THE ORIGINS OF TOTALITARIANISM PART 1: INTRODUCTION

The ***Origins of Totalitarianism*** is Hannah Arendt's analysis of the rise of totalitarian governments, the Nazis under Hitler in Germany and the Communists under Stalin in Russia. It was published in 1951, though it was largely completed in 1945. In its original form it focused primarily on Nazism, and as more detail emerged about Stalinist Russia, the book was revised. There are three sections, Antisemitism, Imperialism and Totalitarianism. The book can be read here. Page numbers at this link correspond to the page cites I'll be using.

Rationale

Why this book? Anyone following current US politics has seen references to a fascist turn in Republican politics, and in the crowds surrounding at least one of the candidates. Similar but much smaller outbreaks occurred at campaign appearances of Sarah Palin in 2008 and at other Republican and conservative gatherings. One early user of the term fascism was @billmon1 on the Twitter, also here. Arendt's detailed exploration of the rise of fascism, particularly in Germany, is a tool to help us understand its genesis, and perhaps see certain parallels to today.

In ***Modernity on Endless Trial***, Leszek Kolakowski says:

> If we are to believe Hegel — or Collingwood — no age, no civilization, is capable of conceptually identifying itself. This can only be done after its demise, and even then, as we know too well, such an identification is never certain or universally accepted. Both the general morphology of civilizations and the descriptions of their constitutive characteristics are

> notoriously controversial and heavily loaded with ideological biases, whether they express a need for self-assertion by comparison with the past or a malaise in one’s own cultural environment and the resulting nostalgia for the good times of old. Collingwood suggests that each historical period has a number of basic (“absolute”) presuppositions which it is unable clearly to articulate and which provide a latent inspiration for its explicit values and beliefs, its typical reactions and aspirations. If so, we might try to uncover those presuppositions in the lives of our ancient or medieval ancestors and perhaps build on this basis a ” history of mentalities” (as opposed to the “history of ideas”); but we are in principle prevented from revealing them in our own age, unless, of course, … we are living in the twilight, at the very end of an epoch. P. 3.

Maybe so, but I think most ages are blessed with a few people capable of identifying at least the central points of a civilization, as they write the first drafts of history from the perspective of those who lived through it. They give us signposts for thinking about the best way to proceed into the future, and ways of understanding aspects of we humans and our societies that seem ineradicable. I’m also dubious about the term “historical period”, because there are few ideas that ever really disappear once installed in human minds. Instead they hide in the corners of society until conditions are ripe for another outbreak.

Arendt and Polanyi both wrote near the end of WWII. Both were Jews, educated in Europe after WWI, and both left Europe as Antisemitism struck at their ability to work and to live. Arendt left Germany in 1933, first to Czechoslovakia and then Geneva, then Paris. She was picked up by the Vichy regime in France, and interned in a camp. She was permitted to leave France in 1941 and moved to the US using an illegal visa issued by a US diplomat, Hiram Bingham, and with the aid of a noted rescue worker, Varian Fry. Polanyi left Vienna in 1933, and moved first to London, and then to the US. After WWII, he was unable to obtain a visa because his wife was a former Communist, so they moved to Canada and Polanyi commuted to New York where he taught at Columbia.

The technique adopted by Karl Polanyi in ***The Great Transformation*** was to look far back into history to show the wave that swept over European nations with the Industrial Revolution and the rise of capitalism as the dominant form of economic organization. Foucault uses the same technique, for example in ***Discipline and Punish***, which describes the impact of the Industrial Revolution on the working people of France. Arendt uses the same technique. She gives a broad historical perspective to the rise of fascism and communism and their transformation of Germany and Russia into totalitarian states. This technique offers a way to begin to identify a civilization, or a social structure, to get at its roots. Thus, all three follow Kolakowski's model.

In this post, I described Polanyi's discussion of the rise of fascism in Germany. It is similar to Arendt's analysis in ***The Origins of Totalitarianism***. They both see the destruction of social roles of huge numbers of people, primarily from the lower and middle classes, as a crucial element of that change, though they use different sources and different language. Polanyi points to the large numbers of people who lost status and social position and roles in the sweeping changes of the Industrial Revolution, and in the wake of the Great Depression. As we will see, Arendt points to the dislocation of millions as the Industrial Revolution progressed, and to the dislocation of the lives of many Germans in the wake of defeat in WWI, exacerbated by hyperinflation in the early 20s and then worsened by the Great

Depression.

