

SLAMMING THE DOOR ON HISTORY

A CRISIS IN POLAND, A MASSACRE IN CHINA

I live in a Poland that is now free, and I consider Milton Friedman to be one of the main intellectual architects of my country's liberty.

—Leszek Balcerowicz, former finance minister of Poland, November 2006¹

There's a certain chemical that gets released in your stomach when you make ten times your money. And it's addictive.

—William Browder, a U.S. money manager, on investing in Poland in the early days of capitalism²

We certainly must not stop eating for fear of choking.

—*People's Daily*, the official state newspaper, on the need to continue free-market reforms after the Tiananmen Square massacre³

Before the Berlin Wall fell, becoming the defining symbol of the collapse of Communism, there was another image that held out the promise of Soviet barriers coming down. It was Lech Walesa, a laid-off electrician with a handlebar moustache and disheveled hair, climbing over a steel fence festooned with flowers and flags in Gdańsk, Poland. The fence protected the Lenin shipyards and the thousands of workers who had barricaded themselves inside to protest a Communist Party decision to raise the price of meat.

The workers' strike was an unprecedented show of defiance against the Moscow-controlled government, which had ruled Poland for thirty-five

years. No one knew what would happen: Would Moscow send tanks? Would they fire on the strikers and force them to work? As the strike wore on, the shipyard became a pocket of popular democracy within an authoritarian country, and the workers expanded their demands. They no longer wanted their work lives controlled by party apparatchiks claiming to speak for the working class. They wanted their own independent trade union, and they wanted the right to negotiate, bargain and strike. Not waiting for permission, they voted to form that union and called it *Solidarność*, Solidarity.⁴ That was 1980, the year the world fell in love with Solidarity and with its leader, Lech Walesa.

Walesa, then thirty-six, was so in tune with the aspirations of Poland's workers that they seemed in spiritual communion. "We eat the same bread!" he bellowed into the microphone in the Gdańsk shipyard. It was a reference not only to Walesa's own unassailable blue-collar credentials but also to the powerful role that Catholicism played in this trail-blazing new movement. With religion frowned upon by party officials, the workers wore their faith as a badge of courage, lining up to take Communion behind the barricades. Walesa, a bracing mix of bawdy and pious, opened the Solidarity office with a wooden crucifix in one hand and a bouquet of flowers in the other. When it came time to sign the first landmark labor agreement between Solidarity and the government, Walesa marked his name with "a giant souvenir pen bearing the likeness of John Paul II." The admiration was mutual; the Polish pope told Walesa that his prayers were with Solidarity.⁵

Solidarity spread through the country's mines, shipyards and factories with ferocious speed. Within a year, it had 10 million members—almost half of Poland's working-age population. Having won the right to bargain, Solidarity started making concrete headway: a five-day work week instead of six, and more say in the running of factories. Tired of living in a country that worshipped an idealized working class but abused actual workers, Solidarity members denounced the corruption and brutality of the party functionaries who answered not to the people of Poland but to remote and isolated bureaucrats in Moscow. All the desire for democracy and self-determination suppressed by one-party rule was being poured into local Solidarity unions, sparking a mass exodus of members from the Communist Party.

Moscow recognized the movement as the most serious threat yet to its Eastern empire. Inside the Soviet Union, opposition was still coming largely from human rights activists, many of whom were on the political right. But Solidarity's members couldn't easily be dismissed as stooges of capitalism—they were

workers with hammers in their hands and coal dust in their pores, the people who should, according to Marxist rhetoric, have been the party's base.* Even more threatening, Solidarity's vision was everything the party was not: democratic where it was authoritarian; dispersed where it was centralized; participatory where it was bureaucratic. And its 10 million members had the power to bring Poland's economy to a standstill. As Walesa taunted, they might lose their political battles, "but we will not be compelled to work. Because if people want us to build tanks, we will build streetcars. And trucks will go backward if we build them that way. We know how to beat the system. We are pupils of that system."

Solidarity's commitment to democracy inspired even party insiders to rebel. "Once I was so naive as to think that a few evil men were responsible for the errors of the party," Marian Arendt, a member of the Central Committee, told a Polish newspaper. "Now I no longer have such illusions. There is something wrong in our whole apparatus, in our entire structure."⁶

In September 1981, Solidarity's members were ready to take their movement to the next stage. Nine hundred Polish workers gathered once again in Gdańsk for the union's first national congress. There, Solidarity turned into a revolutionary movement with aspirations to take over the state, with its own alternative economic and political program for Poland. The Solidarity plan stated, "We demand a self-governing and democratic reform at every management level and a new socioeconomic system combining the plan, self-government and the market." The centerpiece was a radical vision for the huge state-run companies, which employed millions of Solidarity members, to break away from governmental control and become democratic workers' cooperatives. "The socialized enterprise," the program stated, "should be the basic organizational unit in the economy. It should be controlled by the workers council representing the collective and should be operatively run by the director, appointed through competition and recalled by the council."⁷ Walesa opposed this demand, fearing it was such a challenge to party control that it would provoke a crackdown. Others argued that the movement needed a goal, a positive hope for the future, not just an enemy. Walesa lost the debate, and the economic program became official Solidarity policy.

Walesa's fears of a crackdown turned out to be well founded. Solidarity's

* One of the popular Solidarity slogans in 1980 was "Socialism—YES, Its distortions—NO" (which no doubt works better in Polish).

mounting ambition frightened and infuriated Moscow. Under intense pressure, Poland's leader, General Wojciech Jaruzelski, declared martial law in December 1981. Tanks rolled through the snow to surround factories and mines, Solidarity's members were rounded up in the thousands, and its leaders, including Walesa, were arrested and imprisoned. As *Time* reported, "Soldiers and police used force to clear out resisting workers, leaving at least seven dead and hundreds injured when miners in Katowice fought back with axes and crowbars."⁸

Solidarity was forced underground, but during the eight years of police-state rule, the movement's legend only grew. In 1983, Walesa was awarded the Nobel Peace Prize, although his activities were still restricted and he could not accept the prize in person. "The Peace Prize laureate's seat is empty," the representative from the Nobel Committee said at the ceremony. "Let us therefore try even harder to listen to the silent speech from his empty place."

