

LHP: THE POWER OF MARKET FUNDAMENTALISM

RHP: TURNING THE TABLES

## Turning the Tables

### Polanyi's Critique of Free Market Utopianism

In *The Rhetoric of Reaction*, Albert Hirschman (1991), identifies three distinct “rhetorics” that conservatives have used to discredit reform movements since the French Revolution. Chapter 6 of this volume is devoted to the “rhetoric of perversity”—the claim that a reform will have exactly the opposite of its intended effects and will hurt the intended beneficiaries. The second, “the rhetoric of jeopardy” is exemplified by Friedrich Hayek’s *The Road to Serfdom* (2007 [1944]); it is the claim that a reform will erode the freedoms we depend on. Hirschman’s third is the “rhetoric of futility”—the insistence that a reform is literally impossible because it goes against everything that we know is natural about human beings and social arrangements. This is the ploy that Malthus used in his *Essay on the Principle of Population* (1992 [1798]) to challenge the egalitarian ideas of William Godwin. Malthus professed to admire the beauty of Godwin’s vision, but he ultimately dismissed the vision as impossible. It was futile because Malthus declared it to be against the laws of nature—in other words, utopian.

The rhetoric of futility is the main weapon that conservative intellectuals have wielded against socialists and communists for more than two centuries. They contend that an egalitarian social order would destroy any incentives for effort and creativity, which makes it utterly inconsistent with human nature. But while these arguments are open to debate, there is one aspect of the right’s critique that has proven compelling. This is the claim put forward by Marx and Engels and other theorists of the left that ending the class power of the bourgeoisie would also bring an end to political conflicts and the exercise of political power. As Sheldon Wolin

(1960) and others have noted, a deep hostility to politics led socialist thinkers to imagine mistakenly that it was possible to escape the necessity of governmental and political power.

One neglected aspect of Karl Polanyi's thought is his showing the parallels between market liberalism and Marxism with respect to their utopian views of state power. They both disdain it and imagine that it is possible to escape from governance and political constraint, and they both prioritize the economy as the central organizing force in society. To be sure, they differ in their normative evaluation of the economy. Economic liberalism celebrates the absolute freedom of unfettered markets as the means to transform politics into a purely technical exercise of maintaining optimal market conditions. Marxism, of course, associates the capitalist economy not with freedom for all but with unfreedom for most, but it upholds the redemptive powers of a stateless socialist economy.

There is certainly nothing novel about arguments that Marxism is utopian. Where Polanyi is utterly original is in his startling claim that the self-regulating market—the central precept of free market doctrine—is a utopian idea. A self-regulating market, according to Polanyi, has never and will never exist, making its prescriptive demands for societal reorganization wholly futile. Years before Hirschman's typology of conservative rhetorics, Polanyi mobilized the rhetoric of futility against free market thinking.

Another indication of the prescience of Polanyi's rhetorical move was that Friedrich Hayek—arguably the thinker most central to the revival of free market ideas in the twentieth century—openly embraced utopianism just a few years after the publication of *The Great Transformation* (hereafter GT). In a 1949 University of Chicago Law Review essay entitled “The Intellectuals and Socialism,” Hayek proposed his own sociology of knowledge to explain why so many intellectuals had come to embrace socialism. His argument is that, notwithstanding the impracticality of socialism: “... theirs has become the only explicit general philosophy of social policy held by a large group, the only system or theory which raises new problems and opens

new horizons, that they have succeeded in inspiring the imagination of the intellectuals.”

Moreover, the socialists have been able to drive political debate continually to the left by contrasting the status quo to the ideal world of the socialist utopia.