It seems to me that the wave of neoliberalism that rose to new heights under the Reagan and Thatcher administrations and has wedged itself in our minds since, is a cultural change, not of the magnitude of the rise of totalitarian states or the Industrial Revolution, but still with an enormous impact on the lives of individuals. For many in the upper class, the neoliberal turn has removed any sense of responsibility to society or to the planet. For others in the upper class, there is increasing fear for the future because of global warming and the rise of oligarchy.

In the case of the lower and middle classes, that impact has been much more concrete. After years of stagnating wages and pointless wars followed by a frightening financial crash, and more wars and political deadlock, the middle class is disappearing. People experience dropping from the middle class as a loss of status, of a place in society, a role, and even a purpose. There is nothing in US society to replace that status, or to provide a new sense of belonging. These dislocated people are not in any way organized. The neoliberal system dismisses them as moochers and leeches seeking handouts while taking no responsibility for themselves. People who are nominally still middle class are feeling similar pain as their future prospects and those of their children dwindle.

The parallels to today are uncertain. But I think it’s worth examining this argument in detail to see if we can learn something useful.

General Plan

The Origins of Totalitarianism is divided into three sections: Antisemitism, Imperialism, and Totalitarianism. I intend to focus on Totalitarianism. I see the first two sections as setting up the third. One of the central ideas in the section on Antisemitism is that the Jews in Europe were never assimilated. There are several forces described in the section on

Imperialism that reach full flower in Totalitarianism. Among others, these include the idea of superfluous humans and superfluous capital, which are associated with Arendt’s categories of the mob and the masses, and the whirlwind of capitalism. I’ll take those up briefly, and quite incompletely, before turning to the main discussion.

THE GREAT TRANSFORMATION PART 9: THE RISE OF FASCISM AND CONCLUSION

Previous posts in this series:

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Karl Polanyi en 1947

Chapters 17-19 of ***The Great Transformation*** discuss the increasing strains in society brought on by the self-regulating market through the 1920s. In the wake of WWI, the dominant industrial nations attempted to restore the institutions of the self-regulating market, including the gold standard. The demands of maintaining the gold standard in the face of rapid economic growth in some of those countries culminated in the Great Depression. I won't discuss this part in detail, but two points. First, the central feature of the debacle was the impact of the gold standard, which prevented nations from acting to protect themselves and their citizens from deflation. Second, Polanyi does not discuss one of the most important causes of the debacle, the astonishing level of corruption and fraud in financial markets, levels that were not reached in the US economy again until the George Bush administration.

In Chapter 21 Polanyi tells us:

> ***Fascism, like socialism, was rooted in a market society that refused to function.*** Hence, it was worldwide, catholic in scope, universal in application; the issues transcended the economic sphere and begot a general transformation of a distinctively social kind. It radiated into almost every field of human activity whether political or economic, cultural, philosophic, artistic, or

> religious. And up to a point it coalesced with local and topical tendencies. No understanding of the history of the period is possible unless we distinguish between the underlying fascist move and the ephemeral tendencies with which that move fused in different countries. P. 248, emphasis added.

The socialist solution was to apply human thought to the organization of society, trying to enact legislation and rules to control some of the worst effects of the self-regulating market, including fraud and corruption, and to increase the power of labor as a counterweight to corporate capitalism. This worked more or less in the US, where eventually the Great Depression wore off, leaving a superstructure of regulatory power that protected society from the worst excesses of capitalism. Of course, the US never adopted socialism, and the elites continued to work to reduce the power of labor and of the working people generally beginning immediately after WWII with the Taft-Hartley Act.

Polanyi says the fascist solution was to restore the market by means of rooting out democracy and democratic institutions and replacing them with totalitarian government. The citizens of fascist countries were stripped of their role in government and society, and became mere tools in the operation of the totalitarian movement.

