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Forgetting the Obvious

Relearning old lessons from *The Great Transformation*

David Franz

THE CURRENT FINANCIAL CRISIS has transformed stories of high hedge fund bonuses and low lending standards from vaguely disturbing, mid-paper curiosities to front-page omens of destruction. In such frustrating times, it is hardly surprising that the failures of the wealthy and powerful have occasioned sharp and often resentment-tinged criticism. Indeed, Congressional committee hearings on the crisis have been equal parts morality play and public confessional. Yet, whatever the other weaknesses of financial executives, regulators, and politicians, it is the now apparent weakness of their grasp on reality that is so striking. Some of the most intelligent, sophisticated, and ruthlessly competitive people in the country now seem less greedy and corrupt than shockingly naive. Investigative reports have documented how executives and politicians alike countenanced practices that were clearly unsustainable, dangerous, and irrational: money lent without proof of income, repayment modeled on the basis of data from the most dramatic run-up in property values and equity borrowing on record, all while the entire system grew increasingly dependent upon credit markets built on this unstable foundation. How are we to make sense of the fantastical beliefs of those who have been, ostensibly, the most realistic and hard-headed among us?

It is this question that makes Karl Polanyi (1886–1964) the philosopher of our moment. Polanyi's major work, *The Great Transformation*, published in 1944, assessed the collapse of what he called "nineteenth-century civilization." This civilization, he argued, was based upon belief in an all-encompassing market that always and everywhere harmonized the actions of self-interested individuals toward beneficial outcomes. The idea of such a market, Polanyi believed, "implied a stark utopia." This utopia was an economy without people, at least without people as we know them—generous and vulnerable as well as calculating and self-centered. It was an imaginary world without norms of reciprocity or goods held in common. It was a society based on a systemic forgetfulness of three obvious facts. First, markets are human creations. Second, humans are not only self-interested but also sociable and cooperative. Third, the economy is a (not entirely separable) part of society, and it relies upon noneconomic resources to function. In Polanyi's view, such a society, based on an antisocial picture of human beings, "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."

A market-based economic system, like any system created by people, is both fragile and dangerous, and it is never more fragile or dangerous than when we imagine it to be a solid and eternal fact of nature. It was this belief in a natural and all-encompassing market that Polanyi believed to be utopian and forever exposed as such by the Great Depression. Recent history suggests that "nineteenth-century civilization" has been more resilient than he expected.

The idea of a market society has a long history. The earliest political economists, casually speculating about the self-interested proclivities of "primitive man," projected the idea even farther into the past. Adam Smith, for example, suggested that it was man's "propensity to barter, truck, and exchange one thing for another" that gave rise to the division of labor and widespread market exchange. Such a claim has little basis in the historical record, yet as Polanyi noted, "no misreading of the past ever proved more prophetic of the future." If, prior to Adam Smith's time, "that propensity had hardly shown up on a considerable scale in the life of any observed community," Polanyi continued, "a hundred years later an industrial system was in full swing over the major part of the planet which, practically and theoretically, implied that the human race was swayed in all its economic activities, if not also in its political, intellectual, and spiritual pursuits, by that one particular propensity." This is not to say that bartering and markets did not exist. Polanyi noted that markets have existed for millennia as

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places of trade. However, like flea markets or farmers' markets today, they were understood to be human creations, requiring some care for their success. For all of human history, Polanyi argued, "man's economy...[has been] submerged in his social relationships." Markets were institutions alongside others. The metaphorical transformation of "the market" into something other than a particular place of trade was a novel development, and it coincided with the creation of the economy as a distinct sphere, subject to its own laws. Economic exchange was pulled

out of the context of the noneconomic dimensions of human sociability—things like integrity, honor, and fear—and theorized to be independent of them.

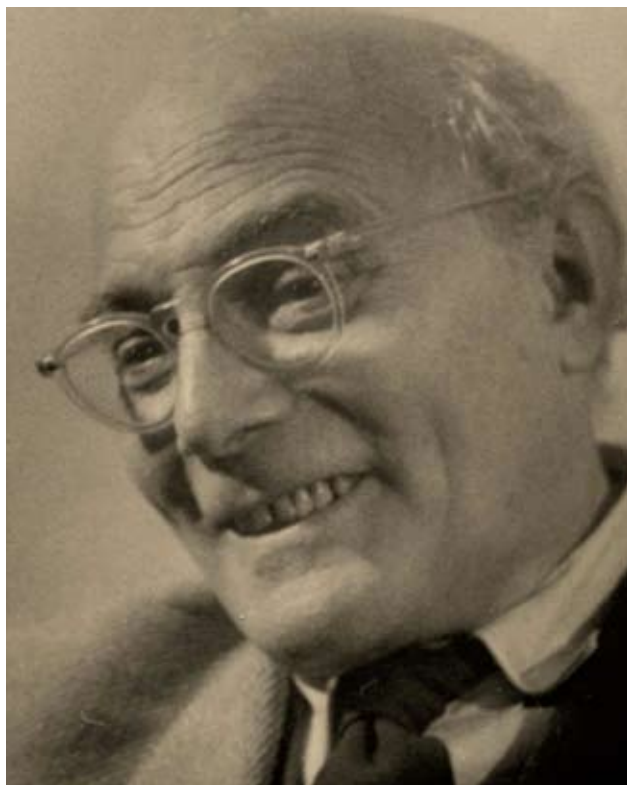
Willful avoidance of such messiness, according to Polanyi, was not sustainable. Elevating the market into the ontological firmament obscured important aspects of economic life, including the very conditions necessary for functioning markets: a state to set and enforce rules, trust between trading partners, and moral and legal limits on the uses of nature. Most importantly, this vision of the market obscured the crucial fact that many of the goods and associated costs moving through markets are shared and so can never be captured by exchanges of private property. This is especially true of land, labor, and money, which Polanyi called “fictitious commodities.”

The current crisis in the financial system provides an excellent example of hidden public goods. Hedge funds, for instance, were widely believed to be risking only their clients’ money.

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Because of this, they were excluded from banking regulations on the condition that they only accept money from those with enough net worth to be deemed without need of protection. However, as we have come to see, the hedge fund investors were not the only ones at risk. The actions of these funds and others put the entire system in danger. What has become obvious in the face of failure is that the financial system, like clean air and clean water, is, in part, a public good and not the private property of anyone.

What Polanyi shows us, and what inevitably surfaces in moments of crisis, is that those who seem to adopt a thoroughly cynical, “realist” approach to the economy, in the nineteenth century and our own, are in fact the most wild-eyed of dreamers. They imagine that we can live in a world that is ultimately uninhabitable and so blind themselves to the noneconomic bases of economic life. The power of markets for good, however, ought not to be lost here. The lessons Polanyi offers are not directed to a wholesale rejection of markets but to a better appreciation of their inadequacy as cosmology and their fragility as institutions. Markets remain what they have always been: places of exchange, which are useful as servants, abusive as masters, and subject to the same complexity as human institutions everywhere. No grand system flows from this thought. It merely returns the economy to the wonderful and tragic orders and disorders of human life. As we again rediscover the obvious at the higher levels of our economy, seeing through the false simplicity of hard-headed utopias, we would do well to learn from a guide who has seen it before. ■



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Karl Polanyi, 1953.