Hayek asserts of his fellow market liberals, “What we lack is a liberal Utopia, a program which seems neither a mere defense of things as they are nor a diluted kind of socialism, but a truly liberal radicalism which does not spare the susceptibilities of the mighty (including the trade unions), which is not too severely practical, and which does not confine itself to what appears today as politically possible.” He goes on to say: “The main lesson which the true [market] liberal must learn from the success of the socialists is that it was their courage to be Utopian which gained them the support of the intellectuals and therefore an influence on public opinion which is daily making possible what only recently seemed utterly remote.” (Hayek 1949, 432-433.) [ ] So, in fact, Hayek and his Mont Pelerin colleagues proceeded through the 1950s, 1960s, and 1970s to follow this counsel and repackage market liberalism as a utopia. Rather than proposing mild and incremental reforms, they called for radical new measures to overturn what they saw as the drift towards socialism. And just as the socialist utopia had been grounded in a deep moral commitment to equality, the market liberals rooted their utopia in constant appeals to expanding personal liberty. And lo and behold, Hayek was vindicated; free market ideas made deep inroads among Western intellectuals.<sup>1</sup>

## <A>The Elements of Utopia

Ever since Thomas More first coined the term, utopian thinking has been linked with the unrealistic starry-eyed idealism of radical and socialist philosophers who, against all evidence, insist on the achievability of what the Oxford English Dictionary (OED) defines as “an impossibly ideal scheme ... a place, state, or condition ideally perfect in respect of politics, laws, customs, and conditions.” In light of this association between utopia and anti-capitalist

movements, how does Polanyi justify attributing an unattainable perfectionism to classical and neoclassical economics? Economics is the discipline, after all, that consistently played a major role in defeating even the tamest of progressive reforms, using its self-confident claims to scientific foundations to accuse movements for social justice of “utopianism.”

To make his intellectual turnabout even more paradoxical, Polanyi makes Robert Owen the hero of GT. Robert Owen was the early nineteenth century English industrialist turned philanthropist, socialist philosopher, and architect of the first cooperative industrial village (New Lanark, Scotland). He has long been held up as the poster child for nineteenth century utopianism. Yet Polanyi insists that Owen is the realist, for it is he who recognized that it is both necessary and right for government to intervene in the economy. Malthus and Ricardo, Polanyi insists, are the true utopians, notwithstanding the fact that Thomas Carlyle labeled their political economy as the “dismal science” because of its gloomy predictions about future wage levels and the disasters that would inevitably be wrought by overpopulation. A century of political economy’s disciplinary development changed little in Polanyi’s estimation. No less than Malthus and Ricardo, he applied the same label of utopianism to von Mises and Hayek rather than the communists and socialists that they vilified in Vienna.

To get a deeper understanding of Polanyi’s meaning and motivation, we turn to the passage that comes right after he first labels the self-regulating market as a “stark utopia”: “... such an institution [a self-regulating market] could not exist for any length of time without annihilating the human and natural substance of society; it would have physically destroyed man and transformed his surroundings into a wilderness” (GT, 3). Polanyi insists that the free market utopia is not a harmless fantasy; he is blunt and graphic in characterizing its consequences as producing a *dystopia*—“a society characterized by human misery, as squalor, oppression, disease, and overcrowding.”<sup>2</sup> **EN** *End punctuation?* **EN**

To understand why and how Polanyi predicts this inevitable slide from utopia to dystopia, it is useful to return to and deconstruct the OED's characterization of utopianism as an "impossibly ideal scheme for the amelioration or perfection of social conditions." Parsing this carefully, we can divide its conception of utopia into three distinct parts—it is an "ideal" of social "perfection," it is a "scheme" to achieve amelioration or perfection, and it is a tragic "impossibility."

## <A>The Utopian Ideal

Free-market doctrine is an ideology founded on three assumptions—that power resides exclusively in the state, that political power is a chronic threat to freedom and commerce, and that the economic sphere does not entail the exercise of power. It is the dream of eliminating the need for political power or government that makes these assumptions utopian. Governance and societal order is now left exclusively to the putatively noncoercive workings of the self-regulating market (Hirschman 1977). Indeed, it is the absence of political power that they see as the precondition for individual liberties, societal prosperity, and the freest of all possible worlds.