The empty space was a fitting metaphor because, by that time, everyone seemed to see what they wanted in Solidarity: the Nobel Committee saw a man who "espoused no other weapon than the peaceful strike weapon."⁹ The left saw redemption, a version of socialism that was not tainted by the crimes of Stalin or Mao. The right saw evidence that Communist states would meet even moderate expressions of dissent with brutal force. The human rights movement saw prisoners jailed for their beliefs. The Catholic Church saw an ally against Communist atheism. And Margaret Thatcher and Ronald Reagan saw an opening, a crack in the Soviet armor, even though Solidarity was fighting for the very rights that both leaders were doing their best to stamp out at home. The longer the ban lasted, the more powerful the Solidarity mythology became.

By 1988, the terror of the initial crackdown had eased, and Polish workers were once again staging huge strikes. This time, with the economy in free fall, and the new, moderate regime of Mikhail Gorbachev in power in Moscow, the Communists gave in. They legalized Solidarity and agreed to hold snap elections. Solidarity split in two: there was now the union and a new wing, Citizens' Committee Solidarity, that would participate in the elections. The two bodies were inextricably linked; Solidarity leaders were the candidates, and because the electoral platform was vague, the only specifics of what a Solidarity future might look like were provided by the union's economic program. Walesa himself didn't run, choosing to maintain his role as head of the union wing, but he was the face of the campaign, which ran under the slogan "With us, you're safer."¹⁰ The results were humiliating for the

Communists and glorious for Solidarity: of the 261 seats in which Solidarity ran candidates, it won 260 of them.* Walesa, maneuvering behind the scenes, had the post of prime minister filled by Tadeusz Mazowiecki. He had little of Walesa's charisma, but as the editor of the Solidarity weekly newspaper, he was considered one of the movement's leading intellectuals.

The Shock of Power

As Latin Americans had just learned, authoritarian regimes have a habit of embracing democracy at the precise moment when their economic projects are about to implode. Poland was no exception. The Communists had been mismanaging the economy for decades, making one disastrous, expensive mistake after another, and it was at the point of collapse. "To our misfortune, we have won!" Walesa famously (and prophetically) declared. When Solidarity took office, debt was \$40 billion, inflation was at 600 percent, there were severe food shortages and a thriving black market. Many factories were making products that, with no buyers in sight, were destined to rot in warehouses.¹¹ For Poles, the situation made for a cruel entry into democracy. Freedom had finally come, but few had the time or the inclination to celebrate because their paychecks were worthless. They spent their days lining up for flour and butter if there happened to be any in the stores that week.

All summer following its triumph at the polls, the Solidarity government was paralyzed by indecision. The speed of the collapse of the old order and the sudden election sweep had been shocks in themselves: in a matter of months, Solidarity activists went from hiding from the secret police to being responsible for paying the salaries of those same agents. And now they had the added shock of discovering that they barely had enough money to make the payroll. Rather than building the post-Communist economy they had dreamed of, the movement had the far more pressing task of avoiding a complete meltdown and potential mass starvation.

Solidarity's leaders knew they wanted to put an end to the state's viselike grip on the economy, but they weren't at all clear about what could replace it. For the movement's militant rank and file, this was the chance to test their economic program: if the state-run factories were converted to workers'

* The elections, while a breakthrough, were still rigged: from the outset, the Communist Party was guaranteed 65 percent of the seats in parliament's lower house, and Solidarity was allowed to contest only the remaining ones. Nevertheless, the win was so sweeping that Solidarity gained effective control of the government.

cooperatives, there was a chance they could become economically viable again—worker management could be more efficient, especially without the added expense of party bureaucrats. Others argued for the same gradual approach to transition that Gorbachev was advocating at the time in Moscow—slow expansion of the areas in which supply-and-demand monetary rules apply (more legal shops and markets), combined with a strong public sector modeled on Scandinavian social democracy.

But as had been the case in Latin America, before anything else could happen, Poland needed debt relief and some aid to get out of its immediate crisis. In theory, that's the central mandate of the IMF: providing stabilizing funds to prevent economic catastrophes. If any government deserved that kind of lifeline it was the one headed by Solidarity, which had just pulled off the Eastern Bloc's first democratic ouster of a Communist regime in four decades. Surely, after all the Cold War railing against totalitarianism behind the Iron Curtain, Poland's new rulers could have expected a little help.

No such aid was on offer. Now in the grips of Chicago School economists, the IMF and the U.S. Treasury saw Poland's problems through the prism of the shock doctrine. An economic meltdown and a heavy debt load, compounded by the disorientation of rapid regime change, meant that Poland was in the perfect weakened position to accept a radical shock therapy program. And the financial stakes were even higher than in Latin America: Eastern Europe was untouched by Western capitalism, with no consumer market to speak of. All of its most precious assets were still owned by the state—prime candidates for privatization. The potential for rapid profits for those who got in first was tremendous.

Confident in the knowledge that the worse things got, the more likely the new government would be to accept a total conversion to unfettered capitalism, the IMF let the country fall deeper and deeper into debt and inflation. The White House, under George H. W. Bush, congratulated Solidarity on its triumph against Communism but made it clear that the U.S. administration expected Solidarity to pay the debts accumulated by the regime that had banned and jailed its members—and it offered only \$119 million in aid, a pittance in a country facing economic collapse and in need of fundamental restructuring.

