Credibility Crunch: A Comment on The Shock Doctrine

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If you think that free markets haven't worked that well recently, it is perhaps not surprising. If you think that free markets are spread only when business executives, politicians, soldiers, technocrats, and economists join to overwhelm popular resistance by force and violence, then you may have read it first in Naomi Klein's *The Shock Doctrine*.[2] Already influential amongst a wide readership, *The Shock Doctrine* has gained academic laurels with the first biennial Warwick Prize for Writing, awarded on February 24, 2009.

The Thesis

Klein's thesis goes as follows: Corporate capitalism is ever hungry for fresh pastures. To maximize their profits, big firms require open markets to grab assets and exploit market power over workers and consumers. The Washington Consensus of 1989 summed up the policies of liberalization and privatization that are required to "crack open" a country to foreign investment and exploitation. These anti-poor policies are intrinsically unpopular and cannot be pursued democratically. Resistance must first be softened up by shock tactics – a sequence of natural or economic disaster,

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[2] *The Shock Doctrine: The Rise of Disaster Capitalism*, by Naomi Klein, first published by Metropolitan Books in the United States in 2007, has appeared in other countries under other imprints in hard and paper covers. As a result, page references are not unique. The version I used is the Penguin edition published in the United Kingdom in 2008. My page references are to this edition. To help track them in other editions I give the chapter number first in bold, so "(**2**, pp. 63-65)" means chapter 2, pages 63-65 of the Penguin 2008 edition.

political scare tactics, and violent repression. Corporate lobbies have colluded with politicians to exploit natural disasters and financial breakdowns, or to create them, in order to traumatize the populace, silence opposition, and impose free markets by force. The idea of exploiting crises to achieve a state of shock in which free market policies can be imposed that would unacceptable at any other time is "the shock doctrine." The home of the shock doctrine is the Chicago School of economics, led by "Dr Shock" – the late Milton Friedman. The privatized, securitized interests – corporate, political, and academic – that operate the shock doctrine and profit from it represent "disaster capitalism." The cases under discussion span half a century of postwar history and more than a dozen countries in the Americas, Europe, Asia, and Africa.

Contributing to the power of *The Shock Doctrine* is that it contains many undoubted facts, mostly unpleasant. Plenty of bad people are out there, some of them sitting in boardrooms and cabinets. Some are corrupt; some are thieves; others are content to kill and torture for profit, pleasure, or both. The book reports conspiracies to overthrow, steal, and murder that certainly took place.

There is much in *The Shock Doctrine* that should make us stop and think. As a view of capitalism it owes something to both Karl Marx and Adam Smith. Modern economists have recognized the dangers of corporate collusion and lobbying since 1776 when Smith remarked (in the first volume of *The Wealth of Nations*): "People of the same trade seldom meet together, even for merriment and diversion, but the conversation ends in a conspiracy against the public, or in some contrivance to raise prices." In an increasingly open and lightly regulated global economy, such conspiracies have been able to treat the world as their stage.

It is also clear that, in any country where ordinary citizens lack secure property rights and the constitution does not set clear limits on government action, the poor have little shelter against the predation of corporate elites. The policies of liberalization and privatization that the original Washington Consensus promoted (Williamson 1989) were designed only to accelerate growth without increasing inequality, not to bring about fundamental social reforms. For the Washington Consensus, strengthening property rights in the informal sector was something of an afterthought. Without that, liberal reforms could provide opportunities for the corporate class to rob the state and its dependents more thoroughly.

As John Williamson (2002) later accepted, whatever the benefits of privatization done properly, "it matters a lot how privatization is done: it can be a highly corrupt process that transfers assets to a privileged elite for a fraction of their true value." In 1867 Marx described (in the first volume of

Capital) the English crown estates sold off after the Glorious Revolution of 1688 as “given away, sold at a ridiculous figure, or even annexed to private estates by direct seizure,” so forming “the basis of the to-day princely domains of the English oligarchy.” I cannot see much difference.

Considering the state of the world in early 2009, mainstream economics has little to be complacent about. Massive failures in financial markets have combined with failures of national regulation and international coordination to confront modern economies with financial and real crashes that are unprecedented in the memory of most people living. These are problems that most economists believed to be eliminated. Because of such failures, the world economy is certain to be less globalized and more regulated over the next few years than it was just a few months ago.

The chief accusation of *The Shock Doctrine*, however, is not one of complacency or unintended consequences. It is that mainstream economics has knowingly helped to design and justify a system that works consistently against the people, and has done so with increasing effectiveness, decade by decade and country by country. Klein argues that many economists are willing tools of disaster capitalism, promoting it in public and profiting from it in private.

To reflect on *The Shock Doctrine* is no mean challenge. Its wide scope brings length, around a quarter of a million words, and a breadth of reference that encompasses more than 1,200 footnotes. The whole project, as Klein acknowledges, required the assistance of at least fourteen country and subject specialists who collected data and checked facts.

Still, it is a challenge to which many have risen. I Googled “The Shock Doctrine” plus “Naomi Klein” and found more than 58,000 hits. Among the 58,000 are numerous favourable reviews and a much smaller number that are critical. Their easy availability relieves me of any sense that I ought to cover everything. To try to do so would require me to go into many areas where I have no special knowledge and no claim to authority. This is a “comment,” therefore, not a “review.”

