

Defaming Milton Friedman

Naomi Klein's disastrous yet popular polemic against the great free market economist

Johan Norberg | October 2008 | reason magazine

In the future, if you tell a student or a journalist that you favor free markets and limited government, there is a risk that they will ask you why you support dictatorships, torture, and corporate welfare. The reason for the confusion will be Naomi Klein's book *The Shock Doctrine: The Rise of Disaster Capitalism*.

In a very short time, the book has become a 21st-century bible for anticapitalists. It has also drawn praise from mainstream reviewers: "There are very few books that really help us understand the present," gushed *The Guardian*. "*The Shock Doctrine* is one of those books." Writing in *The New York Times*, the Nobel-winning economist Joseph Stiglitz called it "a rich description of the political machinations required to force unsavory economic policies on resisting countries."

Klein's basic argument is that economic liberalization is so unpopular that it can only win through deception or coercion. In particular, it relies on crises. During a natural disaster, a war, or a military coup, people are disoriented, confused, and preoccupied with their own immediate survival, allowing regimes to liberalize trade, to privatize, and to reduce public spending with little opposition. According to Klein, "neoliberal" economists have welcomed Hurricane Katrina, the Southeast Asian tsunami, the Iraq war, and the South American military coups of the 1970s as opportunities to introduce radical free market policies. The chief villain in her story is Milton Friedman, the economist who did more than anyone in the 20th century to popularize free market ideas.

To make her case, Klein exaggerates the market reforms in question, often ignoring central events and rewriting chronologies. She confuses libertarianism with the quite different concepts of corporatism and neoconservatism. And she subjects Milton Friedman to one of the most malevolent distortions of a thinker's ideas in recent history.

Exhibit A against Friedman is a quote from what Klein calls "one of his most influential essays": "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. That, I believe, is our basic function: to develop alternatives to existing policies, to keep them alive and available until the politically impossible becomes politically inevitable." This, says Klein, is "the shock doctrine." In a not-very-subtle short film based on the book, the quote appears over images of prisoners being tortured.

The quote is not, in fact, from one of Friedman's most influential essays; it's from a very brief introduction to a reprint of his book *Capitalism and Freedom*. And it is not a rationale for welcoming disasters; it's about the uncontroversial fact that people change their minds when the old ways seem to fail. Friedman provides a telling example, which Klein neglects to quote: Young Americans joined him in opposing the military draft after the Vietnam War forced them to risk their lives on another continent.

She also distorts other Friedman quotes to support her case. She pretends that Friedman's concept of "the tyranny of the status quo" refers the tyranny of voters, and that he believed crises were needed to bypass the democratic process. But for Friedman, the tyranny was something entirely different: an iron triangle of politicians, bureaucrats, and special interest groups (businesses, for example) that deceive voters.

Discussing Friedman's proposal to reduce inflation through sweeping market reforms, Klein writes, "Friedman predicted that the speed, suddenness and scope of the economic shifts would provoke psychological reactions in the public that facilitate the adjustment." This gives the impression that Friedman wanted to disorient people through pain in order to push through his reforms. But the quote in its entirety shows that Friedman had something very different in mind. If a government chooses to attack inflation in this way, he wrote, "it should be announced publicly in great detail....The more fully the public is informed, the more will its reactions facilitate the adjustment." In other words, if voters are not ignorant and not disoriented, but fully informed of the reform steps, they will facilitate the adjustment by changing their saving, consuming, and bargaining behavior. Friedman's view was the opposite of what Klein claims.

Not content to misrepresent Friedman's opinions, Klein blames him for various crimes committed around the world. Most notably, she links him to Augusto Pinochet's brutal military dictatorship in Chile in the 1970s, writing that Friedman acted as "adviser to the Chilean dictator."