Polanyi rejects these assumptions and the normative ideal of a world without power. For him, no society is possible without political power and constraint (GT, 266). He shows historically how government policies and the explicit use of compulsion are necessary to construct and maintain markets. But he pushes the analysis to a more profound philosophical level by asking why anybody would think it desirable in the first place to minimize the role of the state while maximizing the reliance on market self-regulation. His explanation centers on "social naturalism," a foundational tenet of classical political economy and modern market fundamentalism. Social naturalism is a way of viewing the world built on the assumption that the laws governing natural phenomena also govern human society. Social naturalism can be distinguished from naturalism—the methodological postulate that, because nature and society


exhibit the same kinds of regularities, there should be a unified method applicable to both. Social naturalism, by contrast, insists that society is governed by those natural laws rather than by institutional rules and social rationalities. For social naturalism, society is not “like” the natural world; the social and natural worlds are one and the same and are subject to the same laws and exigencies. Social naturalism conceptually subordinates society to nature, and society is seen as regulated by natural laws in the same way as falling objects and the evolution of species.

Social naturalism realigns the traditional Enlightenment view of human rationality. It blurs the line between humans and animals by first and foremost defining people as biological beings motivated by the instinctive drives to eat and reproduce. Against the rationalist belief that political intervention can alleviate social problems, social naturalism makes scarcity, poverty, distress, and famine inexorable. In the views of Malthus, nature necessitates an endless struggle for scarce resources, but when nature is left to its own devices, it creates a perfect balance of supply and demand. When humans finally abandon the folly and futility of trying to impose their own will over nature, they will find that while not always benign, nature is always a wise governor. “Man” cannot reason with nature because it is nature’s utter indifference to reason that distinguishes it from humanity.

The roots of social naturalism can be traced to Joseph Townsend’s apocryphal fable about the struggle for survival between goats and dogs on a Pacific island—two originally sparring species that eventually learned to live in harmony only because there was no political interference with the natural condition of scarcity. Polanyi captures the link between social naturalism and government policy in memorable prose: “Hobbes had argued the need for a despot because men were *like* beasts; Townsend insisted that they were *actually* beasts and that, precisely for that reason ... [n]o government was needed to maintain this balance; it was restored by the pangs of hunger on the one hand, the scarcity of food on the other” (GT, 119).

Since the human poor are biologically indistinguishable from the goats and the dogs, and thus subject to the same laws of nature, their survival should likewise be left to the wisdom of nature without the Poor Law's artificial removal of natural scarcity. Society, as fundamentally biological, is a self-regulating system that when untouched by political intervention will tend toward equilibrium and order: "Essentially, economic society was founded on the grim realities of Nature; if man disobeyed the laws which ruled that society, the fell executioner would strangle the offspring of the improvident. The laws of a competitive society were put under the sanction of the jungle" (GT, 131).

While talk of social naturalism may sound alien to our contemporary political discourse, it is an essential part of free market utopianism. Without social naturalism, there could be no rhetoric about a self-adjusting market regulated by its own natural laws and market societies capable of self-governing without a meddlesome government. Social naturalism is also the foundation for the utopian belief in the self-regulating market's benign system of incentives that operate freely without the exercise of power. Social naturalism underlies the market-state binary with its privileging of the market and its insistence that these must be separate and autonomous realms.

While Mirowski and Plehwe (2009, 435) advance a different view than ours about the relation between the classical economists and twentieth century market fundamentalists, they acknowledge that Hayek, Friedman, and their allies "... did agree that for purposes of public understanding and sloganeering, *market society must be treated as a 'natural' and inexorable state of humankind*" [emphasis in original]. One reason they did is that social naturalism is the source of one of the most powerful political weapons of market fundamentalism—the *perversity thesis* (Hirschman 1991).  Founded on social naturalism, the perversity thesis holds that the "normal" or "natural" state of the market is an equilibrium of self-adjustment. The perversity thesis—or the "perverse-effects doctrine"—holds that any public policy aiming to change market



outcomes, such as prices or wages or inequality, automatically becomes a noxious interference with nature's equilibrating processes. Much stronger than talk of random "unintended effects," the perversity thesis makes perverse outcomes inescapable; the very measures intended for good inevitably will leave the world in a worse shape than prevailed before any "reform" had been instituted (Hirschman 1991). We revisit in Chapters 5 and 6 the battle over the English Poor Laws which were a precursor to struggles over modern welfare benefits.

