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BOMB BEFORE YOU BUY: The Economics of War¹

Naomi Klein

A couple of days after September 11, *The National Post* ran a story with the headline “Anti-globalization is so yesterday.”² No one was interested in talking about the ravages of capitalism, we were told. The world was now focused on an entirely new set of issues: war, terror, and the clash of civilizations. Everything we thought we knew before September 11 no longer applied.

It was nonsense, of course. But it is true that many of us in the globalization movement were caught somewhat flat-footed by the military upsurge of the past two years. Yes, many of us instinctively made the transition from trade issues to anti-war activism, but we were not able at first to fully connect how warfare is used to enforce the very economic policies we are fighting against.

The anti-war movement, for its part, faced a similar problem making these connections. The mainstream of the anti-war movement in the United States focused almost exclusively on the visible atrocities of war: the violence, the human rights abuses, and the broken international laws. When explaining *why* these wars were erupting, rarely did we surpass pat answers like, “It’s about the oil.” Some even argued that analyzing the economic model that sees war and occupation as market opportunities was “too divisive.” Activists were urged to stay on message, to focus on the effects of war, but not its underlying causes.

I believe that this failure to marry the economic analysis of the globalization movement with the moral outcry of anti-war activism ended up hurting both movements. By failing to see the lengths to which capitalism will go to crack open new markets, the globalization movement seemed soft and naive. So did the anti-war movement: attempting to stop a

war without directly confronting the economic system behind it is like trying to stop a bomb after it has already been dropped. In this context, peace never had a chance.

Fortunately, these artificial divisions are beginning to break down. This is because, now that the war in Iraq is “over,” the economic project behind the attack has emerged, fully formed.

What is that economic project? It is the familiar one we in the globalization movement have been fighting against, the one enforced by the North American Free Trade Agreement (NAFTA), the World Trade Organization (WTO), the International Monetary Fund (IMF), and the World Bank. It is a model that is sometimes called “globalization,” but which the Latin Americans call “neoliberalism” and the French call “savage capitalism.” I am going to call it “McGovernment,” because it is a kind of economic franchise; a globally enforced set of policies designed to make the world safe for multinational corporations.

McGovernment has three key components:

- *Mass downsizing of the public sector.* This ensures that investors enjoy low taxes and low wages from a “flexible” workforce. It also starves the public sector, making it seem useless and inefficient, and thus primed for . . .
- *Mass privatizations.* Privatizations give multinational corporations infinite investment opportunities to buy up public services and natural resources.
- *Mass deregulation.* This falls into two categories. The first is designed to eliminate the supports that protect local businesses, such as subsidies and restrictions on foreign ownership, thus eliminating the local competition for multinational corporations. The second is designed to remove all restrictions on the mobility of foreign capital, such as rules that require companies to keep some of their profits in the country where they were earned.

So there you have it, the universal recipe for McGovernment: downsize, privatize, and deregulate. The results of all this corporate lubrication can be seen around the world in the commodification of ever more parts of the public sphere, from schools and hospitals to seeds and water.

In rich countries like the United States, these economic policies are introduced relatively gradually. In poor countries, they are introduced quickly and are enforced by the IMF in exchange for loans. When these policies were introduced in Argentina in the 1990s, the transformation of society was so rapid and devastating that President Carlos Menem called the reforms “surgery without anesthetic.”³ In Chile, when the reforms were introduced under Pinochet, they were called “shock treatment.”⁴ In Russia, the IMF labeled the reforms “shock therapy.”⁵ What is going on in Iraq right now makes those reforms look like spa treatments. Radical economic reforms that are usually spread out over decades are being rammed through in six months. Iraq’s shock therapy has been implemented through “shock and awe” military force.

Iraq, as we all know, is a rich country. It has an embarrassment of natural resources and public services that have yet to be privatized. This is true for much of the Arab world. Oil wealth has kept Arab countries relatively outside the world trade system. Even in nations allied with the United States, like Saudi Arabia and Kuwait, the oil companies, along with much else, are still owned by the government.

