

The Critique of Liberalism:

What History Tells Us

Review: Comparative Advantage and Free Trade

- Efficiency → Growth → Good life for everyone
- Role of the State: To let producers produce most efficiently—to separate politics and economics:
- Commerce → Peace Why?
 - Efficiency should be the basis of all political relations
- Does Free Trade make the state obsolete?

Review: Econ. Liberal Theory

Key Assumption is the rational individual who wants Freedom

voluntary exchange: It's Human Nature!

(no cooperation/collective action needed)

Price Mechanism (information about value+ lowers transaction costs)

Competition

Innovation + specialization → division of labor

Comparative Advantage in exchange

Efficiency → Growth → Better life for all

Polanyi attacks this causal chain of economic liberal thought

- He did this by attacking the core assumptions of economic liberalism
 - 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!
His evidence is historical

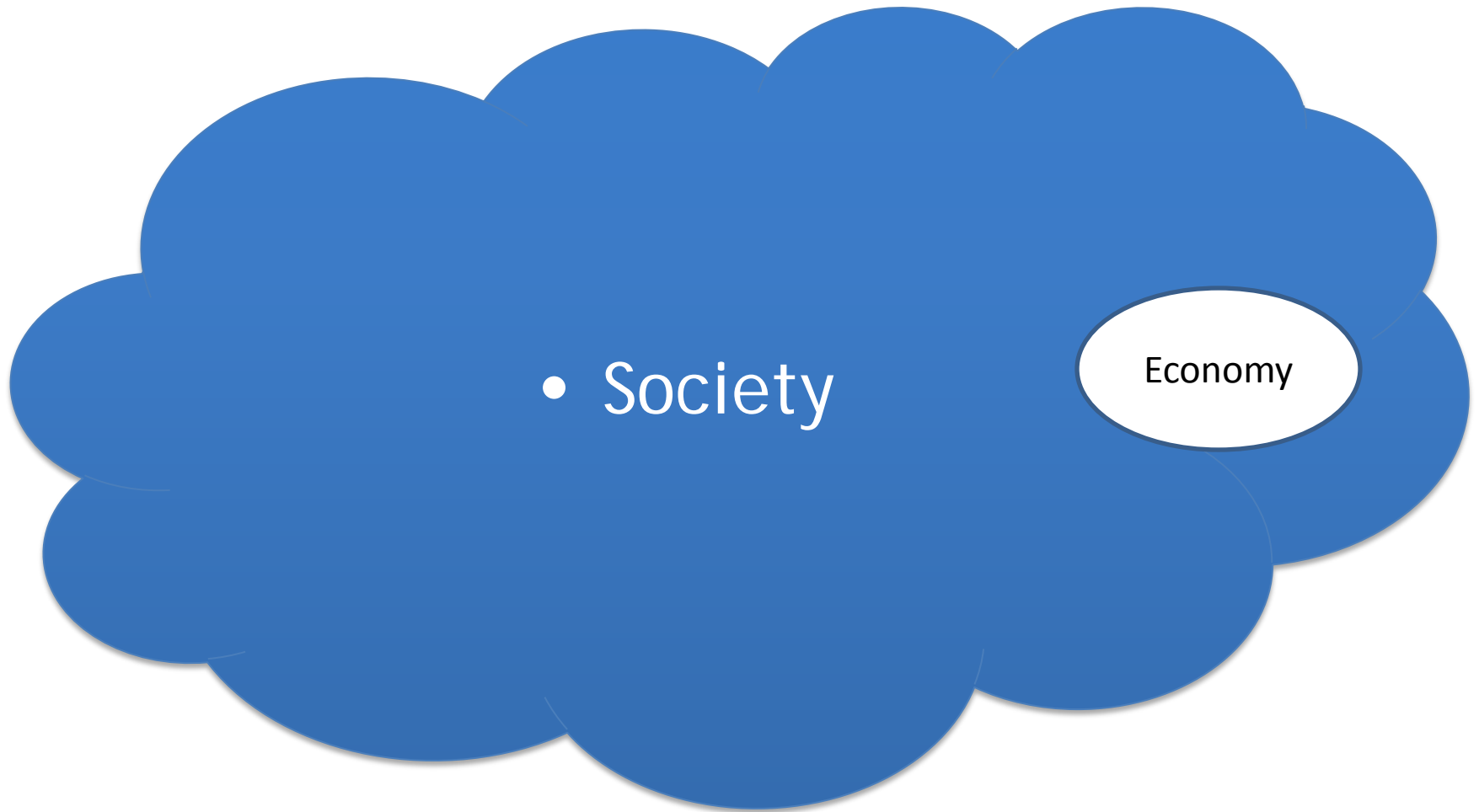


Pre-Market Societies



- No Private Property
- No Money economy
- No “possessive Individualism
- No Markets