Malthus was only the first of a long line to successfully turn the perversity doctrine into a full-scale political campaign to remove or prohibit government initiated regulations, reforms, and interventions. In the 1880s, Herbert Spencer amplified his attacks on an enlarged franchise with the claim that "uninstructed legislators have in past times continually increased human suffering in their endeavors to mitigate it" (Spencer 1940 [1881]). Von Mises reprised the doctrine by articulating the free market opposition to unemployment benefits. He argued that if benefits provide livelihoods to the jobless, they will have an incentive not to seek employment but rather to comfortably adjust to a new found leisure (Dale 2008, 512). Finally, Milton Friedman perfected one of the most popular uses of the perversity thesis in his claim that setting a minimum wage induces unemployment and drives down all wages: "Minimum wage laws are about as clear a case as one can find of a measure the effects of which are precisely the opposite of those intended by the men of good will who support it" (Friedman 1962, 180). Friedman's more popular writings show that behind all of the modern bells and whistles of the Chicago School, their policy argument rely on the same social naturalist-inspired perversity thesis that Malthus elaborated at the end of the 18th century.

At the level of ideology, free market utopianism's promise of a society organized exclusively by the laws of nature eliminates altogether the need for political power to structure or govern human society. In reality, however, the elites who embraced political economy in Malthus's era had no intention of abandoning control over the populace. Their motivation was to

eliminate only the protective social policies that interfered with the poor's full exposure to the labor market. With the exception of the socially protective role of the state, they freely used political power to reinforce the logic of markets. To obfuscate this selective anti-statism, free-market utopianism tells a story about how the market's natural mechanisms will not only make for economic prosperity; it will also take over the work too important to trust to government such as providing social order and protecting individual liberty, all without exerting power. After all, if the natural and the social world are organized by the same laws of nature, and these laws are always preferable to the potential tyranny of arbitrary political will, then not just the economic but also the governing functions of society would be better served by the market.

For Polanyi, the idea of a society free of power is an impossible deceit; it is based on the false claim that, in contrast to government, markets and economic relationships are free of the exercise of power. It is utopian not merely because of the idea that society did not need political power; rather it was in the conceit that the market, by contrast, is a site free of power. To characterize it as such plainly reveals free-market utopianism's bias in favor of a definite kind of power.

### <B>Utopianism as a Planned Project

Classical political economy staked its appeal not only on the fanciful utopianism of social naturalism's world without power. It also justified its defense of a laissez-faire economy by telling a story about how the historical development of the market economy in the nineteenth century was an entirely natural, spontaneous, and unplanned phenomenon: "Their [economic liberals] whole social philosophy hinges on the idea that laissez-faire was a natural development" (GT, 148). Whereas markets as places of barter and exchange had long existed as elements of all societies, Polanyi's well-known argument is that these were historically always embedded within and regulated by the larger system of social relations. Nineteenth century political economy

claimed that the transformation of these isolated local markets into one big, national market economy was the natural result of their innate tendencies to expand. This was seen as the inevitable result of the even more basic instinctive trait of human nature to barter and exchange.

Classical political economy insists that ever-expanding unregulated markets are the natural condition of society, and—were they left to flourish without interference—the prosperity brought on by self-regulating market economies would be a constant of history. A series of corruptions in the form of perverse political and legal interventions blocked this happy outcome. Examples include the efforts of the Tudor monarchy to slow down the enclosure movement and the milder but equally damaging laws restricting the movement of labor. History, according to this view, entails an epic battle on the part of social naturalists to undo the “collectivist” perversions of political power that interfere with the otherwise spontaneous and natural working of markets. The eventual arrival of laissez-faire and a market economy in the early nineteenth century was not an act of politics or law; it was rather the belated restoration of the natural.