The growth represented by these untapped markets has become irresistibly tantalizing. Why? Because capitalism functions like a drug addict, and its drug of choice is growth; without a fix, it dies. And fixes are hard to come by these days. Not only is the stock market still recovering from its pre-September 11 bust, but some of the market’s most reliable suppliers of the growth drug have, as of late, been holding out.

From the U.S. and European perspective, it used to be that if there was one thing you could count on in matters of international trade, it was the desperation of the poor. No matter how bad the deal, it was always better

than nothing. But all of a sudden, poor countries are banding together and busting up trade rounds, standing up to the IMF, and even turning down foreign investment. Across the world, privatizations are being stopped in their tracks. Oil pipelines are being resisted by local populations from Nigeria to Colombia, and gold and copper mines are being rejected because their ecological costs are greater than their economic benefits.

Center-left candidates have come to power in Brazil and Ecuador, promising to govern in the interests of the poor. In Argentina, popular protests pushed out the neo-liberal government of Fernando de La Rúa.⁶ Meanwhile, Hugo Chavez has held on in Venezuela, despite the most dogged attempts by elites in that country and in the United States to throw him out.⁷ In Bolivia, massive political protests recently forced President Gonzalo Sanchez de Lozada to resign.⁸ The uprising was sparked by an unpopular plan to sell the country's natural gas to the United States.⁹ The Free Trade Area of the Americas (FTAA)¹⁰ is hugely unpopular across Latin America, and the WTO talks just collapsed in Cancun.¹¹ Poor countries are saying: we have tried these policies—they made us poorer, hollowed out our collective wealth—and we do not want more of the same.

Free Trade Lite, which wrestles market access by backroom bullying in trade negotiations, is not working anymore. That is why the market is getting desperate. That is why the Bush crew has stopped asking and started grabbing—upgrading Free Trade Lite to Free Trade Reloaded, which seizes new markets on the battlefields of war.

That is precisely what the Iraq attack has been about. Bush has openly said that he wants a Free Trade Zone in the Middle East within a decade.¹² This is the next project after the creation of the FTAA, and it all starts with Iraq. Iraq is the foothold, the wedge into an entire region that represents a massive new market opportunity. Senator John McCain put it well: "It's like a huge pot of honey that's attracting a lot of flies."¹³ And the honey is not just the oil. It is also the water, the phones, the roads, the schools, the media, the trains, the planes, the jails, and anything else that can be turned

into a commodity and sold for profit. The flies are named Bechtel, Haliburton, MCI, Exxon Mobil, Wackenhut, TimeWarner, Wal-Mart, Boeing, NewsCorp, DynCorp, and so on.

But before I go any further, let me make it absolutely clear that the U.S. government must compensate the Iraqi people so that they can rebuild their country. The U.S. owes Iraq huge war reparations; this is a moral duty and it must be met. The problem is that the vast majority of the money for Iraq is not going to the Iraqi people for reparations, to spend how they decide. Instead, it is being parceled out to U.S. firms, selected by the Bush administration, for something called “reconstruction.”

When you hear the phrase “reconstruction,” it sounds perfectly benign. What could be wrong with U.S. companies going to Iraq to rebuild bombed out bridges and hospitals? It sounds like the Peace Corps. Only these companies are not going to Iraq just to rebuild the country, they are going there to buy it. As we speak, Iraq is being transformed into a giant shopping mall for U.S. (and a few British) multinational corporations. It is the sale of the century: “Bomb Before You Buy.”

Immediately after the war began, we started hearing about huge reconstruction contracts being handed out by USAID. They were dispensed in secret, without open bidding, to a handful of U.S. firms.¹⁴ And there was something new going on. Contracts to rebuild schools and hospitals that used to go to UNICEF or to the Red Cross—non-profit humanitarian agencies—were going to private education and health care corporations that push privatization in the United States and Canada, and that view schools and hospitals as market opportunities.

