing the Chicago School vision, the US retained a welfare system, social security and public schools. When the Republicans gained control of Congress in 1995, neoconservatives called for a shock-therapy-style economic revolution. "Instead of cutting incrementally, on a single day this summer we should eliminate 300 programs, each one costing a billion dollars or less." But there was then no domestic crisis to prepare the ground.

Then in 2001 that changed. When the September 11 attacks hit, the White House was packed with Friedman's disciples. The Bush team seized the moment of collective vertigo with chilling speed, because the key figures of the administration, veterans of earlier disaster capitalism experiments in Latin America and Eastern Europe, were part of a movement that prays for crisis.

The Bush Administration immediately seized upon the fear generated by the attacks not only to launch the War on Terror but to ensure that it is an almost completely for-profit venture, a booming new industry that has breathed new life into the faltering US economy. This 'disaster-capitalism complex' has much further-reaching tentacles than the military industrial complex that Eisenhower warned against. This is global war fought on every level by private companies whose involvement is paid for with public money, with the unending mandate of protecting the US homeland in perpetuity, while eliminating all 'evil' abroad. In only a few short years, the complex has already expanded its market reach from fighting terrorism, to international peacekeeping, to municipal policing, to responding to increasingly frequent natural disasters. The ultimate goal for the corporations at the center of the complex is to bring the model of for-profit government, which advances so rapidly in extraordinary circumstances, into the ordinary day-to-day functioning of the state – in effect, to privatize 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 of government – from providing health care to soldiers, to interrogating prisoners, to gathering and data-mining information on all of us. The role of the government in this unending war is not that of an administrator managing a network of contractors but of a deep-pocketed venture capitalist, both providing seed money for the complex's creation and becoming the biggest customer for its new services.

To get a glimpse of what is in store for us here in the US, look at New Orleans, where Hurricane Katrina, a disaster in the eyes of sane and moral humans, has been a great opportunity for the Chicago Boys, the Bush Administration and major corporations. A few days after Katrina, the Heritage Foundation hosted a meeting of policymakers, who came up with these recommendations:

- Suspend Davis-Bacon prevailing wage laws.
- Make the entire affected area a flat-tax free-enterprise zone.
- Make the entire region an economic competitiveness zone (comprehensive tax incentives and waiving of regulations)
- Give parents vouchers for use at charter schools.
- Repeal environmental regulations on the Gulf Coast.

Within a few weeks, the Gulf Coast became a domestic laboratory for the same kind of government-run-by-contractors that had been pioneered in Iraq – massive allocations of public funds to private companies to reconstruct military bases, protect FEMA employees, construct bridges, provide mobile homes to evacuees, at a cost of \$3.4 billion, with no open bidding required, all with significant overcharges, wasteful spending and mismanagement. As in Iraq, the government once again played the role of a cash machine equipped for both withdrawals (for contracts) and deposits (campaign contributions). Almost two years after the storm, Charity Hospital, which treated the poor, was still closed. The court system was barely functioning, and the privatized electricity company had failed to get the whole city back online. The public transit system was gutted and lost almost half its workers. The vast majority of publicly owned housing projects stood boarded up and empty, with 5,000 units slated for demolition. Whereas in the wealthy areas of the city there were private hospitals, charter schools and gated communities, bubbles of functionality, that seemed to have seceded from the state altogether, with powerful emergency generators and security guards.

Amid the schools, the homes, the hospitals, the transit system and the lack of clean water in many parts of town, New Orleans' public sphere was not being rebuilt, it was being erased, with the storm used as an excuse. It's easy to imagine a future in which growing numbers of cities have their frail and long-neglected infrastructures knocked out by disasters and then are left to rot, their core services never repaired or rehabilitated. The well-off, meanwhile, will withdraw into gated communities, their needs met by privatized providers.

The emergence of this parallel privatized infrastructure reaches far beyond a few government functions. When the contractor infrastructure built up during the Bush years is looked at as a whole, what is seen is a fully articulated state-within-a-state that is as muscular and capable as the actual state is frail and feeble. This corporate shadow state has been built almost exclusively with public resources, including the training of its staff. Yet the vast infrastructure is all privately owned and controlled. The citizens who have funded it have absolutely no claim to this parallel economy or its resources. Meanwhile, the actual state is losing its ability to perform its core functions without the help of contractors.