The reality is that political economy was a grand and calculated scheme for the state to actively remake contained and regulated markets into a coordinated self-regulating market society. The irony of this particular utopian scheme is that it violates the very essence of the social naturalist ideal. Not only were laissez-faire and the free market not natural but planned; they were, as we discussed earlier, operationalized by political interventions: “... laissez-faire economy was the product of deliberate State action” (GT, 147). Revealing the historical planning at the heart of the free market utopia undermines both its social naturalist self-representation and its mantle of spontaneity. It also lays bare once again the hypocritical conceit at its core. The zealotry against the use of state power was selectively conceived and applied. The self-regulating market abhorred and challenged state intervention when it came to aiding the poor. For the government to alleviate poverty artificially was to use power in the abuse of nature. But there was no hesitation whatsoever to use powerful instruments of government coercion to create a

new legal regime that enforced the logic of markets. Polanyi thus disposes of the fiction that market economies are natural. The market fundamentalist world without power lived exclusively in the utopian ideology of social naturalism.

Nor, moreover, was political power a onetime exercise in jump-starting a market economy, only to give way to the natural workings of the market once it was nicely humming away. The market was never and can never actually be disembedded. Political power is a constitutive element at the heart of any functioning market; it could no more be removed than could the price mechanism. The question is never whether the economy is politically embedded, but what kinds of political interventions are used and to whose benefit do they operate. Despite the utopian ideal's anti-statist zealotry, the irony is that political power is the necessary mechanism to maintain and creatively adjust the institutional conditions that maintain the appearance of a free-market: "The introduction of free markets, far from doing away with the need for control, regulation, and intervention, enormously increased their range. Thus even those who wished most ardently to free the state from all unnecessary duties, and whose whole philosophy demanded the restriction of state activities, could not but entrust the self-same state with the new powers, organs, and instruments required for the establishment of laissez-faire" (GT, 146–147).

While it is political power and legislative coercion that exercises the actual heft in this planning process, the ideational scheme is the driving force that leads that power. The market is not only politically "always embedded"; it is always *ideationally embedded* (as we argue in Chapter 6 below). Ideational embeddedness, once again, helps us understand how major transformations are ideationally driven. Put slightly differently, it is the ideas that have causal powers. Polanyi was far ahead of his time in recognizing the central role that the new ideas of social science played in this process. "Social not technical invention was the intellectual mainspring of the industrial revolution. The decisive contribution of the natural sciences to engineering was not

made until a full century later, when the industrial revolution was long over.... The triumphs of natural science had been theoretical in the true sense, and could not compare in practical importance with those of the social sciences of the day” (GT, 124).

Then, almost as if anticipating how today’s academics would react, he remarks wryly: “... unbelievable though it may seem to our generation, the standing of natural science greatly gained by its connection with the humane sciences. The discovery of economics was an astounding revelation which hastened greatly the transformation of society and the establishment of a market system.... It was thus both just and appropriate that not the natural but the social sciences should rank as the intellectual parents of the mechanical revolution which subjected the powers of nature to man.” (GT, 124–125.) Polanyi here is insisting that economic theories and social science models do not represent and generalize already existing economic entities but rather make markets, economic practices, and indeed entire market societies. Today, there are new theoretical paradigms that follow Polanyi’s path-breaking understanding of the causal powers of economic theories, especially the theory of “performativity” associated with the sociologists Michel Callon and Donald Mackenzie (Callon 1998; MacKenzie 2006; MacKenzie, Muniesa, and Su, eds. 2007).