Embeddedness of the Economy in Society



Feudalism

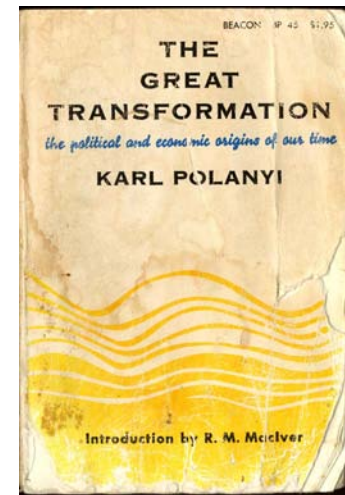
Society

- Mutual obligations
- Self-sufficiency
- Land is a gift from God
- Guilds
- Values: do what keeps the community
Together, Justice

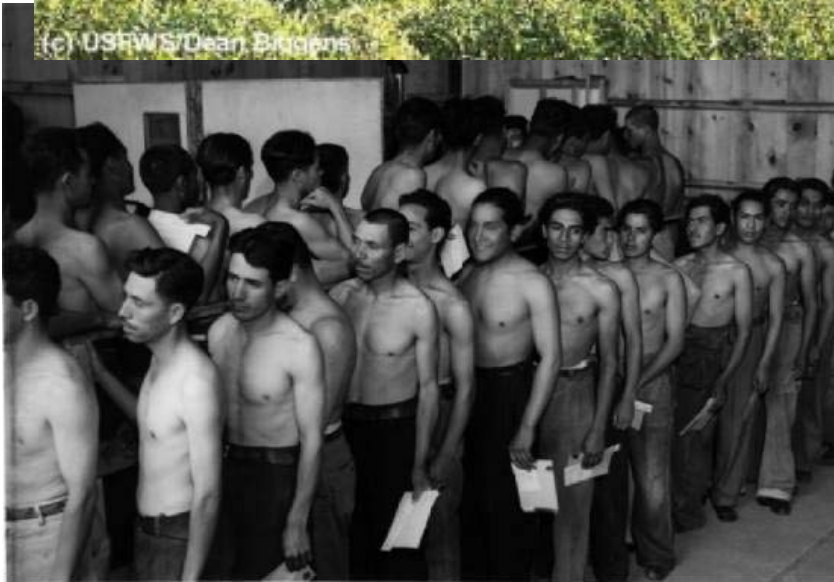
Economy
• Minimal
profits,
competition

So Polanyi argues that Markets—not natural to human nature— had to be created by states

- Strong state needed to lower transaction costs*
- Needed to create market conditions
 - Need for absolute power
 - Abolish institutions of social protection that inhibited a market economy



For Markets to work correctly, Fictitious commodities had to be created



Land Before the Market: The “commons”



Commodification of Land: Private Property and Enclosures



Effects of Commodification of Land



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,”