In fact, Friedman never worked as an adviser to, and never accepted a penny from, the Chilean regime. He even turned down two honorary degrees from Chilean universities that received government funding, because he did not want to be seen as endorsing a dictatorship he considered "terrible" and "despicable." He did spend six days in Chile in March 1975 to give public lectures, at the invitation of a private foundation. When he was there he met with Pinochet for about 45 minutes and wrote him a letter afterward, arguing for a plan to end hyperinflation and liberalize the economy. He gave the same kind of advice to communist dictatorships as well, including the Soviet Union, China, and Yugoslavia.

Klein twists this relationship beyond recognition, claiming Pinochet's 1973 coup was executed to allow free market economists ("the Chicago Boys," as the economists from Friedman's University of Chicago were called) to enact their reforms. This false link is crucial for giving the impression that the Friedmanites have blood on their hands, since the most violent period of the regime came right after the coup. But Friedman's visit, which Klein claims started the real transformation, came two years later. Klein insists on having it both ways.

The reality was that Chile's military officials were initially in charge of the economy. They were corporatist and paternalist, and they opposed the Chicago Boys' ideas. The air force controlled social policy, for example, and it blocked market reforms until 1979. It wasn't until this approach led to runaway inflation that Pinochet belatedly threw his weight behind liberalization and gave civilians ministerial positions. Their success in fighting inflation impressed Pinochet, so they were given a larger role.

Klein could have used the real chronology to attack Friedman for visiting a dictatorship that tortured its opponents—a commonly heard criticism of the economist—but that's not enough for her. To find support for her central thesis that economic liberalism requires violence, she has to make it look like torture and violence were the direct outcome of Friedman's ideas.

Klein also blames Friedmanite economics for the Iraq war, for the International Monetary Fund's actions during the Asian economic crisis of the late 1990s, and for the Sri Lankan government's confiscation of fishermen's property to build luxury hotels after the deadly tsunami of 2005. In a 576-page book about such evils, why wasn't there room to mention that Milton Friedman opposed the Iraq war, thought the IMF shouldn't be involved in Asia, and believed governments should be prohibited from expropriating property to give it to private developers? Klein quotes from some interviews in which Friedman voiced these views, but she declines to mention Friedman's longheld positions that directly undermine her thesis.

Even though Klein is dead wrong about Friedman, she may well be right in her broader thesis that it's easier to liberalize in times of crisis, and that there is a close connection between economic liberalization and political violence. It's true that several dictators have liberalized their economies in recent years and that some of them have tortured their opponents.

But how strong is this connection? If we look at the Economic Freedom of the World statistics assembled by the Fraser Institute, a Canadian free market think tank, we find only four economies on the planet that haven't liberalized at all since 1980, so obviously reform has taken place in all sorts of countries. But the statistics clearly show that most classical liberal reforms happen in democracies, not dictatorships. Klein never talks about such rapidly liberalizing democracies as Iceland, Ireland, Estonia, or Australia, where reforms were given renewed support in several elections. Presumably these countries just aren't undemocratic and brutal enough. She does discuss Britain under Margaret Thatcher, but only to argue that Thatcher too relied on shocks and violence.

The Iron Lady won re-election in 1983, Klein says, because of the boost she got from the Falklands War. She doesn't mention another reason for Thatcher's growing popularity: The British economy was improving rapidly at the time. A 1987 study in the *British Journal of Political Science* looked in detail at the timing of events and British voters' perception of them, and made a strong case that the Tories gained only three percentage points from the war; the vast majority of the gain came from improved economic prospects. And the Falklands War certainly cannot explain why Tories won two more elections after that, nor why Tony Blair's New Labour had to dress itself in Thatcherite clothes to be elected.

Naomi Klein usually exaggerates the economic liberalization that has been carried out by brutal dictators. She needs to demonstrate that Pinochet's interest in market reforms was typical of authoritarian regimes—otherwise, her arch villain Friedman might have been right when he said that the surprising thing in Chile was not that the market worked but that the generals allowed it to work. So

Klein ropes in the Argentinean dictatorship of 1976-1983. Based on those two examples, she claims the southern part of Latin America is where "contemporary capitalism was born." She even calls the countries "Chicago School juntas."