But the Bush Administration did not start the privatization mania. Earlier, the Clinton Administration, as well as state and local governments, had successfully sold off or outsourced large, publicly-owned companies in several sectors, from water and electricity to highway management and garbage collection. What was left was the 'core' – those functions so intrinsic to the concept of governing that the idea of handing them to private corporations challenged what it meant to be a nation-state: the military, the police, fire departments, prisons, border control, covert intelligence, disease control, the public school system and the administering of government bureaucracies.

Now, the US government set out to break the taboos protecting the 'core' from privatization. Prior to this, crises and disasters had been harnessed to push through radical privatization plans. Now, the crisis-exploiting methods that had been honed over the previous three decades would be used to leverage the privatization of the infrastructure of disaster creation and disaster response.

The corporate world knows that the golden era of bottomless federal contracts cannot last much longer. The US government is barreling toward an economic crisis, at which point the contracts are going to dip significantly. When the disaster bubble bursts, firms such as Bechtel and Blackwater will lose much of their primary revenue streams. They will still have all their high-tech gear and equipment, but they will need to find a new business model.

The next phase of the disaster capitalism complex is all too clear: with emergencies on the rise, government will no longer be able to foot the bill and citizens will be stranded by their can't-do state. The parallel corporate state will rent back its disaster infrastructure to whoever can afford it, at whatever price the market will bear. Katrina foreshadows a collective future of disaster apartheid in which survival is determined by whoever can afford to pay for escape. Probably our elites are sanguine about climate change because they are confident they will be able to buy their way out of the worst of it.

The process is well under way. The residents of a wealthy suburb outside Atlanta recently decided they were tired of watching their property taxes subsidize schools and police in the county's low-income African-American neighborhoods. They voted to incorporate as their own city, Sandy Springs, which could spend its taxes on services for its 100,000 citizens and not have the revenues redistributed throughout the larger Fulton County. Sandy Springs hired corporate workers to run the new city. The city government consisted of only four workers. Within a year, many other neighborhoods were emulating Sandy Springs.

A new leap forward for shock doctrine is now being contemplated by finance ministers and central bank chiefs: to provoke an artificial crisis so that shock therapy can be pushed through. For example, to create the impression that Canada is on the brink of a financial catastrophe (even though there is no truth to such a claim) so that hypermobile investors, liberated by the new rules of globalization and free trade, would pull their money from Canada and take it somewhere safer. This provoked the Canadian government to radically cut spending on such programs as unemployment insurance and health care, bringing on privatization of those programs. This actually happened in 1993. Later it was uncovered that a sense of crisis had been carefully stoked and manipulated by a handful of right-wing think tanks funded by the largest banks and corporations in Canada. Since the social programs are supported by an overwhelming number of Canadians, the only way the cuts could be justified was if the alternative was national economic collapse.

By 1995, political discourse in most Western democracies was saturated with talk of imminent economic collapse, demanding ever-deeper cuts and more ambitious privatizations. At Washington's most powerful financial institutions, there was a willingness not only to create an appearance of crisis through the media, but also to take concrete measures to generate crises that were all too real. Michael Bruno, an economist at the World Bank, talking to 500 economists from 68 countries: "There is a growing consensus about the idea that a large enough crisis may shock otherwise reluctant policymakers into instituting productivity-enhancing reforms." He argued that international agencies needed to preemptively cut off aid to make crises worse. "An adverse shock (such as a drop in government revenue or in external transfers) may actually increase corporate welfare because it shortens the delay before reforms are adopted. This has a positive outcome; namely at the time of reform the power of entrenched groups may have been weakened, and a leader who opts for the long-run solution over short-term expediency may win support for reform." He was advocating the creation of failed states because of the opportunities they provided to start over in the rubble.