And then there is Bechtel. Bechtel now has a contract worth over \$1 billion to oversee the rebuilding of roads, bridges, the electricity grid, and more.¹⁵ Many Iraqi entrepreneurs are angry that these jobs, which could help them get their economy running again, are going to U.S. corporations. The answer from Washington is that Iraqi reconstruction is our booty—we bombed it, we bought it.

Anger towards Bechtel is also mounting in Iraq because the company is not doing a very good job. According to a recent article in *The Economist*, in five months Bechtel has managed to rebuild a one mile road bypass.¹⁶ Of the forty-nine bridges damaged during the attack, work has only begun on three.¹⁷ Half of Baghdad's phone lines are still out.¹⁸ And of course we have to talk about Halliburton, whose former CEO is Vice-President Dick Cheney. Cheney still retains Halliburton stock options and has been paid more than \$350,000 in deferred compensation since taking office.¹⁹ Nevertheless, he accuses anyone who calls that a conflict of interest of taking "cheap shots."²⁰

Allow me to be cheap. Halliburton has so far been paid \$1.4 billion for its work in Iraq (its contracts can go as high as \$7 billion).²¹ What is important to understand is how badly Halliburton needed this cash injection. Last year, the company looked as if it was about to go the way of Enron. It was mired in accounting scandals and lawsuits; indeed, Halliburton posted a \$280 million *loss* for 2002.²² Kellogg Brown and Root, one of its subsidiaries, was on the verge of filing for bankruptcy.²³ Now Halliburton's share price is up 77 percent—not bad during a market slump—and it posted a \$26 million profit last quarter.²⁴ The bottom line is that Dick Cheney got Halliburton into all kinds of trouble as CEO, but he saved its butt as Vice-President. That is no exaggeration.

So what is Halliburton doing for the money? It is playing two key roles, both having to do with privatization. The first is protecting Iraq's oil supply—putting out oil fires and repairing pipelines—so that it can eventually be privatized. The second involves the rapid privatization of the U.S. Army. Bush has decided that the Army's "core competency" is combat, and that everything outside that can be farmed to temporary agencies. This is precisely what Halliburton has become to the U.S. military. Its temp-soldiers build the army bases, cook the food, clean the latrines, do the soldiers' laundry, and cut their hair. All for cheaper salaries,

of course, with the profits going back to Halliburton. As much as one-third of the Iraqi mission is subcontracted to private companies.²⁵

So let us summarize. The U.S. government, looking for new investment opportunities for its ailing firms, waged an unprovoked war with a partially privatized army, cleaning up afterwards by using many of the same for-profit companies. But here is the kicker: when everything is cleaned up, the U.S. government is going to sell Iraq off in pieces to those very same companies. I wish I could say it was going to sell Iraq off to the highest bidder, but it is actually selling the embattled country to the highest Bush-Cheney campaign donor. The reconstruction of Iraq has already begun to seamlessly segue into the privatization of Iraq.

The real goal is now clear. The U.S. government aims not just to rebuild Iraq's roads, but to turn them into privately owned and operated highways; not simply to reconstruct the bombed-out water system, but to sell it to a company that will charge highly profitable rates for access; not just to put out the oil fires and fix the oil pipelines, but to sell them entirely.

George W. Bush, Donald Rumsfeld, and Paul Bremer now openly admit that they envision the reconstruction of Iraq as its reformulation into a deregulated, free-market economy. As Robert Fisk pointed out, Bremer's choice of clothing says it all: a business suit with combat boots.²⁶ In August, Bremer wrote a memo containing policy instructions to the Iraqi Governing Council—a body he hand-picked—complaining that Iraq's economy was too "protectionist" and dominated by "socialist economic dogma."²⁷ He stated that Iraq must "pry open" most of its "industries for foreign investment."²⁸ Sure enough, 200 Iraqi state firms were put up for privatization on September 19, 2003.²⁹ Reconstruction has turned into the auctioning off of an entire country—someone else's country.