There were indeed advisers from the University of Chicago in Argentina; since there is strong global demand for Chicago economists, they have visited many countries. But their influence in Argentina was barely noticeable. In the Fraser Institute index of economic freedom, which gives scores from 1 (the least free) to 10 (the most), Argentina moved from 3.25 in 1975 to 3.86 in 1985. Compare this with the countries Klein mentions as superior alternatives to the Chicago Boys' brutal "neoliberal" models: Sweden went from 5.62 in 1975 to 6.63 in 1985; Malaysia, one of the "mixed, managed economies" Klein prefers, went from 6.43 to 7.13. In 1985, after Argentina allegedly applied Friedman's ideas, the country's economy was less market oriented than all the Eastern European communist economies tracked by Fraser, including Poland, Hungary, and Romania. But Argentina tortured people, so in Klein's mind it must have been on the fast track to free markets.

By Klein's account, China is another country that violently imposed Friedmanite reforms. To make this case, she rewrites the history of the Tiananmen Square massacre of 1989, claiming the protesters were primarily opposed to economic liberalization, instead of one-party dictatorship. According to Klein, the Communist Party, led by Deng Xiaoping, attacked them to save its free market program and advance yet more sweeping reforms while people were still in shock.

If the students were indeed protesting economic reform, they seldom expressed that grievance at the time. Instead, they demonstrated in favor of democracy, government transparency, and equality before the law, and against bureaucracy and violence. The protesters first gathered to mourn former Secretary General Hu Yaobang, one of China's most important economic reformers. The protests soon grew to include everybody who wanted liberal democracy-both those who wanted more economic reform and those who wanted less. Klein equates the second element with the whole protest.

Chinese officials suppressed the demonstrations because they wanted to protect the party's power, not because they wanted to liberalize the economy. The majority were economic conservatives who were skeptical of markets; some even refused to visit Chinese free trade zones on principle. And the economic reforms did not accelerate after the massacre, as Klein claims. For the first time since their inception, they stalled.

The most consistent free marketeer in the leadership, General Secretary Zhao Ziyang, was purged because he supported the protesters, and he spent the rest of his life under house arrest. (Friedman had met him in Beijing in 1988 and wrote him a letter of advice. For Klein, this is yet another meeting with a tyrant.) Zhao's rivals-including Premier Li Peng, who was pushing for a violent crackdown on the protesters-then tried to roll the market reforms back and reintroduce economic controls. The conservatives blamed the unrest on the openness associated with economic liberalization, and Deng's position in the party was weakened. Far from being the start of "shock therapy," Tiananmen Square was almost the end of China's economic liberalization. Klein writes that "Tiananmen paved the way for a radical transformation free from fear of rebellion," but according to the Fraser statistics, China was actually less economically open in 1990 than it was in 1985.

Klein writes that Deng opened the Chinese economy "in the three years immediately following the bloodbath." This is true only if "immediately" means "three years later." Reform faltered so much in the years following the crackdown that Deng felt he needed to go outside normal channels and jump-start liberalization in the spring of 1992, even though he was 87 years old and had formally retired. His "southern tour" was a trip filled with speeches and networking aimed at saving the reform program. The tour was not initially reported in the national media, since they were controlled by Deng's rivals. Deng even found himself forced to write articles supporting his agenda under a pen name to get access. But he was eventually successful in winning local support and building alliances with provincial governors who favored liberalization. Only then did President Jiang Zemin reluctantly support Deng's reforms.

To show that radical economic liberalization can happen only in dictatorships, Klein compares China to democratic Poland in the late 1980s and early '90s: "In China, where the state used the gloves-off method of terror, torture and assassination, the result was, from a market perspective, an unqualified success. In Poland, where only the shock of economic crisis and rapid change was harnessed-and there was no overt violence-the effects of the shock eventually wore off, and the results were far more ambiguous." Once again, the statistics tell a different story. According to the Fraser data, Poland

actually took reform farther and faster. In 1985 its economy was much less open, with a score of 3.93 versus China's 5.11. In 1995, both scored 5.3. In 2005 Poland was way ahead, with 6.83 to China's 5.9.