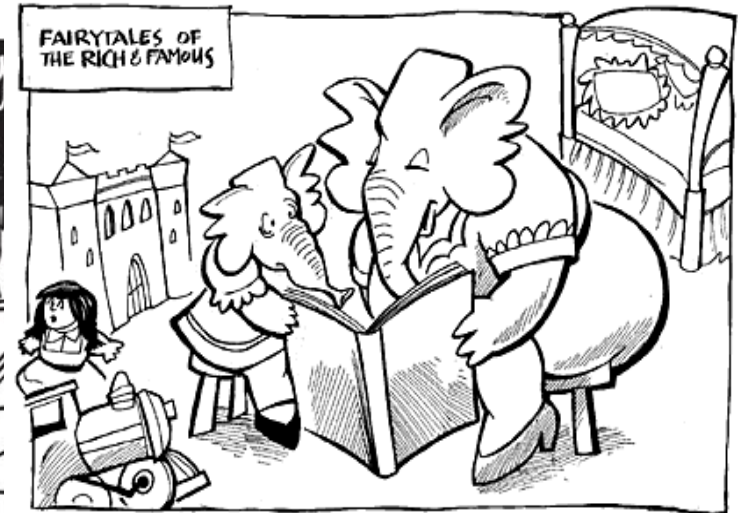


Polanyi's History of Commoditization of Labor

End of the Old Poor Laws, end of state protection of society

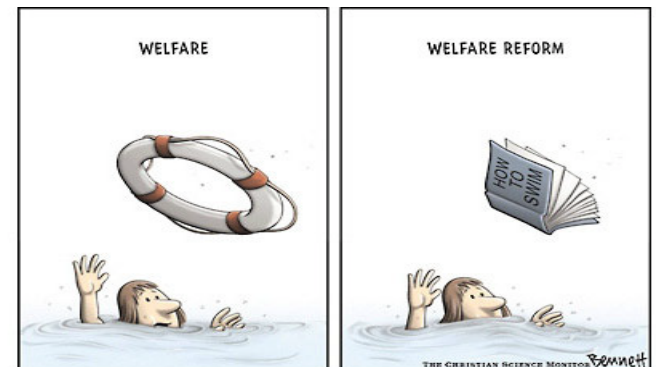


Speenhamland and current welfare policy in the United States



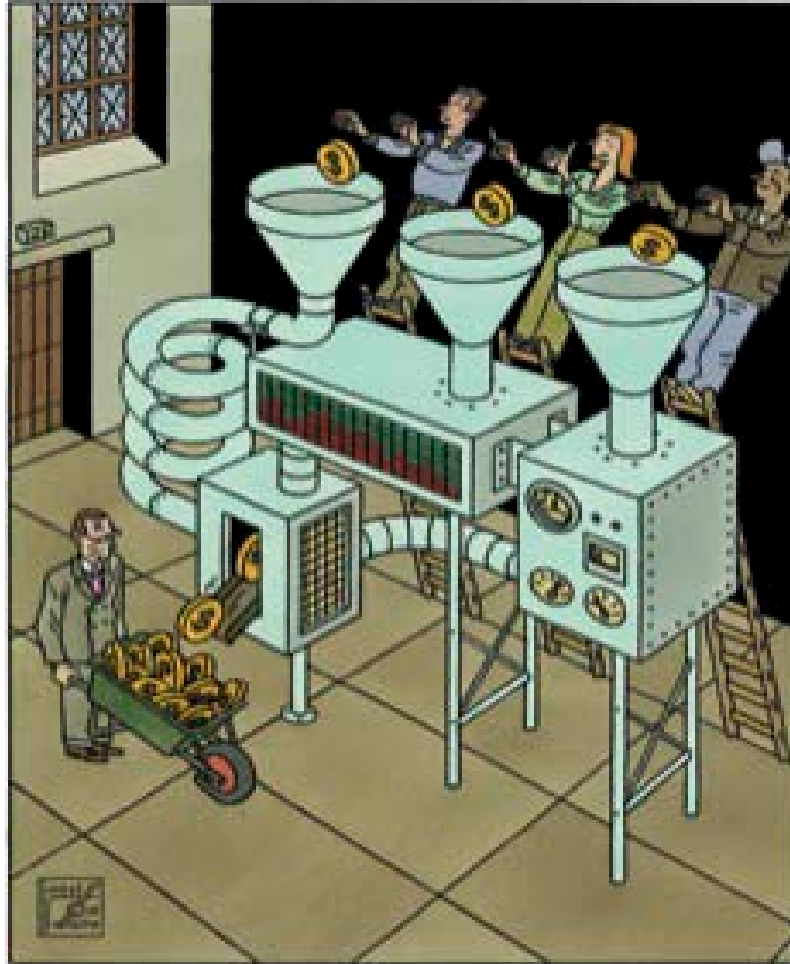
"Once upon a time there was a wicked Welfare Queen who had the power to destroy entire economies with one AFDC check...."

Entitlement vs. "perversity thesis and 1996 Welfare reform



Commodification of Money

http://www.newyorker.com/reporting/2010/11/29/101129fa_fact_cassidy#ixzz1DK0l6oAW



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?

