

## 17 The Limits of Freedom II

- **Review: So who was the REAL Adam Smith?**
  - Human nature is complicated: both self-interested and altruistic
  - Echos of Rousseau
  - And a foretaste of Marx
  - And a role for the state
    - The state must intervene in the market to protect moral sentiments
    - He also argued for progressive taxation
- **Review: How do we distinguish the “freedom” school of political economy from the “Community school?”**

Community—assumes group identity—emotional connection to one’s group	Freedom – assumes rational self-interested individual identity
<b>Purpose</b> <ul style="list-style-type: none"> <li>• Preserve the community</li> <li>• Distribute wealth in the public interest</li> <li>• Achieved through Cooperation</li> </ul>	<b>Purpose</b> <ul style="list-style-type: none"> <li>• Nourish individual freedom and wealth</li> <li>• Protect private interests (will achieve public good)</li> <li>• Achieved through Competition</li> </ul>
<b>Power (who says?)</b> <ul style="list-style-type: none"> <li>• <b>Authority</b> over the Community (trad. Values, ascriptive hierarchies, sovereign, state, legislator, Leviathan, etc.)</li> <li>• Through <b>command</b> over the group (restricts freedom)</li> <li>• Freedom – assumes rational self-interested individual identity</li> </ul>	<b>Power (who says)</b> <ul style="list-style-type: none"> <li>• Free Individuals</li> <li>• Through free market competition (preserves freedom of choice )</li> <li>• If the market fails, winners are free to help losers if they wish</li> </ul>

- Polanyi attacks the “freedom school” of political economy.
  - Human behavior is motivated by social, not individual goals
    - greed and “rationality” are not “natural”
  - The market not “natural”
  - And because market behavior is Not “natural” it had to be imposed by State power!
  - **His evidence is historical**
- For Markets to work correctly, Fictitious commodities had to be created
  - What is a commodity? Objects produced for sale on the market.
  - Why are land, labor, and money “fictitious commodities?”
    - Because they are “obviously not commodities....anything that is bought and sold must have been produced for sale, but this is not true with regard to them
  - Land... “land is another name for nature”
  - Labor “Labor is another name for human activity that goes with life itself. . .”

- Money “ money is merely a token of purchasing power”
- Quote of the Day  
"Labor is only another name for a human activity which goes with life itself, which in its turn is not produced for sale but for entirely different reasons, nor can that activity be detached from the rest of life, be stored or mobilized; land is only another name for nature, which is not produced by man; actual money, finally, is merely a token of purchasing power which, as a rule, is not produced at all, but comes into being through the mechanism of banking or state finance." --Karl Polanyi

- **Review: Land Before the Market: The “commons”**
- **Commodification of Land: Private Property and Enclosures**
  - convert or carve up the “commons” into private property, giving the new owner an incentive to enforce its sustainability
  - If commons are privatized, each owner will see to it that his personal plot is not overgrazed
- **Effects of Commodification of Land**
  - Enclosures increased the market value of land, BUT:
  - Also, conversion of formerly common land to pasturage reduced employment, damaged the land through pollution and erosion
- **Labor is simply commodified Humanity**
  - Human beings are reduced to economic tools of production...what would YOU be doing now if you didn't live in a Market system?
  - Labor can be bought and sold—giving human Beings a price—reducing their value?
  - Adjustment: the Dark underbelly of comparative advantage
    - “adjustment” means uprooting people, sending families on the “road to perdition,”
- **Commodification of Money**
  - For years, the most profitable industry in America has been one that doesn't design, build, or sell a single tangible thing.
- **What's wrong with the commodification of money anyway?**
  - Money was not created by buying and selling—it **represented** wealth but was not wealth in and of itself.
  - But since Babylon, money itself is bought and sold
  - Because Banks channel peoples savings into productive investments by brokering the buying and selling of money
    - And this finances the growth of vital industries
- **But that's not ALL banks are doing: They're creating really, really fictitious commodities**
  - Banks are in competition for profits
  - They need to innovate
  - Because there's a market for money, banks are trading abstractions—bets... **such as the price of a stock or the level of an exchange rate.**
  - big banks invent new financial products that they can sell but that their competitors haven't thought of
    - Pollution rights
    - Credit Default Swaps: A bet on whether a bond will default

- **Trading in abstractions: socially useless activity**
  - Nothing of real worth is generated
  - Finance extracts “rents” from the real economy
  - It is possible for financial activity to extract rents from the real economy rather than to deliver economic value,”
- **Creating fictitious commodities leads to the encroachment of the Market on Life Itself**
  - Social Darwinist view of society
  - evaluates what we value
  - The market encroaches on All of life....takes over EVERYTHING.....
- **The Result? Society is now embedded in the Market Economy**

- **The Double Movement example: People fought back against the Industrial Revolution**

*“Trading classes had no organ to sense the dangers involved in the exploitation of the physical strength of the worker, the destruction of family life, the devastation of neighborhoods, the denudation of forest, the pollution of rivers, the deterioration of craft standards, the disruption of folkways, and the general degradation of existence including house and arts, as well as the innumerable forms of private and public life that do not affect profits”*

- **Double Movement Today: Neo-liberalism and Anti-Globalization**
- **Another Double Movement in the second decade of the 21<sup>st</sup> century?**
  - Does today’s financial crisis and the reactions to it this crisis represent another version of Polanyi’s double movement?
  - Are movements for regulation of the market today (for the benefit of community) strong enough to swing the international political economy away from the “freedom school” ideals that have dominated for the past 30 years?

- **Sum: The Market and Polanyi’s critique**

Smith, Ricardo	Polanyi
1. “natural” Rational (self-interested, profit-seeking) <b>individual +</b>	...humans are social beings
2. Natural propensity to trade (exchange)→ spontaneous markets	<ul style="list-style-type: none"> <li>• <b>No</b> Spontaneous markets. The “Natural” human tendency is to preserve humanity, society, and nature</li> <li>• <b>SO:</b> markets had to be <b>created</b> by political power (state)</li> </ul>

- **Sum: Polanyi's critique of specialization, division of labor, competition, and free trade**

<b>The Market</b>	<b>Polanyi's Critique</b>
1. Price mechanism (information about value) →	<ul style="list-style-type: none"> <li>• Artificial Commodification of land, labor, capital (creation of property "rights")</li> </ul>
2. Innovation + specialization (division of labor)	<ul style="list-style-type: none"> <li>• → destruction of society (community) →</li> </ul>
3. Comparative advantage →	<ul style="list-style-type: none"> <li>• Some are better off (market winners), more are worse off (market losers) →</li> <li>•</li> </ul>
4. Efficiency → Growth → Welfare for all	<ul style="list-style-type: none"> <li>• Movements to protect society from markets</li> </ul>

- Critique of Polanyi?
  - Free Market capitalism is resilient, conquering vast new places—even China!
    - Real Alternatives no longer beckon
  - Was pre-industrial society really so great?
    - They were dependent on the weather!
    - superstition
  - Does Polanyi represent the triumph of Romanticism?