

Interplay of Shock Therapy & Authoritarianism

Economics is the science of ideas. In the early days of human history, economics as a separate discipline was non-existent, and all the economic discourse of the day was analyzed through the lens of political economy. Political economy, too, was a part of the philosophy department which was quite dominant back then.

It was only in 1903 that English economist Alfred Marshall—originally a mathematician—laid the foundation of economics as a separate discipline by starting a Tripos in Economics at the University of Cambridge.

Since then, the discipline of economics has acquired eminence among academics and policy-makers, with Noble Laureate Paul Samuelson calling it the ‘queen’ of social sciences.

Indeed, the discipline itself contains a healthy diversity of ideas ranging from left-leaning theories such as Marxism, Feminism, Post-Keynesianism, and Modern Monetary Theory (MMT) to right-wing theories such as the neo-Keynesianism, neo-classical & the Austrian school of economic thought. Unfortunately, however, certain strands of economic theory—right-wing in particular—have come to dominate the entire discipline with far-reaching implications for policymaking, academic research, markets, and the livelihoods of people in general.

One such school, called the Chicago School of Economics, is currently the dominant orthodoxy in the discipline after it was popularized in the 20th Century by University of Chicago professors Milton Friedman (1912-2006) and George Stigler (1911-1991).

Friedman believed in the ideas of a free market, *laissez-faire* (i.e., minimum to no government intervention in economic affairs), private enterprise, deregulation, and free trade. These ideas along with certain tweaks in the form of monetarism—the idea that inflation is always and everywhere caused by excess demand—were packaged into a new strand of economic theory named after the Chicago School, which now forms what is called mainstream economics.

While Friedman wrote and spoke at length about various economic issues, his theorization about ‘shock therapy’ is perhaps the most interesting. He argues that the best time to introduce and institutionalize free market, capitalist policies is when a state is going through internal political fissures, dissent, anarchy, or some other natural or social cataclysmic event. In such a turbulent time, lawmakers and citizens are so distracted—either physically or emotionally—that it offers an ideal opportunity to ‘shock’ the political economy with neoclassical ideas.

In the context of this theorization, then, violent insurgencies, revolutions, military coups, and dictatorships, all provide a fertile breeding ground for sowing the seeds of *laissez-faire* capitalism.

To understand this logic, one needs to have a deeper understanding of what the Chicago School and its neoclassical logic *actually* stands for. On the spectrum of economic left and right, where the left stands for an average Joe and the right favors the elites, theorization of the Chicago School is highly skewed in favor of the latter, which can be gauged by its policy prescriptions of lowering taxes on the rich, lowering the minimum wage, curtailing labor unions, reducing social security benefits, and dismantling the welfare state.

It is easy to see then why such economic policies may be unpopular among the masses as they are unfavorable towards them, while protecting the interests of big capital and financial elites. Therefore, the on-ground implementation of such policies becomes a challenge, especially in thriving democracies, as the general public is unlikely to vote for candidates who work against their interests and roll back their hard-earned rights in the form of social security and labor protection. It is in this context that Karl Marx (1818-1883) noted that ‘Democracy is the road to socialism.’

It comes as no surprise then that an authoritarian political setup provides an ideal context in which experimentation with the Chicago School’s economic policies can favorably take place. This is because an authoritarian regime can easily suppress any popular dissent that may arise as a direct result of pro-elite and anti-poor policies, that is so emblematic of the Chicago School.

Perhaps no country provides a better case study of this phenomenon than the Latin American nation of Chile. In her bestselling book titled *The Shock Doctrine*, author and activist Naomi Klein gives an in-depth account of the Central Intelligence Agency (CIA)-backed coup in Chile, which overthrew the democratically elected government of Dr Salvador Allende and installed the military strongman General Augusto Pinochet as the President.

In the mayhem that followed, the Chilean military elite backed by the American imperialists saw a golden opportunity to shock the Chilean socialist economy with Chicago School’s free market policies, thereby epitomizing Friedman’s shock doctrine. The so-called Chicago Boys came to the helm of economic affairs, and deregulated the industry, privatized state-owned companies, removed price-caps, slashed taxes, and privatized social security, including kindergartens, old-age homes, and cemeteries.

As a result, inequality soared, inflation skyrocketed, unemployment grew out of control, and hunger became a real problem as the removal of price caps shot up the prices of bread and vegetable oil.

However, for the high priests of Chicago School, this was still not good enough. In a personal visit to Chile, Milton Friedman assessed the economic conditions in detail and recommended more shock therapy, and shunned the gradualism adopted by Pinochet and his economic advisers. As per Klein’s account, he also met with General Pinochet himself despite his pompous claims of championing freedom, liberty, and democracy.

Moreover, the Chilean nation did attempt a courageous revolt against Pinochet and his Chicago Boys through the agency of their elected representatives, civil society, left-wing parties, and labor unions, but was met with brutal suppression. According to an [estimate](#), approximately 3000 people were killed, 1000 forcibly disappeared, [80,000 were detained, and 200,000](#) were forced to flee the country. Commenting on Pinochet’s reign of terror and his economic policies, Eduardo Galeano, a Latin American writer, and poet famously noted, ‘People were in prison so that the prices could be free.’

To conclude, the history of the Chicago School of Economics is not immaculate as it involves support of dictatorships, military coups, suppression of democracy, and exploiting a nation’s

internal conflict. We should always keep in mind that regardless of the sanctity of an ideology or the precision of an economic policy, it is the people, in the end, who are the best judge of what is and is not good for them, their country, and their economy.

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