- 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



But it's a Prisoners Dilemma—leading to a financial crisis

		Cooperate	Compete
Cooperate		Banks fund wealth- Creating activity	Noone wants To be a sucker—Banks need to make a profit by competing
Defect		No bank wants to Be a sucker—they lose if they JUST fund wealth creation	Banks compete for revenue and profit; invent new products; bad for all—run on banks

Prisoners Dilemma + Logic of collective action explains need for govt. intervention



Creating fictitious commodities leads to the encroachment of the Market on **Life Itself**

- Social Darwinist view of society
- devalues what we value
- The market encroaches on

All of life....takes over
EVERYTHING.....



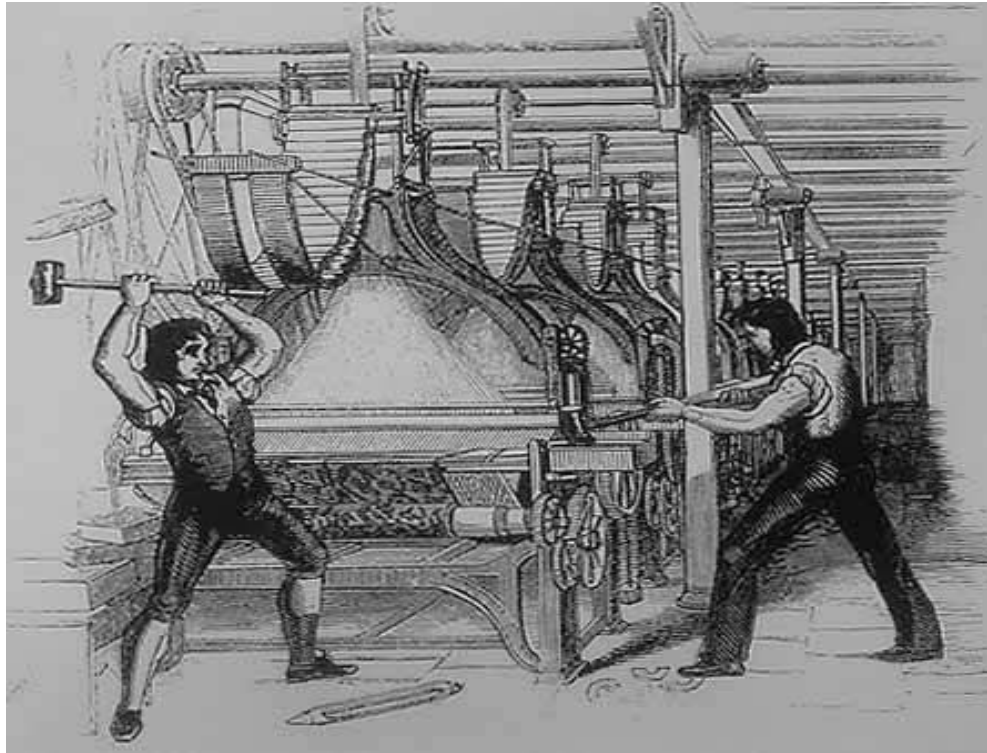
The Result? Society is now embedded in the Market Economy

Society



Market Economy

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



People had to fight back or it would have been the destruction of Human Society!

Double Movement Today: Neo-liberalism and Anti-Globalization



Another Double Movement in the second decade of the 21st century?