Klein also exaggerates the free market elements in anything she can associate with a crisis. She writes that politicians used Hurricane Katrina to introduce "a fundamentalist version of capitalism" in New Orleans. The "fundamentalist" reform in question? The introduction of more charter schools. Not satisfied to exaggerate just the nature of the change, Klein also stretches its extent: She writes that the school board used to run 123 public schools but after the hurricane ran only four, whereas the number of charter schools increased from seven to 31. She doesn't mention that these figures date to the period immediately after the hurricane, when the school board was much slower to reopen its schools. As of September 2007, ordinary public schools again outnumbered charter schools, 47 to 44.

The strangest thing about Klein's suggestion that crises benefit free markets and limited government is that there is such a long record of the exact opposite. World War I led to communism in Russia; economic depression gave us Nazi Germany. Wars and other disasters are rarely friends of freedom. On the contrary, politicians and government officials often use crises as an opportunity to increase their budgets and powers. As one prominent economist put it while explaining his opposition to war in Iraq: "War is a friend of the state....In time of war, government will take powers and do things that it would not ordinarily do." The economist? Milton Friedman.

Friedman was right about the Iraq war: The Bush administration has used that conflict and the larger War on Terror to dramatically expand the federal government's powers and expenditures. Bizarrely, Klein points to the U.S. after 9/11 as a major illustration of her thesis. She claims the terrorist attacks gave the Bush administration an opportunity to implement Friedman's ideas by benefiting friends in the defense and security industries with new contracts and unprecedented sums of money. Klein never clearly explains how this could possibly be Friedmanite. In the real world, Friedman "had always emphasized waste in defense spending and the danger to political freedom posed by militarism," in the words of his biographer Lanny Ebenstein. Somehow, Klein has confused Friedman's limited-government liberalism with corporatism.

As Klein sees it, in Bush's America "you have corporatism: big business and big government combining their formidable power to regulate and control the citizenry." This sounds like a healthy libertarian critique of the administration-something Friedman himself might say. But Klein thinks that Bush-style corporatism is the "pinnacle of the counterrevolution launched by Friedman" and that the team that implemented it is "Friedmanite to the core."

So even when the U.S. government breaks all the rules in Milton Friedman's book, Klein blames Friedman. At one point she writes about the lack of openness in the Iraqi economy: "All the...U.S. corporations that were in Iraq to take advantage of the reconstruction were part of a vast protectionist racket whereby the U.S. government had created their markets with war, barred their competitors from even entering the race, then paid them to do the work, while guaranteeing them a profit to boot-all at taxpayer expense." This would be an excellent Friedmanite critique of how governments enrich their friends at the expense of competitors and taxpayers-if it weren't for the conclusion to the paragraph: "The Chicago School crusade...had finally reached its zenith in this corporate New Deal."

For Klein, tax-funded corporate welfare is the zenith of Chicago's free market revolution. The idea seems to be that Milton Friedman likes corporations, so if governments give corporations contracts, subsidies, protection, and privileges, that must be Friedmanite. At times it seems like Klein thinks any policy is Friedmanite if private companies are involved. But you would have a hard time finding an economist more persistent than Friedman in warning how corporations and capitalists conspire against the public to obtain special privileges. As Friedman wrote in reason in 1978: "Business corporations in general are not defenders of free enterprise. On the contrary, they are one of the chief sources of danger....Every businessman is in favor of freedom for everybody else, but when it comes to himself that's a different question. We have to have that tariff to protect us against competition from abroad. We have to have that special provision in the tax code. We have to have that subsidy."

In the absence of serious arguments against free markets, we are left with Klein's reasonable critiques of torture, dictatorships, corruption, and corporate welfare. In essence, her book says that Milton Friedman's limited government ideals are bad because governments are incompetent, corrupt, and cruel. If there is a disaster here, it is not one of Friedman's making.