Latin America's Shock Resistance
November 11th 2007,
by Naomi Klein - The Nation

In less than two years, the lease on the largest and most important US military base in Latin America will run out. The base is in Manta, Ecuador, and Rafael Correa, the country's leftist president, has pronounced that he will renew the lease "on one condition: that they let us put a base in Miami–an Ecuadorian base. If there is no problem having foreign soldiers on a country's soil, surely they'll let us have an Ecuadorian base in the United States."

Since an Ecuadorian military outpost in South Beach is a long shot, it is very likely that the Manta base, which serves as a staging area for the "war on drugs," will soon shut down. Correa's defiant stand is not, as some have claimed, about anti-Americanism. Rather, it is part of a broad range of measures being taken by Latin American governments to make the continent less vulnerable to externally provoked crises and shocks.

This is a crucial development because for the past thirty-five years in Latin America, such shocks from outside have served to create the political conditions required to justify the imposition of "shock therapy"–the constellation of corporate-friendly "emergency" economic measures like large-scale privatizations and deep cuts to social spending that debilitate the state in the name of free markets. In one of his most influential essays, the late economist Milton Friedman articulated contemporary capitalism's core tactical nostrum, what I call the shock doctrine. He observed that "only a crisis–actual or perceived–produces real change. When that crisis occurs, the actions that are taken depend on the ideas that are lying around."

Latin America has always been the prime laboratory for this doctrine. Friedman first learned how to exploit a large-scale crisis in the mid-1970s, when he advised Chilean dictator Gen. Augusto Pinochet. Not only were Chileans in a state of shock following Pinochet's violent overthrow of Socialist President Salvador Allende; the country was also reeling from severe hyperinflation. Friedman advised Pinochet to impose a rapid-fire transformation of the economy–tax cuts, free trade, privatized services, cuts to social spending and deregulation. It was the most extreme capitalist makeover ever attempted, and it became known as a Chicago School revolution, since so many of Pinochet's top aides and ministers had studied under Friedman at the University of Chicago. A similar process was under way in Uruguay and Brazil, also with the help of University of Chicago graduates and professors, and a few years later, in Argentina. These economic shock therapy programs were facilitated by far less metaphorical shocks–performed in the region's many torture cells, often by US-trained soldiers and police, and directed against those activists who were deemed most likely to stand in the way of the economic revolution.

In the 1980s and '90s, as dictatorships gave way to fragile democracies, Latin America did not escape the shock doctrine. Instead, new shocks prepared the ground for another round of shock therapy–the "debt shock" of the early '80s, followed by a wave of hyperinflation as well as sudden drops in the prices of commodities on which economies depended.

In Latin America today, however, new crises are being repelled and old shocks are wearing off–a combination of trends that is making the continent not only more resilient in the face of change but also a model for a future far more resistant to the shock doctrine.

When Milton Friedman died last year, the global quest for unfettered capitalism he helped launch in Chile three decades earlier found itself in disarray. The obituaries heaped praise on him, but many were imbued with a sense of fear that Friedman's death marked the end of an era. In Canada's National Post, Terence Corcoran, one of Friedman's most devoted disciples, wondered whether the global movement the economist had inspired could carry on. "As the last great lion of free market economics, Friedman leaves a void…. There is no one alive today of equal stature. Will the principles Friedman fought for and articulated survive over the long term without a new generation of solid, charismatic and able intellectual leadership? Hard to say."

It certainly seemed unlikely. Friedman's intellectual heirs in the United States–the think-tank neocons who used the crisis of September 11 to launch a booming economy in privatized warfare and "homeland security"–were at the lowest point in their history. The movement's political pinnacle had been the Republicans' takeover of the US Congress in 1994; just nine days before Friedman's death, they lost it again to a Democratic majority. The three key issues that contributed to the Republican defeat in the 2006 midterm elections were political corruption, the mismanagement of the Iraq War and the perception, best articulated by Jim Webb, a winning Democratic candidate for the US Senate, that the country had drifted "toward a class-based system, the likes of which we have not seen since the nineteenth century."

Nowhere, however, was the economic project in deeper crisis than where it had started: Latin America. Washington has always regarded democratic socialism as a greater challenge than totalitarian Communism, which was easy to vilify and made for a handy enemy. In the 1960s and '70s, the favored tactic for dealing with the inconvenient popularity of economic nationalism and democratic socialism was to try to equate them with Stalinism, deliberately blurring the clear differences between the worldviews. A stark example of this strategy comes from the early days of the Chicago crusade, deep inside the declassified Chile documents. Despite the CIA-funded propaganda campaign painting Allende as a Soviet-style dictator, Washington's real concerns about the Allende victory were relayed by Henry Kissinger in a 1970 memo to Nixon: "The example of a successful elected Marxist government in Chile would surely have an impact on–and even precedent value for–other parts of the world, especially in Italy; the imitative spread of similar phenomena elsewhere would in turn significantly affect the world balance and our own position in it." In other words, Allende needed to be taken out before his democratic third way spread.