### <B>Utopianism as Tragedy

Even if utopian dreams are ultimately unrealizable if a society is to survive, Polanyi warns us that attempting to achieve the unachievable produces dystopian consequences. The horrors of early industrialization included dark Satanic mills, children maimed and disfigured from sixteen- to eighteen-hour workdays, and the squalor and filth of early industrial cities. The misguided dream of economic liberals to restore the gold standard after World War I produced a global depression that generated fascism and a second world war. And the last thirty years of market fundamentalism has now produced another dystopian global calamity—a nearly catastrophic

financial collapse and a global recession that has thrown millions out of work and increased hunger and misery in every corner of the globe. But how does Polanyi connect these social tragedies to the utopian project? His answer is not simply that the “best laid plans” will always have unexpected and unintended consequences. It is a more specific argument that the particular utopian ideal of a self-regulating market creates a dystopian nightmare. The key link is his conception of “fictitious commodities.”

Polanyi argues that to create a self-regulating market economy, labor, land, and money must all be subjected to market mechanisms. Polanyi calls these the nucleus of a culture “formed by human beings, their natural surroundings, and productive organizations” (GT, 170). Labor and land are “no other than the human beings themselves of which every society consists and the natural surroundings in which it exists.” Since commodities are things that are produced to be bought and sold on the market, none of these three vital social entities are true commodities. To include these fictitious commodities in the market mechanism means to subordinate the substance of society itself to the laws of the market. Polanyi argues that this theoretical sleight of hand places human society at risk as it threatens to annihilate the human relationships on which society rests.

Very much like Durkheim (1964 [1893]), Polanyi identifies the noncontractual foundations of contract as necessary not only for markets but for human communities to thrive, not least because the humans who are expected to participate in markets are incapable of performing any labor without a life-enhancing social environment and access to “social goods” such as clean air and water, safe working conditions, education, and medical care. In its rush to transform labor into a true commodity, market fundamentalism systematically undermines these noncontractual foundations on which human society depends. The tragedy of this is most obvious in the case of turning human beings into labor, which Polanyi says is “only another name for a human activity which goes with life itself” (GT, 75).

In the early years of England's Industrial Revolution, men, women, and children were for the first time treated as commodities subject only to buying and selling on markets. To become commodities, they must be subjected to the "free labor contract," which requires they be ripped away from their prior attachments to families, cultures, and communities. In discussing the process of early marketization in England, Polanyi writes: "[Marketization] was best served by the application of the principle of freedom of contract. In practice this meant that the noncontractual organizations of kinship, neighborhood, profession, and creed were to be liquidated since they claimed the allegiance of the individual and thus restricted his freedom. To represent this principle as one of noninterference, as economic liberals are wont to do, was merely the expression of an ingrained prejudice in favor of a definite kind of interference, namely, such as would destroy noncontractual relations between individuals and prevent their spontaneous reformation" (GT, 171).

When rural industry in southern England collapsed in the eighteenth century, thousands of displaced workers were expected to simply relocate to another village, another city, another region, or even another continent to find work. Some economists argue that the mass displacement brought with it higher wages, thus making it uniformly advantageous for the working class. Polanyi responds to this dubious claim by illustrating in grim detail that social livelihoods cannot be reduced to material quantification. The Industrial Revolution was a cultural catastrophe that stripped people of the social and cultural supports on which they relied: "The human degradation of the laboring classes under early capitalism was the result of a social catastrophe not measurable in economic terms" (GT, 302). Indeed, he frequently makes the analogy between this early English cultural catastrophe and the devastating consequences on indigenous communities during the European colonization of Africa and Asia: "The catastrophe of the native community is a direct result of the rapid and violent disruption of the basic institutions of the victim (whether force is used in the process or not does not seem altogether

relevant). These institutions are disrupted by the very fact that a market economy is forced upon an entirely differently organized community; labor and land are made into commodities, which, again, is only a short formula for the liquidation of every and any cultural institution in an organic society” (GT, 167).