In addition, according to new laws introduced by Bremer, U.S. firms can retain 100 percent ownership of banks, mines, and factories of all kinds. The only exception is oil, but this too will come.³⁰ Who is going to buy all

these Iraqi companies? The same U.S. firms who took part in the reconstruction.

Let's look at Bechtel again. On the global stage, Bechtel is one of the most aggressive proponents of the privatization agenda; one of its primary businesses is convincing foreign governments to sell off their water systems. Indeed, Bechtel was thrown out of Bolivia because after it privatized the water in Chochabamba, prices escalated by 50 percent.³¹ Bechtel even deemed it illegal to collect rainwater (which it claimed was unfair competition). But in Iraq, Bechtel does not have to convince foreign governments to sell them the water because there *is* no foreign government, just the U.S. government selling to U.S. corporations in foreign countries. It is quite an amazing feat; they have actually managed to cut out the middleman. What is going on in Iraq was never about reconstruction, it was always about reconstruction disguised as mass robbery, and mass robbery masquerading as reparations.

A new company has been launched by Bush's former campaign manager called New Bridge Strategies.³² It specializes in helping U.S. companies take advantage of Iraq's "unprecedented opportunities."³³ One of the company's partners described the opportunities this way: "Getting the rights to distribute Procter & Gamble products would be a gold mine. One well-stocked 7-Eleven could knock out thirty Iraqi stores; a Wal-Mart could take over the country."³⁴ There it is, the economic project behind this war: a massive new market, bombed into being. But before Iraq can be turned into a free-market Mecca, a few more things have to happen. I talked earlier about McGovernment, but McGovernment is not just about privatization; McGovernment also has to be about downsizing and deregulation.

Rest assured, Bremer is moving full steam ahead on both fronts. Regarding downsizing, Bremer fired more than 400,000 Iraqi state employees without pensions or re-employment programs during his first month in Iraq. He called these mass layoffs "de-Baathification,"—the purging of Saddam Hussein's party officials from government. Of course,

some of that was necessary in order to clean out Saddam Hussein's henchmen and propagandists. However, Bremer's layoffs went much further. Low-level civil servants with no ties to the party have been fired en masse.³⁵ In the name of "de-Baathification," Bremer launched a full-scale attack on the public sector. Why? For the same reason that the public sector is attacked here at home: to create opportunities for privatization, to create a flexible workforce willing to work for less, and to lower the tax burden.

With privatization and downsizing taken care of, deregulation is left to finish the McGovernment package. Now, when Bremer and Bush talk of bringing "the free market to Iraq," it sounds like Iraqi businesses are going to have all sorts of wonderful new opportunities. Yet, we know that has not been the case during reconstruction, now jokingly referred to in Iraq as "the full-Halliburton employment program."

But there are other ways that Iraqi businesses are being pushed out. When Bremer arrived, Iraqi-owned companies were obviously in rough shape; they had been pummeled by almost thirteen years of sanctions and two months of looting, not to mention two wars. So, it would have made sense—if the United States was serious about rebuilding Iraq's economy—to concentrate on getting the electricity and phones operational, as well as the spare parts needed for Iraq's damaged factories. But that is not what Bremer did. Instead, just twenty-six days after the war was declared over, with lights and phones still off in Baghdad, Bremer flung open Iraq's borders to foreign multinational corporations and flooded the market overnight with cheap televisions, food, and clothing. What happened next was entirely predictable—hundreds of Iraqi companies were wiped out.

Once again, Iraq is not being rebuilt. Iraq is being erased. First by war, then by sanctions, then by war again, then by looting, and now by absurdly unfair foreign competition that never gave Iraq's industry a chance to survive. Why? Because the erasure of Iraqi firms is good news for foreign multinational corporations wanting a piece of Iraq's action; it is easier to get

your Wal-Mart or 7-Eleven if the local competition has already been decimated.