But the dream Allende represented was never defeated. It was temporarily silenced, pushed under the surface by fear. Which is why, as Latin America now emerges from its decades of shock, the old ideas are bubbling back up–along with the "imitative spread" Kissinger so feared.

By 2001 the shift had become impossible to ignore. In the mid-'70s, Argentina's legendary investigative journalist Rodolfo Walsh had regarded the ascendancy of Chicago School economics under junta rule as a setback, not a lasting defeat, for the left. The terror tactics used by the military had put his country into a state of shock, but Walsh knew that shock, by its very nature, is a temporary state. Before he was gunned down by Argentine security agents on the streets of Buenos Aires in 1977, Walsh estimated that it would take twenty to thirty years until the effects of the terror receded and Argentines regained their footing, courage and confidence, ready once again to fight for economic and social equality. It was in 2001, twenty-four years later, that Argentina erupted in protest against IMF-prescribed austerity measures and then proceeded to force out five presidents in only three weeks.

"The dictatorship just ended!" people declared at the time. They meant that it had taken seventeen years of democracy for the legacy of terror to fade–just as Walsh had predicted.

In the years since, that renewed courage has spread to other former shock labs in the region. And as 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. These demands represent the greatest threat to Friedman's legacy because they challenge his central claim: that capitalism and freedom are part of the same indivisible project.

The staunchest opponents of neoliberal economics in Latin America have been winning election after election. Venezuelan president Hugo Chávez, running on a platform of "Twenty-First-Century Socialism," was re-elected in 2006 for a third term with 63 percent of the vote. Despite attempts by the Bush Administration to paint Venezuela as a pseudo-democracy, a poll that year found 57 percent of Venezuelans happy with the state of their democracy, an approval rating on the continent second only to Uruguay's, where the left-wing coalition party Frente Amplio had been elected to government and where a series of referendums had blocked major privatizations. In other words, in the two Latin American states where voting had resulted in real challenges to the Washington Consensus, citizens had renewed their faith in the power of democracy to improve their lives.

Ever since the Argentine collapse in 2001, opposition to privatization has become the defining issue of the continent, able to make governments and break them; by late 2006, it was practically creating a domino effect. Luiz Inácio Lula da Silva was re-elected as president of Brazil largely because he turned the vote into a referendum on privatization. His opponent, from the party responsible for Brazil's major sell-offs in the '90s, resorted to dressing up like a socialist NASCAR driver, wearing a jacket and baseball hat covered in logos from the public companies that had not yet been sold. Voters weren't persuaded, and Lula got 61 percent of the vote. Shortly afterward in Nicaragua, Daniel Ortega, former head of the Sandinistas, made the country's frequent blackouts the center of his winning campaign; the sale of the national electricity company to the Spanish firm Unión Fenosa after Hurricane Mitch, he asserted, was the source of the problem. "Who brought Unión Fenosa to this country?" he bellowed. "The government of the rich did, those who are in the service of barbarian capitalism."

In November 2006, Ecuador's presidential elections turned into a similar ideological battleground. Rafael Correa, a 43-year-old left-wing economist, won the vote against Álvaro Noboa, a banana tycoon and one of the richest men in the country. With Twisted Sister's "We're Not Gonna Take It" as his official campaign song, Correa called for the country "to overcome all the fallacies of neoliberalism." When he won, the new president of Ecuador declared himself "no fan of Milton Friedman." By then, Bolivian President Evo Morales was already 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 educational system introduced by the Chicago Boys. The country's copper miners soon followed with strikes of their own.

In December 2006, a month after Friedman's death, Latin America's leaders gathered for a historic summit in Bolivia, held in the city of Cochabamba, where a popular uprising against water privatization had forced Bechtel out of the country several years earlier. Morales began the proceedings with a vow to close "the open veins of Latin America." It was a reference to Eduardo Galeano's book Open Veins of Latin America: Five Centuries of the Pillage of a Continent, a lyrical accounting of the violent plunder that had turned a rich continent into a poor one. The book was published in 1971, two years before Allende was overthrown for daring to try to close those open veins by nationalizing his country's copper mines. That event ushered in a new era of furious pillage, during which the structures built by the continent's developmentalist movements were sacked, stripped and sold off.