In Trinidad, the IMF used statistics as 'lethal weapons.' It utilized 'statistical malpractices' to exaggerate the numbers in reports on oil-rich Trinidad and Tobago in order to make the country look far less financially able than it actually was. It more than doubled a crucial statistic measuring labor costs, making

labor appear highly unproductive, even though it had the correct information on hand. At another time, the Fund 'invented, literally out of the blue' huge unpaid government debts. These were taken as facts by the financial markets, which promptly classified Trinidad as a bad risk and cut off financing. The country's economic problems quickly became calamitous, and it was forced to beg the IMF for a bailout. The Fund then demanded that Trinidad accept its deadliest medicine: layoffs, wage cuts and the whole gamut of structural adjustment policies.

On a positive note, there are now strong reactions in much of the Third World against these policies and programs - in Latin America, Europe, South Africa, Russia and elsewhere. The people have become inured to shock treatments and are expressing their strong disapproval of upward redistribution of wealth.

By 2001, the shift toward economic and political democracy had become impossible to ignore. Argentina erupted in protest against IMF-prescribed austerity measures and then proceeded to force out five presidents in only three weeks. In the years since, that renewed courage has spread to other former shock labs in the region. And as the people shed the collective fear that was first instilled with tanks and cattle prods, with sudden flights of capital and brutal cutbacks, many are demanding more democracy and more control over markets.

The staunchest opponents of neoliberal economics in Latin America have been winning election after election. In Venezuela, Hugo Chavez was reelected in 2006 for a third term with 63 percent of the vote. In Uruguay, the left-wing coalition party was elected and a series of referendums blocked major privatizations. In Brazil, Luis Inacio Lula de Silva was reelected largely because he turned the vote into a referendum on privatization. Shortly afterward, in Nicaragua, Daniel Ortega made the country's frequent blackouts the center of his winning campaign, asserting that the source of the problem was the sale of the national electricity company to a Spanish firm after Hurricane Mitch. In November 2006, Ecuador's presidential elections turned into a similar ideological battleground. Rafael Correa, a left-wing economist, won the election against a banana tycoon, calling on his country to overcome all the fallacies of neoliberalism. By then, Bolivian president Evo Morales was approaching the end of his first year in office. After sending in the army to take back the gas fields from 'plunder' by multinationals, he moved on to nationalize parts of the mining sector. That year in Chile, under the leadership of President Michelle Bachelet, who had been a prisoner under Pinochet, high school students staged a wave of militant protests against the two-tiered education system introduced by the Chicago Boys.

The new leaders in Latin America are becoming better prepared for the kinds of shocks produced by volatile markets. One of the most destabilizing forces of recent decades has been the speed with which capital can pick up and move, or how a sudden drop in commodity prices can devastate an entire agricultural sector. But in much of Latin America these shocks have already happened, leaving behind ghostly industrial suburbs and huge stretches of fallow farmland. The task of the region's new left, therefore, has become a matter of taking the detritus of globalization and putting it back to work. In Brazil, for example, members of the Landless Peoples Movement have formed hundreds of agricultural cooperatives. In Argentina, 200 bankrupt businesses have been resuscitated by their workers and turned into democratically-run cooperatives.

Latin America's most significant protection from future shocks flows from the continent's emerging independence from Washington's financial institutions, the result of greater integration among regional governments. Under the Bolivian Alternative for the Americas, each country provides what it is best placed to produce, in return for what it needs, independent of global market prices e.g. Bolivian gas, Venezuelan oil, Cuban doctors. Moreover, Venezuela has emerged as a major lender to other developing countries, allowing them to do an end run around Washington. And this December will mark the launch

of a regional alternative to the Washington financial institutions, a 'Bank of the South' that will make loans to member countries and promote economic integration among them.

Supremely powerful in the 1980s and 1990s, the IMF is no longer a force on the continent. In 2005 Latin America made up 80 percent of the IMF's total lending portfolio. The continent now represents just one percent – a sea change in only two years. In fact, in just three years, the IMF's worldwide lending portfolio shrunk from \$81 billion to \$11.8 billion, with almost all of that going to Turkey. The IMF is withering away. Similar hard times are befalling the World Bank and the World Trade Organization. The three main institutions responsible for imposing the Chicago School ideology under the guise of economic inevitably are at risk of extinction.

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