Bremer has given these foreign investors other goodies too. On the same day he put those 200 state companies up for sale, Bremer announced that foreign firms doing business in Iraq would get tax breaks—from 15 to 45 percent, even more generous than the tax breaks Bush has been handing out at home. Plus, Bremer removed all restrictions on taking profits out of the country.³⁶

From a foreign investor's perspective, Iraq is a dream come true. Everything these companies lobby for at home but never entirely receive—because of this pesky thing called democracy—has been generously handed to them in Iraq. The country is a blank slate on which the most ideological Washington neoconservatives are designing their dream economy: fully privatized, downsized, deregulated, and open for business. Rumsfeld said recently that “Iraq will have some of the most enlightened and inviting tax and investment laws in the free world.”³⁷

But there is just one catch, and it is a big one: Iraq is not part of the free world, because Iraq is not free. In fact, Iraq is under occupation, which means that decisions about Iraqi society's core nature—how much foreign ownership of its economy will be allowed, whether it will have a public or private healthcare system, how it will make use of its oil revenues—are being made without the consent of its people. Why? Because once the Iraqis have their own government, they might decide that they do not want to sell their country to Bechtel and Halliburton. But once the contracts are signed, it is all over. If the Iraqi people, once they have democracy, decide they want to change course, it will mean breaking signed contracts, expropriating assets, and changing the terms of agreements. The United States will not stand for that.

In the name of democracy, the Iraqi people are being robbed of the most basic democratic principle: the right of sovereign people to govern themselves and decide their collective destiny. Just as Iraqis entered the so-

called free market in the dark, they now enter democracy handcuffed to key economic decisions that have already been made for them. Next, Iraqis will be told to hurry up and vote for their new leaders, just in time for Bush's re-election campaign.

As we all know, it is too late to stop the war. But if we act now, there is just enough time to deprive Iraq's invaders of the myriad economic prizes that are the reason they went to war in the first place. This is the task faced by both the globalization and the anti-war movement: stop the economic looting of Iraq.

¹ This text is adapted from a speech delivered at the University of Washington, Seattle, Washington on Oct. 9, 2003.

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³ David Pilling, *Argentina Still on the Operating Table: David Pilling Assesses the Work Awaiting the Newly Re-Elected President Menem*, FIN. TIMES, May 16, 1995, at 8.

⁴ Andy Beckett, *Blueprint for Britain*, GUARDIAN, May 4, 2002, at 17.

⁵ Joseph Stiglitz, *Russian People Paid the Price for Shock Therapy*, TIMES (LONDON), June 22, 2002.

⁶ Thomas Catan & Richard Lapper, *De La Rúa Forced Out as Buenos Aires Erupts: President's Resignation Social Explosion Triggered by Middle Class Revolt as Argentina Plunges Deeper into Recession*, FIN. TIMES, Dec. 21, 2001, at 10.

⁷ Peter Beinart, *South End*, NEW REPUBLIC, Jan. 27, 2003, at 6.

⁸ Reed Lindsay, *Rural Activists Back New Leader, For Now Bolivian President Faces Demands that Toppled Predecessor*, BOSTON GLOBE, Oct. 29, 2003, at A8.

⁹ *Id.*

¹⁰ See generally Free Trade Area of The Americas, at http://www.ftaa-acla.org/View_e.asp (last visited Mar. 6, 2004) (describing the FTAA as an effort by thirty-four democracies in the Americas to unite their economies into a single free trade area, in which trade and investment barriers will be progressively eliminated. Negotiations among the democracies began in 1994 and are to be completed by 2005).

¹¹ Chris Kraul, *Split Derails WTO Talks; Poorer nations join to insist that developed countries reform their farm policies; Collapse threatens a new set of world trade accords*, L.A. TIMES, Sept. 15, 2003, at A1.

¹² President George W. Bush, The State of The Union Address (Jan. 20, 2004) (transcript available at <http://www.whitehouse.gov/news/releases/2004/01/20040120-7.html>).

¹³ Thomas B. Edsall & Juliet Eilpern, *Lobbyists Set Sights on Money-Making Opportunities in Iraq*, WASH. POST, Oct. 2, 2003, at A21.