I will stick to a limited aspect that I know something about: how to measure ideas about economics and history against the facts. I will look at four things. First, do we know more about the countries that provide the data than *The Shock Doctrine* allows the reader to see? I am puzzled by some gaps in the case histories, and I will explore these omissions. Second, do we *really* know what *The Shock Doctrine* says we do know about these countries? I will look at a sample of facts that the book uses to support its generalizations. Third, I will do the same for a sample of quotations that relate to what we know about “Dr Shock”: Milton Friedman himself. These are samples are neither random nor representative, by the way. Rather, I have let Klein choose them for me, because they are facts and quotations that she has defended in public. Fourth, I will look at Klein's suggestion that there is an "anti-poor" bias in mainstream economics. The problem here is that, to evaluate the intentions and designs underlying economic policies in a crisis, we have to understand the choices that are truly available.

Here I will preview one of my conclusions. Underlying the book, as I see it, is a set of biases. There are several biases, but the most important one is a bias of selection. Selection bias arises when the data are selected in a biased way to fit the hypothesis and contrary data are ignored. The reason that everything in the book fits together so snugly is that the thousands of facts in it have been selected to fit with the thesis in mind. What we don't see is the data that Klein and her researchers discarded or never picked up: the tens of thousands of facts that might not or do not fit.

Does selection bias really matter? Finding a selection bias does not disprove a hypothesis. To disprove a hypothesis, you need contrary facts. A finding of bias does something more limited: it raises doubts. The more gross the bias, the more serious should be the doubts. However, it is difficult to disprove *The Shock Doctrine's* most important accusations with facts. This is because they are about the biased intentions and designs of economists, not biased facts. I will come back to this at the end.

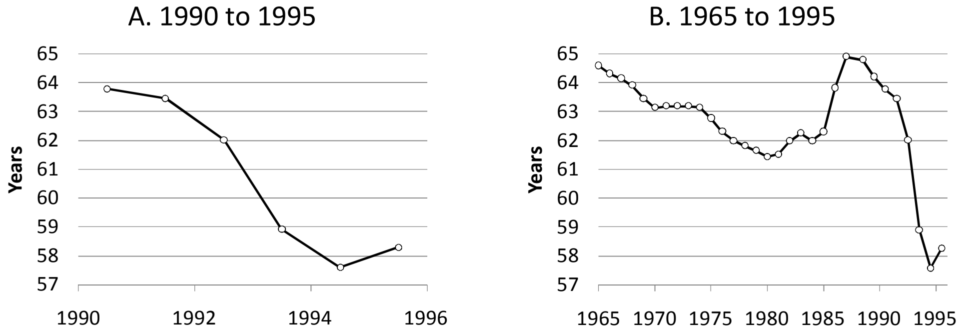
Prehistory Matters

To illustrate the problem of selection bias in *The Shock Doctrine*, I will use an analogy from medical statistics. Suppose we want to evaluate a curative treatment. We know many patients that received it fail to recover. What is the cause? At first sight, the treatment does not work. But this may hide a deeper problem. Patients are treated only when they are already ill. Possibly, the treatment is effective, but its curative effect is confounded by the patients' initial condition. Evaluation of the treatment will get nowhere without controlling for the medical history of those treated.

Economic intervention raises similar questions. A "sick" economy can be treated by aid, or reforms, or both. Economies that receive aid often do badly in the period that follows. Is that because aid is counterproductive, or because the damage done previously is persistent? And exactly the same question can be asked about reforms.

If we don't look far enough back, we can easily leap to wrong conclusions. Russia provides a simple illustration. How did that country's transition from socialism to a market economy affect mortality? In Chart 1, panel A shows that, between 1990 and 1994, the life expectancy at birth of Russian men collapsed from 64 years to 58. If we knew nothing else, we could reasonably conclude that Russia's transition from communism to a market economy was the cause of a demographic tragedy.

Chart 1. Male life expectancy at birth in Russia, years



Source: Goskomstat Rossii (1998, pp. 164-165.)

Panel B is identical to Panel A, except that it traces the evolution of the series far back into Soviet times. It suggests a different, much richer story. Russian men's life expectancy peaked at just under 65 in the mid-1960s. After that, it deteriorated steadily for fifteen years. We could have accurately predicted their life expectancy in 1995 by just extrapolating the Soviet-era trend. In fact, Russian mortality in 1995 may not need any special explanation. The downward trend that set in during the 1960s, and the striking but temporary improvement of the late 1980s, look like the real issues for research. [3]

Getting the background in perspective can be difficult even for those that have lived through it. Paul Collier (2007, p. 40-41) has illustrated this from the experience of Nigeria's oil boom in the first half of the 1980s. During the boom the oil revenues were mismanaged or misappropriated, but there was some trickle down to ordinary people. When the boom collapsed, the World Bank promoted a modest attempt at "structural adjustment." The reforms stimulated non-oil activity, but the fall in the oil price swamped the effects on living standards. Blaming their losses on the reforms, rather than on the mismanagement that came before, ordinary Nigerians concluded that the World Bank had set out to ruin them.