It was in this context that Jeffrey Sachs, then thirty-four, started working as an adviser to Solidarity. Since his Bolivian exploits, the hype surrounding Sachs had reached feverish levels. Marveling at how he could serve as economic shock doctor to half a dozen countries and still hold down his teaching

job, the *Los Angeles Times* pronounced Sachs—who still looked like a member of the Harvard debate team—the “Indiana Jones of Economics.”¹²

Sachs's work in Poland had begun before Solidarity's election victory, at the request of the Communist government. It started with a one-day trip, during which he met with the Communist government and with Solidarity. It was George Soros, the billionaire financier and currency trader, who had enlisted Sachs to play a more hands-on role. Soros and Sachs traveled to Warsaw together, and as Sachs recalls, “I told the Solidarity group and the Polish government that I would be willing to become more involved to help address the deepening economic crisis.”¹³ Soros agreed to cover the costs for Sachs and his colleague David Lipton, a staunch free-market economist then working at the IMF, to set up an ongoing Poland mission. When Solidarity swept the elections, Sachs began working closely with the movement.

Though he was a free agent, not on the payroll of either the IMF or the U.S. government, Sachs, in the eyes of many of Solidarity's top officials, possessed almost messianic powers. With his high-level contacts in Washington and legendary reputation, he seemed to hold the key to unlocking the aid and debt relief that was the new government's only chance. Sachs said at the time that Solidarity should simply refuse to pay the inherited debts, and he expressed confidence that he could mobilize \$3 billion in support—a fortune compared with what Bush had offered.¹⁴ He had helped Bolivia land loans with the IMF and renegotiated its debts; there seemed no reason to doubt him.

That help, however, came at a price: for Solidarity to get access to Sachs's connections and powers of persuasion, the government first needed to adopt what became known in the Polish press as “the Sachs Plan” or “shock therapy.”

It was an even more radical course than the one imposed on Bolivia: in addition to eliminating price controls overnight and slashing subsidies, the Sachs Plan advocated selling off the state mines, shipyards and factories to the private sector. It was a direct clash with Solidarity's economic program of worker ownership, and though the movement's national leaders had stopped talking about the controversial ideas in that plan, they remained articles of faith for many Solidarity members. Sachs and Lipton wrote the plan for Poland's shock therapy transition in one night. It was fifteen pages long and, Sachs claimed, was “the first time, I believe, that anyone had written down a comprehensive plan for the transformation of a socialist economy to a market economy.”¹⁵

Sachs was convinced that Poland had to take this “leap across the institutional chasm” right away because, in addition to all its other problems, it was on the verge of entering hyperinflation. Once that happened, he said, it would be “fundamental breakdown . . . just pure, unmitigated disaster.”¹⁶

He gave several one-on-one seminars explaining the plan to key Solidarity officials, some lasting up to four hours, and he also addressed Poland’s elected officials as a group. Many of Solidarity’s leaders didn’t like Sachs’s ideas—the movement had formed in a revolt against drastic price increases imposed by the Communists—and now Sachs was telling them to do the same on a far more sweeping scale. He argued that they could get away with it precisely because “Solidarity had a reservoir of trust of the public, which was absolutely phenomenal and critical.”¹⁷

Solidarity’s leaders hadn’t planned to expend that trust on policies that would cause extreme pain to their rank and file, but the years spent in the underground, in jail and in exile had also alienated them from their base. As the Polish editor Przemyslaw Wielgosz explains, the top tier of the movement “became effectively cut off . . . their support came not from the factories and industrial plants, but the church.”¹⁸ The leaders were also desperate for a quick fix, even if it was painful, and that was what Sachs was offering. “Will this work? That’s what I want to know. Will this work?” demanded Adam Michnik, one of Solidarity’s most celebrated intellectuals. Sachs did not waver: “This is good. This will work.”¹⁹

Sachs often held up Bolivia as the model that Poland should emulate, so often that the Poles grew tired of hearing about the place. “I would love to see Bolivia,” one Solidarity leader told a reporter at the time. “I’m sure it’s very lovely, very exotic. I just don’t want to see Bolivia *here*.” Lech Walesa developed a particularly acute antipathy to Bolivia, as he admitted to Gonzalo Sánchez de Lozada (Goni) when the two men met years later at a summit, when they were both presidents. “He came up to me,” Goni recalled, “and said, ‘I’ve always wanted to meet a Bolivian, especially a Bolivian president, because they’re always making us take this very bitter medicine, saying you have to do it because this is what the Bolivians did. Now I know you, you’re not that bad a guy, but I sure used to hate you.’”²⁰

In Sachs’s talk of Bolivia, he failed to mention that in order to push through the shock therapy program, the government had imposed a state of

* Michnik later observed bitterly that “the worst thing about Communism is what comes after.”

emergency and, on two separate occasions, kidnapped and interned the union leadership—much as the Communist Party secret police had snatched and imprisoned Solidarity’s leaders under a state of emergency not so long before.

What was most persuasive, many now recall, was Sachs’s promise that if they followed his harsh advice, Poland would cease being exceptional and become “normal”—as in “a normal European country.” If Sachs was right, and they really could fast-forward to becoming a country like France or Germany simply by hacking off the structures of the old state, wasn’t the pain worth it? Why take an incremental route to change that could well fail—or pioneer a new third way—when this insta-Europe version was right there, calling out? Sachs predicted that shock therapy would cause “momentary dislocations” as prices spiked. “But then they’ll stabilize—people will know where they stand.”²¹

He formed an alliance with Poland’s newly appointed finance minister, Leszek Balcerowicz, an economist at the Main School of Planning and Statistics in Warsaw. Little was known of Balcerowicz’s political leanings when he was appointed (all economists were officially socialist), but it would soon become clear that he saw himself as an honorary Chicago Boy, having pored over an illegal Polish edition of Friedman’s *Free to Choose*. It helped “to inspire me, and many others, to dream of a future of freedom during the darkest years of communist rule,” Balcerowicz later explained.²²

Friedman’s fundamentalist version of capitalism was a long way from what Walesa had been promising the country that summer. He was still insisting that Poland was going to find that more generous third way, which he described in an interview with Barbara Walters as “a mixture. . . . It won’t be capitalism. It will be a system that is better than capitalism, that will reject everything that is evil in capitalism.”²³

Many did argue that the sudden fix that Sachs and Balcerowicz were selling was a myth, that, rather than jolting Poland into health and normalcy, shock therapy would create an even bigger mess of poverty and deindustrialization than before. “This is a poor, weak country. We simply cannot take the shock,” a leading doctor and health care advocate told the *New Yorker* journalist Lawrence Weschler.²⁴

For three months after their historic victory at the polls and their abrupt transition from outlaws to lawmakers, the Solidarity inner circle debated, paced, yelled and chain-smoked, unable to decide what to do. Every day, the country fell deeper into economic crisis.