Today Latin Americans are picking up the project that was so brutally interrupted all those years ago. Many of the policies cropping up are familiar: nationalization of key sectors of the economy, land reform, major investments in education, literacy and healthcare. These are not revolutionary ideas, but in their unapologetic vision of a government that helps reach for equality, they are certainly a rebuke to Friedman's 1975 assertion in a letter to Pinochet that "the major error, in my opinion, was…to believe that it is possible to do good with other people's money."

Though clearly drawing on a long rebellious history, Latin America's contemporary movements are not direct replicas of their predecessors. Of all the differences, the most striking is an acute awareness of the need for protection from the shocks that worked in the past–the coups, the foreign shock therapists, the US-trained torturers, as well as the debt shocks and currency collapses. Latin America's mass movements, which have powered the wave of election victories for left-wing candidates, are learning how to build shock absorbers into their organizing models. They are, for example, less centralized than in the '60s, making it harder to demobilize whole movements by eliminating a few leaders. Despite the overwhelming cult of personality surrounding Chávez, and his controversial moves to centralize power at the state level, the progressive networks in Venezuela are at the same time highly decentralized, with power dispersed at the grassroots and community levels, through thousands of neighborhood councils and co-ops. In Bolivia, the indigenous people's movements that put Morales in office function similarly and have made it clear that Morales does not have their unconditional support: the barrios will back him as long as he stays true to his democratic mandate, and not a moment longer. This kind of network approach is what allowed Chávez to survive the 2002 coup attempt: when their revolution was threatened, his supporters poured down from the shantytowns surrounding Caracas to demand his reinstatement, a kind of popular mobilization that did not happen during the coups of the '70s.

Latin America's new leaders are also taking bold measures to block any future US-backed coups that could attempt to undermine their democratic victories. Chávez has let it be known that if an extremist right-wing element in Bolivia's Santa Cruz province makes good on its threats against Morales's government, Venezuelan troops will help defend Bolivia's democracy. Meanwhile, the governments of Venezuela, Costa Rica, Argentina, Uruguay and Bolivia have all announced that they will no longer send students to the School of the Americas (now called the Western Hemisphere Institute for Security Cooperation)–the infamous police and military training center in Fort Benning, Georgia, where so many of the continent's notorious killers learned the latest in "counterterrorism" techniques, then promptly directed them against farmers in El Salvador and auto workers in Argentina. Ecuador, in addition to closing the US military base, also looks set to cut its ties with the school. It's hard to overstate the importance of these developments. If the US military loses its bases and training programs, its power to inflict shocks on the continent will be greatly eroded.

The new leaders in Latin America are also 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, the phenomenon is best seen in the million and a half farmers of the Landless Peoples Movement (MST), who have formed hundreds of cooperatives to reclaim unused land. In Argentina, it is clearest in the movement of "recovered companies," 200 bankrupt businesses that have been resuscitated by their workers, who have turned them into democratically run cooperatives. For the cooperatives, there is no fear of facing an economic shock of investors leaving, because the investors have already left.

Chávez has made the cooperatives in Venezuela a top political priority, giving them first refusal on government contracts and offering them economic incentives to trade with one another. By 2006 there were roughly 100,000 cooperatives in the country, employing more than 700,000 workers. Many are pieces of state infrastructure–toll booths, highway maintenance, health clinics–handed over to the communities to run. It's a reverse of the logic of government outsourcing: rather than auctioning off pieces of the state to large corporations and losing democratic control, the people who use the resources are given the power to manage them, creating, at least in theory, both jobs and more responsive public services. Chávez's many critics have derided these initiatives as handouts and unfair subsidies, of course. Yet in an era when Halliburton treats the US government as its personal ATM for six years, withdraws upward of $20 billion in Iraq contracts alone, refuses to hire local workers either on the Gulf Coast or in Iraq, then expresses its gratitude to US taxpayers by moving its corporate headquarters to Dubai (with all the attendant tax and legal benefits), Chávez's direct subsidies to regular people look significantly less radical.

Latin America's most significant protection from future shocks (and therefore from the shock doctrine) flows from the continent's emerging independence from Washington's financial institutions, the result of greater integration among regional governments. The Bolivian Alternative for the Americas (ALBA) is the continent's retort to the Free Trade Area of the Americas, the now-buried corporatist dream of a free-trade zone stretching from Alaska to Tierra del Fuego. Though ALBA is still in its early stages, Emir Sader, a Brazil-based sociologist, describes its promise as "a perfect example of genuinely fair trade: each country provides what it is best placed to produce, in return for what it most needs, independent of global market prices." So Bolivia provides gas at stable discounted prices; Venezuela offers heavily subsidized oil to poorer countries and shares expertise in developing reserves; and Cuba sends thousands of doctors to deliver free healthcare all over the continent, while training students from other countries at its medical schools.