Understanding the trends in the economy before treatment is therefore obligatory. Klein does not acknowledge this obligation. In fact, by her silence

[3] Such issues were missed, unfortunately, in a recent study by Stuckler, King, and McKee (2009). These claim to have identified a direct link from mass privatization to mortality in Russia and Eastern Europe, with the Russian case carrying particular weight. The robustness of their result is undermined by failure to control for Soviet-era trends, the exhaustion of the anti-alcohol campaign that Gorbachev initiated in 1985, and the relative price of alcohol, which fell sharply in most communist countries during transition.

she leads the reader to suppose that the patient was generally healthy beforehand. Her favourite metaphor is of an economy cracked open by liberalization, so shock therapy “cracked Russia open” (**11**, p. 236), implying something that was integrated and strong before, but broken and helpless afterwards.

Were the countries that feature in *The Shock Doctrine* economically healthy beforehand? Typically, no. But Klein tends to skip this part of the story. Here are some examples. No one would learn from *The Shock Doctrine* that the Chilean experiment in parliamentary socialism of 1970 to 1973 (**2**, pp. 63-65) triggered a profound inflationary breakdown of the economy, or that Margaret Thatcher’s election in the United Kingdom in 1979 (**6**, p. 132) followed a decade of rising inflation and unemployment and damaging public sector strikes.[4] The financial storm that hit the Asian Tigers in 1998 is attributed to “pure panic” (**13**, p. 263), again suggesting a lack of previous causes that required any adjustment of economic fundamentals.

The reader does learn that in 1983 Argentina was sitting on a $45 billion “debt bomb” (**8**, p. 156), attributed to loans taken out by the military junta, and that in 1985 Bolivia faced inflation of 14,000%, attributed to Ronald Reagan’s war on the coca farmers (**7**, p. 143). But these facts are slipped into the story as if the answer was for Americans to resume the import of cocaine, and as if democratic governments have not also failed to control Argentina’s external debts.

Klein’s narrative of the countries that abandoned communism similarly lacks perspective. She describes the rise of Polish Solidarity (**9**, p. 171-175), but there is no assessment of the defective institutions and adverse trends that Solidarity inherited on forming a government in 1988. As with Poland, Russia’s course out of communism is unexplained. Unaware of the adverse mortality trend already at work, Klein draws a line straight from market liberalization to rising death rates (**11**, p. 238). Death rates were on a rising trend long before the transition to a market economy, however, making the transition an unlikely cause.

In all of these cases, even after reforms were put in place, it is likely that things were going to get worse before they got better. Because of this, much of the deterioration that accompanied transition was not caused by the reforms – it just looked that way, because of the amount of bad stuff queued up and still waiting to happen.

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[4] Writing in *The Guardian*, Klein’s favourite newspaper (and mine), on March 13, 2009, Simon Jenkins wrote of the 1970s that “Young people of today can have no conception of the collective misery that was the British political economy at the time, of a nation dubbed the sick man of Europe, its commerce enfeebled by subsidies and class-bound management, its government in perpetual funk.”

The neglect of prehistory in *The Shock Doctrine* has one exception: the "Southern Cone" of the Americas (Argentina, Chile, Uruguay, and "parts of Brazil"). This arises in a particular context. Klein has an alternative economics that she prefers to that of the mainstream: "developmentalism," her name for the model of protectionist intervention that Raul Prebisch advanced in the 1950s (**2**, p. 55). Klein eulogizes the nationalist economic policies that he promoted, and the performance of the economies that followed his prescription of government funded capital projects, industrial subsidies, "pro-poor" redistribution, and external tariffs to limit foreign competition. At this time (she does not say exactly when, but she refers to "the 1950s", and the 1950-1963 period when Prebisch headed the United Nations Economic Commission for Latin America) Klein suggests, developmentalist policies drove a "dizzying" expansion of the Southern Cone which became "more like Europe and North America" than the Third World; blue-collar workers gained "middle class salaries." It was "staggeringly successful," she writes.

I was puzzled by this account since I generally think of the fifties and sixties as Latin America's period of stagnation and lost opportunities. For clarification I went to the standard dataset for historical GDP and population by country maintained by Angus Maddison at www.ggdc.net/maddison. It does not show any sign of the success that Klein describes. In 1950, conditions in the Southern Cone were already close to western European levels, but this was primarily because much of Western Europe was still ruined by war. During the 1950s, in Argentina and Uruguay, GDP per head rose at less than 1% per year, and that of Chile by less than 2%. Only Brazil, by far the poorest, pushed up average incomes by 3% a year. Despite such efforts, each of these countries was much further behind the Western Europe average in 1963 than it had been in 1950. Ten years later, in 1973, Argentina was stuck at around two thirds of the western European level, Chile and Uruguay at two fifths, and Brazil at one third. In fact, they were steadily becoming less like Europe and North America, not more.

These figures are averages, it is true; they say nothing about income distribution, health, or literacy within each country. Although they do not speak directly of human development, they do speak of the potential for it. In the long run, moreover, the scope for economic growth is so vast compared with the scope for income redistribution that a focus on average GDP continues to be highly relevant.

To sum up so far, there is a bias in the background of *The Shock Doctrine* that strongly inhibits the reader from understanding why many of the crises occurred. It is a selection bias, because it does not make clear that we are looking at economies selected for treatment because they were already sick. With the patient's illness undiagnosed, we are led to believe that the patient's poor outlook was due to the treatment, not the illness. There is also straight bias: in the case of the Southern Cone, for example, the reader is given information that wrongly suggests the patient was very healthy before being treated.