A Very Hesitant Embrace

On September 12, 1989, the Polish prime minister, Tadeusz Mazowiecki, rose before the first elected parliament. The Solidarity caucus had at last decided what it was going to do about the economy, but only a handful of people knew the final decision—was it the Sachs Plan, the Gorbachev gradualist route or Solidarity's platform of workers' cooperatives?

Mazowiecki was on the verge of announcing the verdict, but in the middle of his momentous speech, before he could confront the country's most burning question, something went terribly wrong. He started to sway, clasped the lectern and, according to one witness, "grew pale, gasped for breath and was heard to mutter under his breath, 'I'm not feeling too well.'"²⁵ His aides whisked him out of the chamber, leaving the 415 deputies to trade rumors. Was it a heart attack? Had he been poisoned? By the Communists? By the Americans?

One floor below, a team of doctors examined Mazowiecki and administered an electrocardiogram. It wasn't a heart attack or poison. The prime minister was simply suffering from "acute fatigue," from too little sleep and too much stress. After almost an hour of tense uncertainty, he reentered the parliamentary chamber, where he was greeted with thunderous applause. "Excuse me," said the bookish Mazowiecki. "The state of my health is the same as the state of the Polish economy."²⁶

At long last, the verdict: the Polish economy would be treated for its own acute fatigue with shock therapy, a particularly radical course of it that would include "privatization of state industry, the creation of a stock exchange and capital markets, a convertible currency, and a shift from heavy industry to consumer goods production" as well as "budget cuts"—as fast as possible and all at once.²⁷

If the dream of Solidarity began with Walesa's energetic vault over the steel fence in Gdańsk, then Mazowiecki's exhaustedly succumbing to shock therapy represented the end of that dream. Finally, the decision came down to money. Solidarity's members did not decide that their vision for a cooperatively run economy was wrongheaded, but their leaders became convinced that all that mattered was winning relief from the Communist debts and immediately stabilizing the currency. As Henryk Wujec, one of Poland's leading advocates of cooperatives, put it at the time, "If we had enough time, we might even be able to pull it off. But we don't have time."²⁸ Sachs, meanwhile,

could deliver the money. He helped Poland negotiate an agreement with the IMF and secured some debt relief and \$1 billion to stabilize the currency—but all of it, particularly the IMF funds, was strictly conditional on Solidarity's submitting to shock therapy.

Poland became a textbook example of Friedman's crisis theory: the disorientation of rapid political change combined with the collective fear generated by an economic meltdown to make the promise of a quick and magical cure—however illusory—too seductive to turn down. Halina Bortnowska, a human rights activist, described the velocity of change in this period as "the difference between dog years and human years, the way we're living these days . . . you start witnessing these semi-psychotic reactions. You can no longer expect people to act in their own best interests when they're so disoriented they don't know—or no longer care—what those interests are."²⁹

Balcerowicz, the finance minister, has since admitted that capitalizing on the emergency environment was a deliberate strategy—a way, like all shock tactics, to clear away the opposition. He explained that he was able to push through policies that were antithetical to the Solidarity vision in both content and form because Poland was in what he dubbed a period of "extraordinary politics." He described that condition as a short-lived window in which the rules of "normal politics" (consultation, discussion, debate) do not apply—in other words, a democracy-free pocket within a democracy.³⁰

"Extraordinary politics," he said, "by definition is a period of very clear discontinuity in a country's history. It could be a period of very deep economic crisis, of a breakdown of the previous institutional system, or of a liberation from external domination (or end of war). In Poland, all three phenomena converged in 1989."³¹ Because of those extraordinary circumstances, he was able to shunt aside due process and force "a radical acceleration of the legislative process" to pass the shock therapy package.³²

In the early nineties, Balcerowicz's theory about periods of "extraordinary politics" attracted considerable interest among Washington economists. And no wonder: only two months after Poland announced that it would accept shock therapy, something happened that would change the course of history and invest Poland's experiment with global significance. In November 1989, the Berlin Wall was joyously dismantled, the city was turned into a festival of possibility and the MTV flag was planted in the rubble, as if East Berlin were the face of the moon. Suddenly it seemed that the whole world was living the same kind of fast-forward existence as the Poles: the Soviet Union was on

the verge of breaking apart, apartheid in South Africa seemed on its last legs, authoritarian regimes continued to crumble in Latin America, Eastern Europe and Asia, and long wars were coming to an end from Namibia to Lebanon. Everywhere, old regimes were collapsing, and the new ones rising in their place had yet to take shape.

Within a few years it seemed as if half the world was in a period of “extraordinary politics,” or “in transition,” as liberated countries came to be called in the nineties—suspended in an existential in-betweenness of past and future. According to Thomas Carothers, a leader in the U.S. government’s so-called democracy-promotion apparatus, “in the first half of the 1990s . . . the set of ‘transitional countries’ swelled dramatically, and nearly 100 countries (approximately 20 in Latin America, 25 in Eastern Europe and the former Soviet Union, 30 in sub-Saharan Africa, 10 in Asia, and 5 in the Middle East) were in some kind of dramatic transition from one model to another.”³³

Many were claiming that all of this flux, and the fall of real and metaphorical walls, would lead to an end of ideological orthodoxy. Freed from the polarizing effects of dueling superpowers, countries would finally be able to choose the best of both worlds—some hybrid of political freedom and economic security. As Gorbachev put it, “Many decades of being mesmerized by dogma, by a rule-book approach, have had their effect. Today we want to introduce a genuinely creative spirit.”³⁴

In Chicago School circles, such talk of mix-and-match ideologies was met with open contempt. Poland had clearly shown that this kind of chaotic transition opened up a window for decisive men, acting swiftly, to push through rapid change. Now was the moment to convert former Communist countries to pure Friedmanism, not some mongrel Keynesian compromise. The trick, as Friedman had said, was for Chicago School believers to be ready with their solutions when everyone else was still asking questions and regaining their bearings.