Sum: Liberal theory and Polanyi's critique

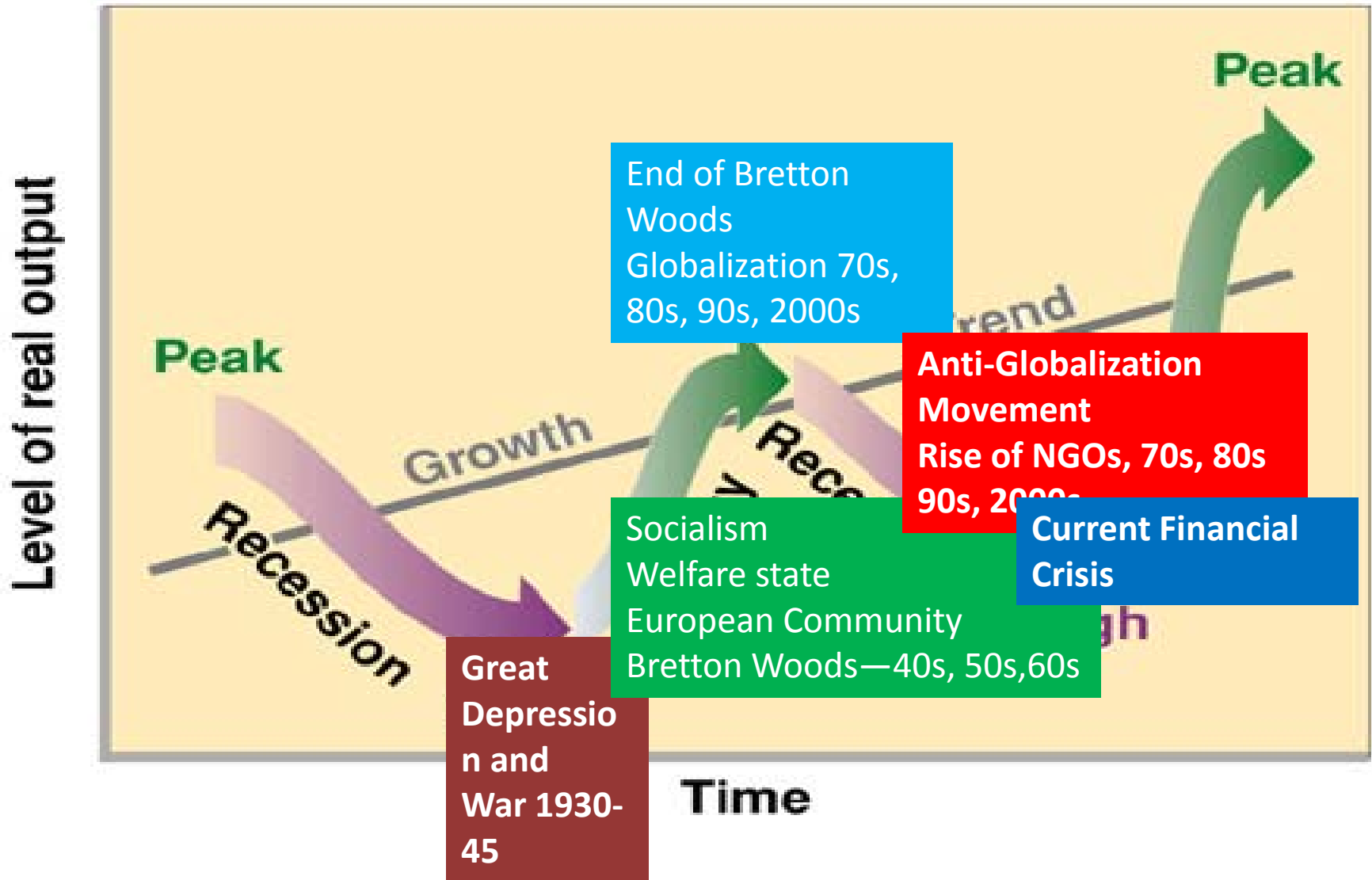
**Smith, Ricardo, Hayek,
Friedman, Olsen, Coase**

1. “natural” Rational (self-interested, profit-seeking) **individual** +
2. Natural propensity to trade (exchange) → spontaneous markets
3. Freedom= removal of political power....it is a barrier to natural exchange)

Polanyi

- **No** ...humans are social beings
- **No** Spontaneous markets. The “**Natural**” human tendency is to preserve humanity, society, and nature
- **NO**: markets had to be **created** by political power (state)
- So.....what are freedom and rationality in a market society?

Historical Double Movements and the business cycle



Sum: Liberal theory and Polanyi's critique

Smith, Ricardo, Hayek, Friedman, Olsen, Coase

1. Price mechanism
(information about value)
→
2. Innovation + specialization
(division of labor)
3. Comparative advantage
→
4. Efficiency →
5. Growth →
6. Everyone is better off

Polanyi

- Artificial Commodification of land, labor, capital (creation of property "rights") → destruction of society (community) →
- Some are better off (market winners), more are worse off (market losers) →
- Movements to protect society from markets

Critique?

- 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?

Sum: The state creates the Market