Facts and Filters

Having said something about facts that are not in the book, I would like to address some of the facts that are in it. *The Shock Doctrine* is full of facts. Replying to her critics, Klein lays claim to "a methodology that is grounded not in anecdotes but in thousands of sourced facts and figures: the thesis does not rise or fall on any single example" (Klein 2008). That may be true; a thesis can be illustrated a thousand times by example. But a single counter-example can sometimes give warning that there's something wrong: a randomness, inconsistency, or confounding factor.

How did Klein and her team select her facts? Apparently, on two filters, one for quality and one for relevance. The quality filter is coarse; anything is a "sourced fact" as long as it has a source, i.e. someone else wrote or said it. The relevance filter, in contrast, is very fine: facts are admitted only if they support "the thesis." Subject to these two requirements, there is indeed a large supply of such facts, and in *The Shock Doctrine* all such facts are treated equally.

There are two results, neither of them obvious at first sight. One is the ruthless exclusion of facts that don't support the thesis. The other is a complete absence of quality control. According to *The Shock Doctrine* it is a fact if someone else wrote or said it; where *they* got it from doesn't matter. Such facts are "sourced facts," whether or not they mislead, in fact, *whether or not they are true*.

Every country has a national statistical office that reports facts and figures on economic growth, living standards, income distribution, unemployment, health, literacy and so forth. Not every country does it to the same definitions or standards, but there also exist a number of readily available international datasets that measure prosperity and other indicators of human development across many countries and over long periods of time on reasonably consistent definitions and subject to reasonably standard quality checks. On a project of this nature, I would start with the international datasets, and then look to national statistical publications for more detail or greater depth. But that is not where *The Shock Doctrine* starts. Across more than 1,200 footnotes, I could find just two references to the World Bank's *World Development Indicators* and seven to the CIA *World Factbook*. I could not find any references to national statistical publications. In other words, with nine exceptions, the hundreds of economic facts that are reported have been acquired from third parties. These hundreds of facts have then been put together with little or no concern for provenance, reliability, or comparability.

Fact-checking is classic drudgery – labour intensive and boring. It is not much more interesting to report than to do. I'll summarize the main results of my very small-scale but still time-consuming investigation, leaving most of the tedium to an Appendix. But I hope that you, the reader, will glance over the appendix so that you can see what was involved.

Twice in *The Shock Doctrine*, Klein makes the following claim: "Everywhere the Chicago School has triumphed, it has created a permanent underclass of between 25 and 60 percent of the population" (**19**, p. 405); "This discarding of 25 to 60 percent of the population has been the hallmark of the Chicago School crusade" (**21**, p. 442). If true, whatever the cause, it would be a desperate state of affairs. But is it true? Johan Norberg (2008) criticized her for asserting this claim without references, a charge that she has rebutted (Klein 2008) on the reasonable grounds that it summarizes more detailed evidence sourced elsewhere in the book. She then fills in the detail of six measures of the share of national populations discarded or consigned to a permanent underclass by disaster capitalism, each falling in the range 25 to 60 percent, one each from Bolivia, Russia, and South Africa, and three from Poland.

The Appendix to this review describes my efforts to check Klein's detail against data available from national statistical offices or international datasets (or both). To summarize what I found: Of the six measures, one (poverty in Russia) appears both well founded and able to carry the burden of the interpretation placed on it. One is meaningful in its national context (black unemployment in South Africa) but does not have the usual meaning of unemployment and is overstated in terms that are internationally comparable. Two (regional and youth unemployment in Poland) certainly cannot carry the weight that Klein places upon them, and look to be considerably overstated in comparison with more robust measures. And two are just wildly overstated (poverty in Poland and unemployment in Bolivia). In short, I mark Klein at one out of six.

If I were to construct a similar claim, confining myself to facts in the sense of things that can be confirmed as both robust and non-trivial, not just what someone else might have said or written, I would be willing to assert that "Between one tenth and one third of the population have experienced poverty with varying degrees of persistence in countries that have liberalized their economies (but *not* necessarily because of the liberalization)." As for the original claim, it seems clear that the figures, and the countries they represent, were selected simply because they appeared to support the thesis by falling into the required 25 to 60 percent range, without any regard to their quality or robustness.

What does this tell us? The problem for our author is not that I rejected five facts out of the thousand or so that the book contains. The problem is that I rejected five out of *the first six facts I looked at*. It is not a good start. It suggests that Klein tended not just to selectivity but to adverse selection: to prefer data of lower quality, in order to support sensational claims, over data of higher quality that might not grab attention. My own more modest claim ("between one tenth and one third of the population have experienced poverty with varying degrees of persistence") is no cause for complacency. But it doesn't mesh smoothly with "the thesis." What should give way: the thesis or the facts?

As I describe in the appendix, one of the sources on Polish unemployment that Klein cites is a paper by Mark Kramer (1998). Since I know Kramer to be an excellent scholar, I took the trouble to read the whole paper. I was quite surprised by the extent to which Klein's overall assessment of trends in the early transition period diverges from Kramer's. Kramer emphasizes, for example, the unforced willingness of Poles to accept higher unemployment, partly because they saw it as a price they were willing to pay to escape a system of political and economic controls that they hated; partly because they saw the ranks of the nominally unemployed swollen by benefit claimants who were working at the same time as claiming, or who would not have presented themselves as available for work without the offer of unemployment benefit. Klein was content, it seems, to take an isolated figure out of the context of Kramer's work, because it was the only thing that Kramer wrote in this paper that, when isolated from its context, would seem to give unambiguous support to "the thesis."