A sort of revival meeting for those who embraced this worldview was held in that eventful winter of 1989; the location, fittingly, was the University of Chicago. The occasion was a speech by Francis Fukuyama titled “Are We Approaching the End of History?”* For Fukuyama, then a senior policy maker at the U.S. State Department, the strategy for advocates of unfettered

* The lecture formed the foundation for Fukuyama’s book *The End of History and the Last Man*, published three years later.

capitalism was clear: don’t debate with the third-way crowd; instead, preemptively declare victory. Fukuyama was convinced that there should be no abandonment of extremes, no best of both worlds, no splitting the difference. The collapse of Communism, he told his audience, was leading “not to an ‘end of ideology’ or a convergence between capitalism and socialism . . . but to an unabashed victory of economic and political liberalism.” It was not ideology that had ended but “history as such.”³⁵

The talk was sponsored by John M. Olin, longtime funder of Milton Friedman’s ideological crusade and bankroller of the boom in right-wing think tanks.³⁶ The synergy was fitting since Fukuyama was essentially restating Friedman’s claim that free markets and free people are part of an inseparable project. Fukuyama took that thesis into bold new terrain, arguing that deregulated markets in the economic sphere, combined with liberal democracy in the political sphere, represented “the end point of mankind’s ideological evolution and . . . final form of human government.”³⁷ Democracy and radical capitalism were fused not only with each other but also with modernity, progress and reform. Those who objected to the merger were not just wrong but “still in history,” as Fukuyama put it, the equivalent of being left behind after the Rapture, since everyone else had already transcended to a celestial “posthistorical” plane.³⁸

The argument was a magnificent example of the democracy avoidance honed by the Chicago School. Much as the IMF had sneaked privatization and “free trade” into Latin America and Africa under cover of emergency “stabilization” programs, Fukuyama was now trying to smuggle this same highly contested agenda into the pro-democracy wave rising up from Warsaw to Manila. It was true, as Fukuyama noted, that there was an emerging and irrepressible consensus that all people have the right to govern themselves democratically, but only in the State Department’s most vivid fantasies was that desire for democracy accompanied by citizens’ clamoring for an economic system that would strip away job protections and cause mass layoffs.

If there was a genuine consensus about anything, it was that for people escaping both left-wing and right-wing dictatorships, democracy meant finally having a say in all major decisions rather than having somebody else’s ideology imposed unilaterally and with force. In other words, the universal principle that Fukuyama identified as “the sovereignty of the people” *included* the sovereignty of the people to choose how the wealth of their countries would be distributed, from the fate of state-owned companies to the level of funding

for schools and hospitals. Around the world, citizens were ready to exercise their hard-won democratic powers to become the authors of their national destinies, at last.

In 1989, history was taking an exhilarating turn, entering a period of genuine openness and possibility. So it was no coincidence that Fukuyama, from his perch at the State Department, chose precisely that moment to attempt to slam the history book shut. Nor was it a coincidence that the World Bank and the IMF chose that same volatile year to unveil the Washington Consensus—a clear effort to halt all discussion and debate about any economic ideas outside the free-market lockbox. These were democracy-containment strategies, designed to undercut the kind of unscripted self-determination that was, and always had been, the greatest single threat to the Chicago School crusade.

The Shock of Tiananmen Square

One place where Fukuyama's bold pronouncement came in for early discrediting was China. Fukuyama's speech took place in February 1989; two months later, a pro-democracy movement exploded in Beijing, with mass protests and sit-ins in Tiananmen Square. Fukuyama had claimed that democratic and "free market reforms" were a twin process, impossible to pry apart. Yet in China, the government had done precisely that: it was pushing hard to deregulate wages and prices and expand the reach of the market—but it was fiercely determined to resist calls for elections and civil liberties. The demonstrators, on the other hand, demanded democracy, but many opposed the government's moves toward unregulated capitalism, a fact largely left out of the coverage of the movement in the Western press. In China, democracy and Chicago School economics were not proceeding hand in hand; they were on opposite sides of the barricades surrounding Tiananmen Square.

In the early 1980s, the Chinese government, then led by Deng Xiaoping, was obsessed with avoiding a repeat of what had just happened in Poland, where workers had been allowed to form an independent movement that challenged the party's monopoly hold on power. It was not that China's leaders were committed to protecting the state-owned factories and farm communes that formed the foundation of the Communist state. In fact, Deng was enthusiastically committed to converting to a corporate-based

economy—so committed that, in 1980, his government invited Milton Friedman to come to China and tutor hundreds of top-level civil servants, professors and party economists in the fundamentals of free-market theory. "All were invited guests, who had to show a ticket of invitation to attend," Friedman recalled of his audiences in Beijing and Shanghai. His central message was "how much better ordinary people lived in capitalist than in communist countries."³⁹ The example he held up was Hong Kong, a zone of pure capitalism that Friedman had long admired for its "dynamic, innovative character that has been produced by personal liberty, free trade, low taxes, and minimal government intervention." He claimed that Hong Kong, despite having no democracy, was freer than the United States, since its government participated less in the economy.⁴⁰

Friedman's definition of freedom, in which political freedoms were incidental, even unnecessary, compared with the freedom of unrestricted commerce, conformed nicely with the vision taking shape in the Chinese Politburo. The party wanted to open the economy to private ownership and consumerism while maintaining its own grip on power—a plan that ensured that once the assets of the state were auctioned off, party officials and their relatives would snap up the best deals and be first in line for the biggest profits. According to this version of "transition," the same people who controlled the state under Communism would control it under capitalism, while enjoying a substantial upgrade in lifestyle. The model the Chinese government intended to emulate was not the United States but something much closer to Chile under Pinochet: free markets combined with authoritarian political control, enforced by iron-fisted repression.