¹⁴ Karen DeYoung & Jackie Spinner, *Contract for Rebuilding of Iraq Awarded to Bechtel; U.S. Firm 1 of 6 Invited to Bid for \$680 Million Project*, WASH. POST, Apr. 18, 2003, at A33.

¹⁵ Michael Janofsky, *The Struggle for Iraq: Reconstruction; Bechtel Wins Its Second Big Contract for Iraq*, N.Y. TIMES, Jan. 7, 2004, at A8.

¹⁶ *Cleaner, but still bare*, ECONOMIST, Oct. 4, 2003.

¹⁷ *Id.*

¹⁸ *Id.*

¹⁹ Jane Mayer, *Contract Sport: What did the Vice-President do for Halliburton?* NEW YORKER, Feb. 16, 2004, at 80.

²⁰ Juan Williams, Morning Edition: Vice President Dick Cheney gives a rare interview where he discusses the terrorist threat to the U.S. and his complaints about the American press (National Public Radio broadcast, Dec. 18, 2003).

²¹ Luiza Savage & Alyssa Watzman, *Halliburton's \$7B 'No-Bid Contract'*, N.Y. SUN, Oct. 13, 2003, at 1.

²² Halliburton, Notes to Annual Financial Statements: Securities and Exchange Commission ("SEC") Investigation and Fortune 500 Review, at <http://www.halliburton.com/ir/ar/2002/notes10.html>; *see also*, Andrew Park & Lorraine Woellert, *Halliburton: halfway home?*, BUS. WEEK, Dec. 23, 2002, at 54.

²³ Park & Woellert, *supra*, note 22.

²⁴ *Halliburton Posts 2nd-Qtr Profit, Reversing Loss*, FORBES, July 31, 2003, available at <http://www.forbes.com/home/newswire/2003/07/31/rtr1044428.html>.

²⁵ Jonathan Weisman & Anitha Reddy, *Spending On Iraq Sets Off Gold Rush; Lawmakers Fear U.S. Is Losing Control of Funds*, WASH. POST, Oct. 9, 2003, at A1.

²⁶ Robert Fisk, *Iraq Isn't Working*, INDEPENDENT, July 31, 2003.

²⁷ Richard A. Opiel, *After the War: The Occupation; U.S. Seeking Foreign Investment for Iraq*, N.Y. TIMES, Aug. 28, 2003, at A12.

²⁸ *Id.*

²⁹ Iraqi Governing Council (approved by Coalition Provisional Authority), Order 39, Foreign Investment (Sept. 21, 2003), at http://www.cpa-iraq.org/regulations/20030921_CPAORD39.pdf.

³⁰ *Id.* at § 6.

³¹ Maude Barlow & Tony Clarke, *Who Owns Water?*, NATION, Sept. 2, 2002, at 11; *Private Passions*, ECONOMIST, July 19, 2003; Raphael Lewis & Sean P. Murphy, *Building a Reputation: Bechtel Has Never Shied Away from Big Construction Projects, but Worldwide Achievements are Accompanied by Controversy*, BOSTON GLOBE, Feb. 28, 2003, at B1; *Bolivia Water Plan Dropped After Protests Turn into Melees*, N.Y. TIMES, Apr. 11, 2000, at A12; Winter Casey, *Water, Water, Everywhere, Nor Any Drop to Drink*, WASH. TIMES, July 29, 2002, at A14.

³² *See* New Bridge Strategies, at <http://www.newbridgestrategies.com/index.asp> (last visited Mar. 1, 2004).

³³ *Id.*

³⁴ Thomas B. Edsall & Juliet Eilperin, *Lobbyists Set Sights On Money-Making Opportunities in Iraq*, WASH. POST, Oct. 2, 2003, at A21.

³⁵ Naomi Klein, *Downsizing in Disguise; Baath party members banned from government posts*, NATION, June 23, 2003, at 10; Tim Reid, *U.S. decree dissolves Saddam's military structures*, LONDON TIMES, May 24, 2003, at 23.

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