Quotable Quotes

What's wrong with selectivity in relation to facts? The problem is that, if we (the readers) don't know the criterion of selection, we know nothing about the facts not used. We are at the mercy of the hidden criterion. This applies to selective quotation in the same way as to selective data.

Reviews by Jonathan Chait (2008) and Norberg (2008) have pointed to an apparent anomaly. There are two things *The Shock Doctrine* doesn't say about Milton Friedman. The book *doesn't* say that Friedman supported the American-led invasion and occupation of Iraq – but it allows the reader to infer it. Klein writes that the first economic measures of Paul Bremer's occupation administration made up a "classic shock therapy program" (**17**, p. 348), including the imposition of a flat corporation tax that was "straight out the Milton Friedman playlist." She also dwells on the intimate personal relationship between Friedman and U.S. Defense Secretary Donald Rumsfeld, one of the architects of the war (**6**, p. 133; **14**, p. 289). We make the connections that are there on the page: Iraq exemplifies the shock doctrine, Friedman is "Dr Shock," and here are Friedman-Bremer-Iraq and Friedman-Rumsfeld-Iraq. So, Friedman-Iraq.

The other thing the book *doesn't* say is that, when interviewed (with his wife Rose) by *The Wall Street Journal* in 2006, Friedman actually said he had opposed the invasion all along (Varadarajan 2006). It seems that Dr Shock was *against* the shock.

Does this expose a possible faultline in the thesis of *The Shock Doctrine*? Klein (2008) says no, but her arguments are revealing. "Despite his later protestations," she writes, "Milton Friedman openly supported the war when it was being waged." She refers to a German magazine interview in which he looked forward to being rid of Saddam Hussein. "Clearly this was not the voice of anti-intervention," she remarks. Then she gets to the 2006 interview, citing it as follows: "Now that the U.S. was in Iraq, Friedman told *The Wall Street Journal*, 'it seems to me very important that we make a success of it.'"

That is Klein's excerpt. Here is the full text:

> "As it happens, I was opposed to going into Iraq from the beginning. I think it was a mistake, for the simple reason that I do not believe the United States of America ought to be involved in aggression." Mrs. Friedman--listening to her husband with an ear cocked--was now muttering darkly. Milton: "Huh? What?" Rose: "This was not aggression!" Milton (exasperatedly): "It was aggression. Of course it was!" Rose: "You count it as aggression if it's against the people, not against the monster who's ruling them. We don't agree. This is the first thing to come along in our lives, of the deep things, that we don't agree on. We have disagreed on little things, obviously--such as, I don't want to go out to dinner, he wants to go out--but big issues, this is the first one!" Milton: "But, having said that, once we went in to Iraq, it seems to me very important that we make a success of it." Rose: "And we will!"

From the full text we learn two things. First, Friedman was indeed opposed to the intervention; more, his opposition to the intervention was deeply felt. It was not trivial; it was, his wife remarked, "the first thing to come along in our lives, of the deep things, that we don't agree on." Second, his position on the war that followed was also clear: the intervention had been a mistake, but after the event it was necessary to try to rescue something from the situation created as a result. This was a position that he shared, reasonably and consistently, with millions of Americans. Above all there is no mystery – other than the confusion resulting from Klein's initial omission and then selective quotation.

Friedman's stance on Iraq is consistent with statements that he made at other times. In an earlier interview (Doherty 1995) he described his position as generally "anti-interventionist, but I'm not an isolationist. I don't believe we ought to go without armaments. I'm sure we spend more money on armaments than we need to; that's a different question." On Chile, he wrote (Friedman 1991),

> I have nothing good to say about the political regime that Pinochet imposed. It was a terrible political regime. The real miracle of Chile is not how well it has done economically; the real miracle of Chile is that a military junta was willing to go against its principles and support a freemarket regime designed by principled believers in a free market.

Perhaps most significant is Klein's final word on the matter: "All of this," she writes (Klein 2008), meaning Friedman's position on Iraq,

> has nothing to do with my book, however. In *The Shock Doctrine*, I describe the invasion and occupation of Iraq as the culmination of Friedman's ideological crusade because he was America's leading intellectual favoring the privatization of the state – not because he personally supported the war, which is irrelevant. For more than five years Iraq has been the vanguard of this radical privatization project.

What has happened here? Milton Friedman is the person that Klein has labelled as Dr Shock. *The Shock Doctrine* quotes from his views on subjects ranging from the opportunities afforded by economic crises to the status of Keynesian economics and the median voter theorem; these things are thought relevant. But on the fact that he expressed clear opposition to the two most important military shocks that it describes, the book is silent. When pressed, the author first explains this fact away as a self-serving distortion, but on closer investigation, it does not seem to be this. Then, she calls it "irrelevant." That is, it doesn't fit, so leave it out. To me, it seems that the reader has been denied the facts and inhibited from exercising judgement.

Anti-Poor, Pro-Poor

As I wrote at the beginning, discovering evidential bias only takes you so far. It can raise doubts, but it cannot disprove. The thing that I find most difficult about *The Shock Doctrine* is when its thesis goes from facts (of which there are plenty, although selected and variable in quality) to inferences about intention and design. *The Shock Doctrine* suggests that much of modern economics has an “anti-poor” bias: it is designed to facilitate robbery and murder. It may be the case that leading proponents of the Washington Consensus and related persuasions have spoken out in general terms in favour of social protection of the poor and against violations of their human and property rights. As with Milton Friedman, however, Klein considers such expressions to be “irrelevant.”