From the start, Deng clearly understood that repression would be crucial. Under Mao, the Chinese state had exerted brutal control over the people, dispensing with opponents and sending dissidents for reeducation. But Mao's repression took place in the name of the workers and against the bourgeoisie; now the party was going to launch its own counterrevolution and ask workers to give up many of their benefits and security so that a minority could collect huge profits. It was not going to be an easy task. So, in 1983, as Deng opened up the country to foreign investment and reduced protections for workers, he also ordered the creation of the 400,000-strong People's Armed Police, a new, roving riot squad charged with quashing all signs of "economic crimes" (i.e., strikes and protests). According to the China historian Maurice Meisner, "The People's Armed Police kept American helicopters

and electric cattle prods in its arsenal.” And “several units were sent to Poland for anti-riot training”—where they studied the tactics that had been used against Solidarity during Poland’s period of martial law.⁴¹

Many of Deng’s reforms were successful and popular—farmers had more control over their lives, and commerce returned to the cities. But in the late eighties, Deng began introducing measures that were distinctly unpopular, particularly among workers in the cities—price controls were lifted, sending prices soaring; job security was eliminated, creating waves of unemployment; and deep inequalities were opening up between the winners and losers in the new China. By 1988, the party was confronting a powerful backlash and was forced to reverse some of its price deregulation. Outrage was also mounting in the face of the party’s defiant corruption and nepotism. Many Chinese citizens wanted more freedom in the market, but “reform” increasingly looked like code for party officials turning into business tycoons, as many illegally took possession of the assets they had previously managed as bureaucrats.

With the free-market experiment in peril, Milton Friedman was once again invited to pay a visit to China—much as the Chicago Boys and the piranhas had enlisted his help in 1975, when their program had sparked an internal revolt in Chile.⁴² A high-profile visit from the world-famous guru of capitalism was just the boost China’s “reformers” needed.

When Friedman and his wife, Rose, arrived in Shanghai in September 1988, they were dazzled by how quickly mainland China was beginning to look and feel like Hong Kong. Despite the rage simmering at the grass roots, everything they saw served to confirm “our faith in the power of free markets.” Friedman described this moment as “the most hopeful period of the Chinese experiment.”

In the presence of official state media, Friedman met for two hours with Zhao Ziyang, general secretary of the Communist Party, as well as with Jiang Zemin, then party secretary of the Shanghai Committee and the future Chinese president. Friedman’s message to Jiang echoed the advice he had given to Pinochet when the Chilean project was on the skids: don’t bow to the pressure and don’t blink. “I emphasized the importance of privatization and free markets, and of liberalizing at one fell stroke,” Friedman recalled. In a memo to the general secretary of the Communist Party, Friedman stressed that more, not less, shock therapy was needed. “China’s initial steps of reform have been dramatically successful. China can make further dramatic progress by placing still further reliance on *free private markets*.”⁴³

Shortly after his return to the U.S., Friedman, remembering the heat he had taken for advising Pinochet, wrote “out of sheer devilry” a letter to the editor of a student newspaper, denouncing his critics for their double standards. He explained that he had just spent twelve days in China, where “I was mostly the guest of governmental entities,” and had met with Communist Party officials at the highest level. Yet these meetings had provoked no human rights outcry on American university campuses, Friedman pointed out. “Incidentally, I gave precisely the same advice to both Chile and China.” He concluded by asking sarcastically, “Should I prepare myself for an avalanche of protests for having been willing to give advice to so evil a government?”⁴⁴

A few months later, that devilish letter took on sinister overtones, as the Chinese government began to emulate many of Pinochet’s most infamous tactics.

Friedman’s trip did not have the desired results. The pictures in the official papers of the professor offering his blessing to party bureaucrats did not succeed in bringing the public onside. In subsequent months, protests grew more determined and radical. The most visible symbols of the opposition were the demonstrations by student strikers in Tiananmen Square. These historic protests were almost universally portrayed in the international media as a clash between modern, idealistic students who wanted Western-style democratic freedoms and old-guard authoritarians who wanted to protect the Communist state. Recently, another analysis of the meaning of Tiananmen has emerged, one that challenges the mainstream version while putting Friedmanism at the heart of the story. This alternative narrative is being advanced by, among others, Wang Hui, one of the organizers of the 1989 protests, and now a leading Chinese intellectual of what is known as China’s “New Left.” In his 2003 book, *China’s New Order*, Wang explains that the protesters spanned a huge range of Chinese society—not just elite university students but also factory workers, small entrepreneurs and teachers. What ignited the protests, he recalls, was popular discontent in the face of Deng’s “revolutionary” economic changes, which were lowering wages, raising prices and causing “a crisis of layoffs and unemployment.”⁴⁵ According to Wang, “These changes were the catalyst for the 1989 social mobilization.”⁴⁶

The demonstrations were not against economic reform per se; they were against the specific Friedmanite nature of the reforms—their speed, ruthlessness and the fact that the process was highly antidemocratic. Wang says

that the protesters' call for elections and free speech were intimately connected to this economic dissent. What drove the demand for democracy was the fact that the party was pushing through changes that were revolutionary in scope, entirely without popular consent. There was, he writes, "a general request for democratic means to supervise the fairness of the reform process and the reorganization of social benefits."⁴⁷

These demands forced the Politburo to make a definite choice. The choice was not, as was so often claimed, between democracy and Communism, or "reform" versus the "old guard." It was a more complex calculation: Should the party bulldoze ahead with its free-market agenda, which it could do only by rolling over the bodies of the protesters? Or should it bow to the protesters' demands for democracy, cede its monopoly on power and risk a major setback to the economic project?