But even under less extreme circumstances, treating labor as a pure commodity has tragic consequences. It strips people of protection from the periodic bouts of unemployment that are an inevitable consequence of the down phase of the business cycle. It leaves people hungry and unable to feed their families while they are waiting for employers to once again be interested in their services. And workers who are disabled or ill are simply discarded like any other defective commodity.

Over the last thirty years of market fundamentalism in the United States, the same undermining of noncontractualized social life has occurred. Under the influence of Milton Friedman, a conscious policy of tax cutting has been a principle method of attack (Block 2009). This strategy has been given a name—“starving the beast” (Somers 2008, 93–95). It is so dubbed because, as tax cuts inexorably increase government deficits, campaigns are suddenly mobilized to balance budgets by waging ideological combat against “excess spending.” But once again, note the selectivity of the anti-statism: the label of excess spending is applied only to social expenditures that support working and middle class people. In the U.S., where the individual states provide many of the critically important protections and public goods, this strategy has proved devastatingly effective. Even after the election of Barack Obama indicated a shift in national mood, state governments—constitutionally required to balance budgets—have engaged in round after round of intense budgetary austerity.

From a Polanyian perspective, the tragic consequences of financial commodification were also predictable. Although it was the financial elite and their political accomplices that pushed the economy over the cliff, the Great Recession took its worst toll on the poor, the middle, and



the working classes as unemployment soared. Among the rich Western countries, residents of the United States bear especially painful consequences, as state governments one after the other have eliminated or drastically reduced what little is left of the nation's social safety net. Europeans, we are reminded, do not lose their health care when they lose their jobs: "[Americans] find themselves with essentially no support once their trivial unemployment check has fallen off. We [Americans] have nothing underneath. When Americans lose their jobs, they fall into the abyss. That does not happen in other advanced countries, it does not happen, I want to say, in civilized countries" (Krugman 2009a).

This is free-market utopianism's tragic denouement. When social goods are defunded by governments, health, education, and personal safety become accessible only to those who can pay. The result is the "liquidation" of a community's noncontractual foundations. The poor and minorities have long been subject to this kind of strategic defunding of social support. Somers (2008, ch.2) recounts the example of New Orleans in the aftermath of Hurricane Katrina, a recent tragic demonstration of this process. She conceptualizes this development as the *contractualization of citizenship*. Citizenship represents a bundle of rights and obligations, especially the rights to those noncontractual supports necessary for full and equal social inclusion in civil society (Marshall 1964 [1950]). These rights are the legal glue that binds civil society's noncontractual foundations to its people. They are the necessary elements for the essential freedoms and "capabilities" (Sen 1999) that people require to live as equal members of society. For all but the wealthy, government-provided rights to protection against illness, for education and literacy, for freedom from hunger and want, are the only hope for any semblance of moral equality. When these social goods are contractualized, they become subject to the rules of *quid pro quo* market exchange, rules that demand something of equivalent value in exchange for social citizenship rights. They are thus no longer rights but conditional privileges, only

available to those who have something to exchange that the market deems of equivalent value, usually money or labor (Somers 2008, ch.2).

Hurricane Katrina shows us what happens to those who have nothing of sufficient market value to exchange for what are now privileges. The indifferent response of government at all levels shows what happens to whole communities without the kind of resources that qualifies as worthy of contractual exchange. Quite simply, when the rights to social goods dissolve, so too do the rights to inclusion. People are literally cut loose from membership in the broader civil society. Once excluded, they no longer are granted the recognition by others as moral equals; they become superfluous and disposable (Uchitelle 2006). As we watched the tragedy of Hurricane Katrina unfold over the course of days, weeks, now years, the status of the largely African-American impoverished population of New Orleans as a superfluous and disposable people was painfully and shamefully exhibited. No social tableau has better publicized the tragic consequences of commodifying human beings and contractualizing their noncontractual relationship—especially that between government and the people. Hurricane Katrina shows us *in extremis* what thirty years of free-market utopianism looks like; once having been witnessed, no one can claim ignorance of its inexorably tragic endings (Somers 2008, ch.2).