How can we evaluate the possible “pro-poor” and “anti-poor” biases in the solutions to economic crises that middle-income and poor countries have followed since the 1970s? To look at this question, we have to swim out just a little way into the deeper waters of economic analysis.

What is the economics of *The Shock Doctrine*? It is possible, Klein argues (Introduction, p. 20), to have a “market-based economy” that does not rely on brutality or doctrinal purity. In principle she prefers a mixed economy where “a free market in consumer products coexists with free public health care, public schools, with a large segment of the economy – like a national oil company – held in state hands.” But there is very little economic analysis. I am not talking about technical stuff. I just could not find any situation in which Klein accepts that resources might have been limited, that difficult trade-offs were necessary, or that government intervention encountered limits or led away from an optimum for any reason other than corporate lobbying and pressure.

The Shock Doctrine does advocate a particular view of how economic crises should be resolved. It can happen in two different ways, Klein argues; one way is pro-poor and the other way is anti-poor. She accepts that when stopping inflation some sacrifice is inevitable (**7**, p. 149), but it can be distributed in two different ways. One way is shock therapy, shifting the social cost onto the poor. The alternative “Keynesian or developmentalist tradition” prefers “to mobilize support and share the burden through ‘a negotiated process involving key stakeholders – government, employers, farmers, unions, and so on’” (the authority that she quotes here is Ricardo Grinspun of York University in Canada).

I would like to comment on the idea that rapid inflation can be stopped in a way that is equitable and consensual. This seems to me to be not wrong but upside down. Inflation has got out of hand in Europe and the Americas a number of times in the twentieth century. In every case I can think of, the underlying problem was that social differences could *not* be negotiated. Conflict was deep seated, with the “key stakeholders” focused on grabbing resources from each other. Government was fragile and the conflict spilled over into budgetary policy. The government took the easy way out, allowing spending on industrial subsidies and social programmes to grow without agreement on who should pay through higher taxes. The budget deficit widened, and the central bank accommodated it by printing money. In short, the reason that inflation took off was that underlying social consensus did not exist and the government lacked the authority to impose restraint.

Such experiences provide several tragic lessons. One is that there is actually only *one* way to stop a runaway inflation: budget spending must be trimmed, and taxes raised, and the budget balanced. Nothing else will work. Another lesson is that this will *not* happen while at least one of the stakeholders expects to gain from protracting the conflict over budgetary resources. Only when no one is left standing will resistance cease, allowing the budget to be rebalanced and money brought back under control.

There is more. Left unchecked, runaway inflations are devastating. They cause economic and social meltdown, with consequences that can be worse than a Great Depression. They are worst for the poor, since the rich can leave. In Zimbabwe today it is the poor that are most exposed to hunger, cholera, and other diseases.

Given that, stopping or preventing a hyperinflation *is* “pro-poor.” It is to the primary benefit of the poor to stop the holes in the budget, even at the expense of subsidy-ridden industries and cherished but unaffordable social programmes. The protests that we hear most loudly when an inflationary crisis is brought to an end are the voices not of the poor, who are generally silent, but of the vested interests that cloak themselves in the rags of the poor, and shout because they hope still to gain something from the crisis at the expense of the people they claim to represent.

This experience holds two lessons that are particularly hard. First, the fact that politicians are elected does not prevent them from offering false choices. Sometimes dictators preside over hyperinflations, as in Zimbabwe in 2008, but even Robert Mugabe was elected once upon a time. As Germany in 1923 and Russia in 1992 both exemplify, elected politicians can be to blame for destabilizing policies. As Collier (2007, pp. 44-50) has noted, democracy has two sides. One is electoral competition; the other is executive restraint. In the absence of constitutional limits or political self-restraint, electoral competition can ruin the budget and damage development.

A second hard lesson is that being trained in economics does not guarantee good policies either. There is no question but that economists have made plenty of mistakes, including offering false choices. When they have made mistakes, so that crises became protracted, the poor have generally suffered most. But these things have generally been in the nature of unintended consequences. It is wrong to blame mainstream economics for a general compliance with forcing the burdens of adjustment onto the poor. Rather, economists have looked for solutions to crises in which the poor were often already the chief victims. When Jeffrey Sachs promoted shock therapy in Bolivia and Poland, it was because the situation of the poorest demanded a rapid solution.

Much popular writing on international economics conveys the impression that the IMF and World Bank have dictatorial powers to limit freedom of choice, force countries to accept unnecessary conditions, and distort spending priorities. In fact, this can be just the impression that national politicians want to convey to their constituencies. Alastair Smith and James Vreeland (2005) have asked whether domestic elites might sometimes bring in external agencies in order to be able to implement policies that are necessary but painful, and at the same time pass the blame onto the outsiders, and they have found some evidence in favour of this story.

Conclusions

In an imperfect world, unintended consequences are inevitable. This applies to economic policy as much as to curative medicine. The first duty of the physician is "not to do harm"; it would be desirable to apply the same to economists. But, as when the patient's life is in the balance, many cases arise when economic intervention is demanded; the ethical economist cannot stand aside despite the possibility of then being blamed for the patient's post-operative decline. And many of the evils condemned by *The Shock Doctrine* have, in fact, resulted not from intervention but from the fact that the patient was already most certainly and seriously sick.