Some of the free-market reformers within the party, most notably General Secretary Zhao Ziyang, appeared willing to gamble on democracy, convinced that economic and political reform could still be compatible. More powerful elements in the party were not willing to take the risk. The verdict came down: the state would protect its economic "reform" program by crushing the demonstrators.

That was the clear message when, on May 20, 1989, the government of the People's Republic of China declared martial law. On June 3, the tanks of the People's Liberation Army rolled into the protests, shooting indiscriminately into the crowds. Soldiers stormed onto buses where student demonstrators were taking cover and beat them with sticks; more troops broke through the barricades protecting Tiananmen Square, where students had erected a Goddess of Democracy statue, and rounded up the organizers. Similar crackdowns took place simultaneously across the country.

There will never be reliable estimates for how many people were killed and injured in those days. The party admits to hundreds, and eyewitness reports at the time put the number of dead at between two thousand and seven thousand and the number of injured as high as thirty thousand. The protests were followed by a national witch hunt against all regime critics and opponents. Some forty thousand were arrested, thousands were jailed and many—possibly hundreds—were executed. As in Latin America, the government reserved its harshest repression for the factory workers, who represented the most direct threat to deregulated capitalism. "Most of those arrested, and virtually all who were executed, were workers. With the obvious aim of terrorizing the population, it became a well-publicized policy to

systematically subject arrested individuals to beatings and torture," writes Maurice Meisner.⁴⁸

For the most part, the massacre was covered in the Western press as another example of Communist brutality: just as Mao had wiped out his opponents during the Cultural Revolution, now Deng, "the Butcher of Beijing," crushed his critics under the watchful eye of Mao's giant portrait. A *Wall Street Journal* headline claimed that "China's Harsh Actions Threaten to Set Back [the] 10-Year Reform Drive"—as if Deng was an enemy of those reforms and not their most committed defender, determined to take them into bold new territory.⁴⁹

Five days after the bloody crackdown, Deng addressed the nation and made it perfectly clear that it wasn't Communism he was protecting with his crackdown, but capitalism. After dismissing the protesters as "a large quantity of the dregs of society," China's president reaffirmed the party's commitment to economic shock therapy. "In a word, this was a test, and we passed," Deng said, adding, "Perhaps this bad thing will enable us to go ahead with reform and the open-door policy at a more steady, better, even a faster pace. . . . We haven't been wrong. There's nothing wrong with the four cardinal principles [of economic reform]. If there is anything amiss, it's that these principles haven't been thoroughly implemented."⁵⁰

Orville Schell, a China scholar and journalist, summarized Deng Xiaoping's choice: "After the massacre of 1989, he in effect said we will not stop economic reform; we will in effect halt political reform."⁵¹

For Deng and the rest of the Politburo, the free-market possibilities were now limitless. Just as Pinochet's terror had cleared the streets for revolutionary change, so Tiananmen paved the way for a radical transformation free from fear of rebellion. If life grew harder for peasants and workers, they would either have to accept it quietly or face the wrath of the army and the secret police. And so, with the public in a state of raw terror, Deng rammed through his most sweeping reforms yet.

Before Tiananmen, he had been forced to ease off some of the more painful measures; three months after the massacre, he brought them back, and he implemented several of Friedman's other recommendations, including price deregulation. For Wang Hui, there is an obvious reason why "market

* Deng had some notable defenders. After the massacre, Henry Kissinger wrote an op-ed arguing that the party had no choice. "No government in the world would have tolerated having the main square of its capital occupied for eight weeks by tens of thousands of demonstrators. . . . A crackdown was therefore inevitable."

reforms that had failed to be implemented in the late 1980s just happened to have been completed in the post-1989 environment"; the reason, he writes, "is that the violence of 1989 served to check the social upheaval brought about by this process, and the new pricing system finally took shape."⁵² The shock of the massacre, in other words, made shock therapy possible.

In the three years immediately following the bloodbath, China was cracked open to foreign investment, with special export zones constructed throughout the country. As he announced these new initiatives, Deng reminded the country that "if necessary, every possible means will be adopted to eliminate any turmoil in the future as soon as it has appeared. Martial law, or even more severe methods, may be introduced."⁵³

It was this wave of reforms that turned China into the sweatshop of the world, the preferred location for contract factories for virtually every multinational on the planet. No country offered more lucrative conditions than China: low taxes and tariffs, corruptible officials and, most of all, a plentiful low-wage workforce that, for many years, would be unwilling to risk demanding decent salaries or the most basic workplace protections for fear of the most violent reprisals.

For foreign investors and the party, it has been a win-win arrangement. According to a 2006 study, 90 percent of China's billionaires (calculated in Chinese yuan) are the children of Communist Party officials. Roughly twenty-nine hundred of these party scions—known as "the princelings"—control \$260 billion.⁵⁴ It is a mirror of the corporatist state first pioneered in Chile under Pinochet: a revolving door between corporate and political elites who combine their power to eliminate workers as an organized political force. Today, this collaborative arrangement can be seen in the way that foreign multinational media and technology companies help the Chinese state to spy on its citizens, and to make sure that when students do Web searches on phrases like "Tiananmen Square Massacre," or even "democracy," no documents turn up. "The creation of today's market society was not the result of a sequence of spontaneous events," writes Wang Hui, "but rather of state interference and violence."⁵⁵

One of the truths revealed by Tiananmen was the stark similarity between the tactics of authoritarian Communism and Chicago School capitalism—a

* As the New York University anthropologist David Harvey notes, it was only after Tiananmen, when Deng went on his famous "southern tour" of China, "that the full force of the central government was put behind the opening to foreign trade and foreign direct investment."

shared willingness to disappear opponents, to blank the slate of all resistance and begin anew.