Polanyi was equally visionary with respect to the second of his fictitious commodities, as he anticipated the dangers that exist with the full commodification of land and nature. For nature to be commodified into property, human habitat must be carved up into parcels; if there are profits to be earned, some of those parcels will end up suffering the most extreme environmental degradation. When agriculture ceases to be a way of life and becomes simply a profit-making activity, entire populations can find themselves at risk for starvation because market signals had suggested that the land was better suited for raising industrial raw materials than food. Today commodifying nature has extended to a degree that promises planetary annihilation through radical climate change.

Finally, we should not be surprised to learn that Polanyi's designation of money as the third fictitious commodity helps us to make sense of the financial market economic meltdown of 2007–2008. When the production of money and credit is left entirely to the banking system, it is practically guaranteed that banks and other financial institutions will recklessly multiply the supply of credit in search of higher and higher profits, putting the economy at risk of a devastating crash when investors suddenly lose confidence. This is what drove the severe boom and bust cycles of nineteenth century market societies and ultimately led to strong central banks and regulations designed to place limits on the ability of financial intermediaries to carry out unsustainable expansions of the supply of credit.

During the recent reign of market fundamentalism in the United States, most of these restraints on the ability of financial intermediaries to expand the supply of credit were systematically dismantled. Seeing the possibility of previously unimaginable profits, financial actors used the efficient markets hypothesis to create a finance-knows-best regulatory climate. This included the dramatic expansion of new financial intermediaries, including hedge funds and private equity funds, that were largely exempted from any regulatory oversight. Under the eighteen-year reign of Alan Greenspan at the Federal Reserve, the government continued to systematically relax the rules for the largest financial institutions that allowed them to hold substantial liabilities in “off balance sheet entities” and to expand exponentially their ratio of debts to assets. The predictable consequence was that when the inevitable rush by investors to safety finally came, virtually the entire financial system faced insolvency. Only government lending at a previously unimagined level averted a complete financial collapse (Skidelsky 2009; Wessel 2009).

Free market utopianism's effort to govern society by the laws of supply and demand inevitably subverts necessary forms of social protection and embeddedness. Precisely for this reason, institutions emerged in the course of the nineteenth century to protect society from the

dangers of treating nature, labor, and money as if they were actually true commodities. Critics of free-market utopianism understood that government is the only institution capable of regulating the supply and demand of these fictitious commodities. Policies were set in place that allowed governments to manage shifting demands for employees by providing relief in periods of unemployment, by educating and training future workers, and by influencing migration flows.<sup>3</sup> With respect to land and our natural environment, governments maintained continuity of food production by insulating farmers from the pressures of fluctuating harvests and volatile prices, and they regulated land use to avert environmental destruction. And the rise of central banking was a deliberate effort to manage the supply of money and credit to moderate the cycles of boom and bust.

In the late twentieth century, free-market utopianism undermined the government's ability to manage and protect labor, land, and money. By playing off the deep fears of government-induced unfreedom, it has once again blinded us to the freedoms and human capabilities that only government can ensure. As we discuss in Chapter 8, recognizing what Polanyi calls *the reality of society* is our hope for societal repair.

## Notes

<sup>1</sup> It would be ironic, indeed, if Hayek had been inspired to embrace utopianism after reading Karl Polanyi's indictment of free market utopianism. But it is certainly possible, since Hayek studied the writings of his opponents on the left and Michael Polanyi, Karl's brother, who had read GT in draft form, was in contact with Hayek and had attended the first Mont Pelerin meeting in 1947.

<sup>2</sup> This definition is from Dictionary.com which is based on the Random House Dictionary, 2013.  
<http://dictionary.reference.com/browse/dystopia?s=t> Accessed on Sept. 12, 2013.

<sup>3</sup> As we note in Chapter 5, during Malthus's lifetime and after, there was a major focus in England on emigration as the solution to the growth of population.