The Shock Doctrine is not a scholarly dissertation. Joseph Stiglitz (2007) has remarked that "Klein is not an academic and cannot be judged as one." Should this deflect criticism? My answer is no. My reasoning is this: although Klein is not an academic, she offers knowledge and understanding of the world. That is also the domain of scholarly research. But ours is a shared domain, without frontiers and open to all. There should be no sense of property, trespass, or infringement of borders. In our shared domain there is a common currency, the currency of truth. If our currency is common, our values should also be common. There is no truth for journalists that is different from truth for scholars, or conversely. The standards that I would like to apply are not restricted to faculty professors; they should apply to everyone.

There is much of reality in *The Shock Doctrine*, and this is the reason for its power. Klein subjects this reality, however, to a sweeping over-interpretation. In the world explained by "the thesis," there are coherent chains of events; everything is connected and all facts either point in the same direction or are "irrelevant." The real world, in contrast, mixes things that have meaning and sequence with randomness, accidents, confounding factors, and disconnects. You can take bits and pieces from the mess to make up just about any story you like. But to put a story together that is robust and has real power to explain at least some of the world, you need some way of assuring the reader that the contrary data do not have significance, and you cannot do this by pretending they do not exist.

On February 24, 2009, *The Shock Doctrine* was awarded the first Warwick Prize for Writing. This is something that I can only applaud. The University of Warwick had the courage and farsightedness to create a great literary prize. It delegated the responsibility of awarding it to five outstanding personalities from the arts and sciences: novelists Maureen Freely and China Miéville, the journalist Maya Jaggi, the literary blogger Stephen Mitchelmore, and the mathematician and Warwick Professor Ian Stewart. For the panel, China Miéville described *The Shock Doctrine* as “a brilliant, provocative, outstandingly written investigation into some of the great outrages of our time.” *The Shock Doctrine* merits this praise, but it does not merit belief.

Appendix: Data on the "Permanent Underclass"

Replying to her critics, Naomi Klein defends her proposition that, under disaster capitalism, "between 25 and 60 percent of the population is discarded or becomes a permanent underclass in countries that liberalize their economies." She writes, "I did not provide a source for this stat because it is an amalgamation of stats I had already cited and for which I had already provided multiple sources ... Here are those stats on which the 25-60 per cent amalgamation is based, with their sources, straight out of *The Shock Doctrine* endnotes:

- "Unemployment in Bolivia was between 25% and 30% in 1987 (page 186. Source: Mike Reid, 'Sitting Out the Bolivian Miracle,' *Guardian* (London), May 9, 1987.)
- "25% of Russians lived in desperate poverty in 1996 (page 300. Source: Russian Economic Trends 5, no. 1 (1996): 56–57 cited in Bertram Silverman and Murray Yanowitch, *New Rich, New Poor, New Russia: Winners and Losers on the Russian Road to Capitalism* (Armonk, NY: M.E. Sharpe, 2000), 47.)
- "Unemployment for black South Africans more than doubled from 23% in 1991 to 48% in 2002 (page 272. Sources: 'South Africa: The Statistics,' *Le Monde Diplomatique*, September 2006; Michael Wines and Sharon LaFraniere, 'Decade of Democracy Fills Gaps in South Africa,' *New York Times*, April 26, 2004.)
- "Unemployment in Poland was at 25% in some areas in 1993 (page 241. Source: Mark Kramer, 'Polish Workers and the Post-Communist Transition, 1989–93,' *Europe-Asia Studies*, June 1995)
- "40% of young workers were unemployed in Poland in 2005 (page 241. Source: Andrew Curry, 'The Case Against Poland's New President,' *New Republic*, November 17, 2005)
- 59% of Poles had fallen below the poverty line in 2003 (pages 241-242. Source: Przemyslaw Wielgosz, '25 Years of Solidarity,' August 2005.)"

Below, I evaluate these claims.

Bolivia

"Unemployment in Bolivia was between 25% and 30% in 1987." This figure is greatly overstated. According to International Labour Office data available from www.laborsta.ilo.org, the unemployment rate in Bolivia in 1987, based on "official estimates," was 20.7%. Two years later, however, Bolivia switched from its "official estimate" measure of unemployment to a more reliable "labour force survey" basis. In 1989 the unemployment rate based on the labour force survey was only 10%, compared with 20% on an official-estimate basis. It is likely that a survey-based figure for 1987 would have been around 10% rather than as high as 21%, and certainly not "between 25% and 30%."

Russia

"25% of Russians lived in desperate poverty in 1996." This figure is well founded; the same number appears, with one more decimal place (24.7%), in the Russian national statistics for the proportion of the population living below the poverty line in that year (Goskomstat Rossii 2000, p. 141).

South Africa

"Unemployment for black South Africans more than doubled from 23% in 1991 to 48% in 2002." The 2002 figure can be sourced from national statistics but defines unemployment in a broader way than is internationally comparable; a lower figure is also available and should replace it. I turned first to the International Labour Office data available from www.laborsta.ilo.org. This dataset does not show unemployment in South Africa in 1991, nor does it break unemployment down by ethnicity. It does show that aggregate unemployment from the labour force survey was 30.4% in September 2002. This was a peak figure since it had risen from 25.4% in September 2000 and fell back to 25.5% in September 2006. It would be plausible if unemployment of black workers was higher than for others. I looked at the South African labour force survey figures for September 2002, available from www.statssa.gov.za. This gives the overall unemployment rate on the official definition as 30.5%, and among black workers 36.8%. Unemployment on this measure includes those that are not working, available to work, and seeking work. The South African labour force survey began in 2000, so I did not find comparable figures for unemployment before that year. The labour force survey includes an "expanded" measure of unemployment, intended to capture the "discouraged" workers, that includes those not seeking work. On this measure, unemployment among black workers in September 2002 rose to 49.3%. This figure, slightly higher than the one that Klein cites, is certainly of interest, but it is not comparable with the unemployment rates that are reported in international comparable datasets. The figure for 2002 that would be meaningful in international statistical currency is 37%, not 48%.