Despite the fact that the massacre happened just months after he had encouraged Chinese officials to push forward with painful and unpopular free-market policies, Friedman never did face "an avalanche of protests for having been willing to give advice to so evil a government." And as usual, he saw no connection between the advice he had given and the violence required to enforce it. While condemning China's use of repression, Friedman continued to hold it up as an example of "the efficacy of free-market arrangements in promoting both prosperity and freedom."⁵⁶

In a strange coincidence, the Tiananmen Square massacre took place on the same day as Solidarity's historic election sweep in Poland—June 4, 1989. They were, in a way, two very different studies in the shock doctrine. Both countries had needed to exploit shock and fear to push through a free-market transformation. In China, where the state used the gloves-off methods 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 were harnessed—and there was no overt violence—the effects of the shock eventually wore off, and the results were far more ambiguous.

In Poland, shock therapy may have been imposed after elections, but it made a mockery of the democratic process since it directly conflicted with the wishes of the overwhelming majority of voters who had cast their ballots for Solidarity. As late as 1992, 60 percent of Poles still opposed privatization for heavy industry. Defending his unpopular actions, Sachs claimed he had no choice, likening his role to that of a surgeon in an emergency room. "When a guy comes into the emergency room and his heart's stopped, you just rip open the sternum and you don't worry about the scars that you leave," he said. "The idea is to get the guy's heart beating again. And you make a bloody mess. But you don't have any choice."⁵⁷

But once Poles recovered from the initial surgery, they had questions about both the doctor and the treatment. Shock therapy in Poland did not cause "momentary dislocations," as Sachs had predicted. It caused a full-blown depression: a 30 percent reduction in industrial production in the two years after the first round of reforms. With government cutbacks and cheap imports flooding in, unemployment skyrocketed, and in 1993 it reached 25 percent in some areas—a wrenching change in a country that, under Communism, for all its many abuses and hardships, had no open joblessness. Even when the

economy began growing again, high unemployment remained chronic. According to the World Bank's most recent figures, Poland has an unemployment rate of 20 percent—the highest in the European Union. For those under twenty-four, the situation is far worse: 40 percent of young workers were unemployed in 2006, twice the EU average. Most dramatic are the number of people in poverty: in 1989, 15 percent of Poland's population was living below the poverty line; in 2003, 59 percent of Poles had fallen below the line.⁵⁸ Shock therapy, which eroded job protection and made daily life far more expensive, was not the route to Poland's becoming one of Europe's "normal" countries (with their strong labor laws and generous social benefits) but to the same gaping disparities that have accompanied the counterrevolution everywhere it has triumphed, from Chile to China.

The fact that it was Solidarity, the party built by Poland's blue-collar workers, that oversaw the creation of this permanent underclass represented a bitter betrayal, one that bred a deep cynicism and anger in the country that has never fully lifted. Solidarity's leaders often play down the party's socialist roots, with Walesa now claiming that as far back as 1980 he knew they would "have to build capitalism." Karol Modzelewski, a Solidarity militant and intellectual who spent eight and a half years in Communist jails, retorts angrily, "I wouldn't have spent a week nor a month, let alone eight and a half years in jail for capitalism!"⁵⁹

For the first year and a half of Solidarity rule, workers believed their heroes when they were assured that the pain was temporary, a necessary stop on the way to bringing Poland into modern Europe. Even in the face of soaring unemployment, they staged only a smattering of strikes and waited patiently for the therapeutic part of their shock therapy to take effect. When the promised recovery didn't arrive, at least not in the form of jobs, Solidarity's members were simply confused: How could their own movement have delivered a standard of living worse than that under Communism? "[Solidarity] defended me in 1980 when I set up a union committee," one forty-one-year-old construction worker said. "But when I went to them for help this time, they told me that I have to suffer for the sake of reform."⁶⁰

About eighteen months into Poland's period of "extraordinary politics," Solidarity's base had had enough and demanded an end to the experiment. The extreme dissatisfaction was reflected in a marked increase in the number of strikes: in 1990, when workers were still giving Solidarity a free pass, there were only 250 strikes; by 1992 there were more than 6,000 such protests.⁶¹ Faced with this pressure from below, the government was forced to slow down

its more ambitious privatization plans. By the end of 1993—a year that saw almost 7,500 strikes—62 percent of Poland's total industry was still public.⁶²

The fact that Polish workers managed to stop the wholesale privatization of their country means that as painful as the reforms were, they could have been far worse. The wave of strikes unquestionably saved hundreds of thousands of jobs that would otherwise have been lost if these supposedly inefficient firms had been allowed to close or be radically downsized and sold off. Interestingly, Poland's economy began growing quickly in this same period, proving, according to the prominent Polish economist and former Solidarity member Tadeusz Kowalik, that those who were ready to write off the state firms as inefficient and archaic were "obviously wrong."

Besides going on strike, Polish workers found another way to express their anger with their onetime allies in Solidarity: they used the democracy they had fought for to punish the party decisively at the polls, including their once-beloved leader Lech Walesa. The most dramatic trouncing came on September 19, 1993, when a coalition of left parties, including the former ruling Communists (rebranded Democratic Left Alliance), won 66 percent of the seats in parliament. Solidarity had, by this time, splintered into warring factions. The trade union faction won less than 5 percent, losing official party status in the parliament, and a new party led by Mazowiecki, the prime minister, won just 10.6 percent—a resounding rejection of shock therapy.

Yet somehow, in the years to come, as dozens of countries struggled with how to reform their economies, the inconvenient details—the strikes, the election defeats, the policy reversals—would be lost. Instead, Poland would be held up as a model, proof that radical free-market makeovers can take place democratically and peacefully.

Like so many stories about countries in transition, this one was mostly a myth. But it was better than the truth: in Poland, democracy was used as a weapon against "free markets" on the streets and at the polls. Meanwhile in China, where the drive for free-wheeling capitalism rolled over democracy in Tiananmen Square, shock and terror unleashed one of the most lucrative and sustained investor booms in modern history. Another miracle born of a massacre.