This is a very different model from the kind of academic exchange that began at the University of Chicago in the mid-'50s, when hundreds of Latin American students learned a single rigid ideology and were sent home to impose it with uniformity across the continent. The major benefit is that ALBA is essentially a barter system in which countries decide for themselves what any given commodity or service is worth rather than letting traders in New York, Chicago or London set the prices for them. That makes trade less vulnerable to the kind of sudden price fluctuations that have hurt Latin American economies before. Surrounded by turbulent financial waters, Latin America is creating a zone of relative economic calm and predictability, a feat presumed impossible in the globalization era.

When one country does face a financial shortfall, this increased integration means that it does not necessarily need to turn to the IMF or the US Treasury for a bailout. That's fortunate because the 2006 US National Security Strategy makes it clear that for Washington, the shock doctrine is still very much alive: "If crises occur, the IMF's response must reinforce each country's responsibility for its own economic choices," the document states. "A refocused IMF will strengthen market institutions and market discipline over financial decisions." This kind of "market discipline" can only be enforced if governments actually go to Washington for help. As former IMF deputy managing director Stanley Fischer explained during the Asian financial crisis, the lender can help only if it is asked, "but when [a country is] out of money, it hasn't got many places to turn." That is no longer the case. Thanks to high oil prices, Venezuela has emerged as a major lender to other developing countries, allowing them to do an end run around Washington. Even more significant, 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.

Now that they can turn elsewhere for help, governments throughout the region are shunning the IMF, with dramatic consequences. Brazil, so long shackled to Washington by its enormous debt, is refusing to enter into a new agreement with the fund. Venezuela is considering withdrawing from the IMF and the World Bank, and even Argentina, Washington's former "model pupil," has been part of the trend. In his 2007 State of the Union address, President Néstor Kirchner (since succeeded by his wife, Christina) said that the country's foreign creditors had told him, "'You must have an agreement with the International Fund to be able to pay the debt.' We say to them, 'Sirs, we are sovereign. We want to pay the debt, but no way in hell are we going to make an agreement again with the IMF.'" As a result, the IMF, supremely powerful in the 1980s and '90s, 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 1 percent–a sea change in only two years.

The transformation reaches beyond Latin America. In just three years, the IMF's worldwide lending portfolio had shrunk from $81 billion to $11.8 billion, with almost all of that going to Turkey. The IMF, a pariah in countries where it has treated crises as profit-making opportunities, is withering away.

The World Bank faces an equally precarious future. In April Correa revealed that he had suspended all loans from the Bank and declared the institution's representative in Ecuador persona non grata–an extraordinary step. Two years earlier, Correa explained, the World Bank had used a $100 million loan to defeat economic legislation that would have redistributed oil revenues to the country's poor. "Ecuador is a sovereign country, and we will not stand for extortion from this international bureaucracy," he said. Meanwhile, Evo Morales announced that Bolivia would quit the World Bank's arbitration court, the body that allows multinational corporations to sue national governments for measures that cost them profits. "The governments of Latin America, and I think the world, never win the cases. The multinationals always win," Morales said.

When Paul Wolfowitz was forced to resign as president of the World Bank in May, it was clear that the institution needed to take desperate measures to rescue itself from its profound crisis of credibility. In the midst of the Wolfowitz affair, the Financial Times reported that when World Bank managers dispensed advice in the developing world, "they were now laughed at." Add the collapse of the World Trade Organization talks in 2006 (prompting declarations that "globalization is dead"), and it appears that the three main institutions responsible for imposing the Chicago School ideology under the guise of economic inevitability are at risk of extinction.

It stands to reason that the revolt against neoliberalism would be in its most advanced stage in Latin America. As inhabitants of the first shock lab, Latin Americans have had the most time to recover their bearings, to understand how shock politics work. This understanding is crucial for a new politics adapted to our shocking times. Any strategy based on exploiting the window of opportunity opened by a traumatic shock– the central tenet of the shock doctrine–relies heavily on the element of surprise. A state of shock is, by definition, a moment when there is a gap between fast-moving events and the information that exists to explain them. Yet as soon as we have a new narrative that offers a perspective on the shocking events, we become reoriented and the world begins to make sense again.

Once the mechanics of the shock doctrine are deeply and collectively understood, whole communities become harder to take by surprise, more difficult to confuse–shock-resistant.

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Source: The Nation