Poland

The Polish figures are particularly important because they contribute three of the six data points that Klein submits in support of her generalization about the share of the population discarded by disaster capitalism. This was a surprise to me because I believed many economists would see Poland as having experienced a relatively successful transition from socialism to capitalism.

"Unemployment in Poland was at 25% in some areas in 1993." I have no reason to question this figure, but it should not carry the weight that is placed upon it. It is attributed to Mark Kramer (1995). In full, Kramer wrote, "In certain rural areas where the private sector was slow to develop, especially in several northern counties (*gminy*) as well as in southwestern Silesia, unemployment reached levels of 25% or higher by late 1993, with little hope of improvement in the future." Without more detail it is hard to infer the extent of such heavy unemployment pockets. In the same year, unemployment in Poland as a whole was 15.7% according to Kramer (citing national statistics) or 14% according to national labour force survey data on the International Labour Office website. The more finely one chops up a population, the easier it becomes to find deviations from the mean; at the extreme, the person that is unemployed experiences the incidence of unemployment as 100%. With a population of 38 million, Poland has nearly 2,500 *gminy*, suggesting an average size of around 15,000 people; far fewer than an English county, say. A World Bank study of poverty in Poland at that time (Grootaert 1995) divides Poland into nine larger regions with unemployment varying from a high of 18.9% to a low of 8.7%.

"40% of young workers were unemployed in Poland in 2005." This figure is roughly correct, but does not bear the significance placed on it. The International Labour Office provides the Polish labour force survey data for the active and unemployed populations by age group in Poland in 2005. In the relatively small group aged 15 to 19 years, unemployment was 31%, not 40%. The rate rose to 38%

(also not 40%, but close) for the larger numbers aged 20 to 24 years, before declining over the rest of the distribution to 21% for those aged 25 to 29 years and not more than 15% (below the average for that year) for older workers. If youth unemployment is thought to contribute to the formation of a "permanent underclass" it should do so persistently. In fact, youth unemployment in Poland is highly volatile; within two years, for example, the 15-19 and 20-24 rates had both fallen to 22%.

"59% of Poles had fallen below the poverty line in 2003." This figure is wildly overstated. A new study of international poverty rates by the World Bank (2008) shows that 14.6% of Poles lived below the national poverty line in 1996, and 14.8% in 2001. There is no figure for 2003, but a disaster between 2001 and 2003 seems unlikely, given that the same study shows the rate of poverty in Poland by international standards remaining unchanged (and insignificant) between 2002 and 2005. I hoped to find explanation of the 59% figure in the source (Wielgosz 2005). Wielgosz actually wrote: "The ultraliberal policies implemented by all the democratic governments post 1989 have lead to thousand-fold rises in Poles living below the 'social minimum' (defined as a living standard of £130 (192,4 EUR) per person and £297 (440,4 EUR) for a three person family per month) affecting 15% of the population in 1989 to 47% in 1996, and 59% in 2003."[5] What was the "social minimum"? In their study of poverty in Eastern Europe, Emigh and Szelényi (2001, p. 84) state that the social minimum was one of three measures of income sufficiency employed in Polish national statistics, the others being the (absolute) "subsistence minimum" and the "relative poverty line." They report that some see the "social minimum" as "a threat of poverty rather than poverty itself" or as a "warning measure"; others emphasize that the social minimum allows non-economic dimensions of poverty and exclusion to be taken into account. On behalf of the Polish statistical office, Anna Szukielojc-Bieńkuńska (2005) confirms both interpretations, writing: "the social minimum ... takes into account a basket of goods and services necessary for a given type of family to satisfy its biological, cultural and social needs at the level recognised to be indispensable. *Thus the social minimum should not be treated as a poverty line*, but as a threshold below which a deprivation of integrational needs takes place and social exclusion *risk* increases" (my emphasis).

To summarize: Klein provides six measures of the share of national populations discarded or consigned to a permanent underclass by disaster capitalism, each falling in the range 25 to 60 percent. Of the six measures, one (poverty in Russia) appears both well founded and able to carry the burden of the interpretation placed on it. One is meaningful in its national context (black unemployment in South Africa) but does not have the usual meaning of unemployment and is overstated in terms that are internationally comparable. Two (regional and youth unemployment in Poland) certainly cannot carry the weight that Klein places upon them, and look to be considerably overstated in comparison with more robust measures. And two are just wildly overstated (poverty in Poland and unemployment in Bolivia).

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[5] Wielgosz also claims: "The richest 5% of the population consumes over 50% of [Polish] society's general consumption." This too is at odds with other measures. According to the CIA *World Factbook* available at www.cia.org, for example, in 2002 the richest 10 percent of Polish households enjoyed 27% of consumption, a share similar to or slightly smaller than Belgium, Ireland, Portugal, or the UK.

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