> This reeducation, comprising the tenets of a political religion that denied the idea of the brotherhood of man in all its forms, was achieved through an act of mass conversion enforced against recalcitrants by scientific methods of torture. P. 245.

There were fascist movements in most countries, regardless of religion, wealth, level of industrial development, form of government or any other factor. Whether they were successful, as in Germany and Italy, or not, as in the US, depended on a number of factors specific to each country. Polanyi says that the first signs of a movement towards fascism were:

> … the spread of irrationalistic philosophies, racialist aesthetics, anticapitalistic demagogy, heterodox currency views, criticism of the party system, widespread disparagement of the "regime," or whatever was the name given to the existing democratic setup. P. 246.

In retrospect, these were symptoms of the crackup of the 19th Century global order and of the damage done to citizens and society through self-regulating markets. Polanyi says that Germany under Hitler was the first to recognize that the global structures created under the banner of the self-regulating market were falling apart, and set about helping in that destruction. Germany armed itself, and rejected all its obligations, both financial and under treaties, created under the previous global system. The other nations of the world, especially England, strangled themselves trying to restore that dead system. Among other things, Polanyi points to cuts to the army and navy, justified in the name of fiscal responsibility. It's a fascinating story.

There is no point in discussing Polanyi's conclusion, that in the wake of WWII there would be a great transformation from the dead structures of the 19th Century into a new form of world relations, one not based on markets. That didn't happen, and we are still living under a system based on what Polanyi called the self-regulating market, Keynes called Lasissez-Faire, and Milton Friedman called classical liberalism. Today we call it neoliberalism.

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I'll conclude this series with a couple of thoughts. First, it’s easy to compare Polanyi’s conditions supporting the rise of fascism in the early 30s to the changes in US society in the last 35 years. Several of the conditions are rampant in the US and other countries, encouraged by a large number of media, religious leaders, and political sources. For those of us who spend too much time reading this stuff, it is unnerving on its own, and Polanyi’s theory just adds to the upset.

Second, the neoliberal goal is to reduce citizenship to consumerism. The individual is stripped down from a participant in a society, with a role to play in government and in planning for the future. This is remarkably close to Polanyi’s statement about the reeducation of the citizen away from ideas about the brotherhood of man, which in turn bears an elegant but ugly similarity to Margaret Thatcher’s assertion that there is no such thing as society. Even in context, Thatcher’s denial of the importance of relationships beyond home and family, her denial we citizens bear a joint responsibility for the shape of the future, is just as chilling as Polanyi’s description of reeducation into fascism.

Third, in several places in ***The Great Transformation*** Polanyi acknowledges the material benefits that have come from industrialization, and recognizes that the miseries previously inflicted on humanity as a whole in the frantic transition cannot be undone. That does not mean that we are prisoners of the elites, that we have to accept their demands for specific changes or for immediate change. It does not mean that we have to continue to inflict misery in search of more capitalist growth. We always have the option to choose other paths to the future. For Polanyi, writing in 1944, slowing the pace of change might have sufficed. Today there are more important things than the pace of change, such as global warming, which requires a completely different approach to our production system. It’s more important to our interests as a species than the accumulation of more wealth in the hands of the fabulously wealthy. But finally:

It’s hard to miss the optimism in Polanyi’s book. He is convinced that society can heal itself, ameliorating the damage done by unrestricted economic growth. It’s really hard to feel optimistic today.

THE GREAT TRANSFORMATION PART 8: MONEY AS A FICTITIOUS COMMODITY

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The Great Transformation Part 6: Labor as a Fictitious Commodity

The Great Transformation Part 7: Land as a Fictitious Commodity

Karl Polanyi calls labor, land, and money fictitious commodities. He defines “commodity” as something produced for consumption. Obviously land and labor are not produced, and money is not consumed, and therefore they cannot be commodities. Polanyi says that for the self-regulating market to work its magic and make us all healthy, wealthy and wise, these three, like everything else that forms part of the production system, must be treated as if they were commodities and subjected to the the “market” without restrictions; hence his description of them as fictitious. In Parts 6 and 7 of this series, I discussed Polanyi’s explanation of the dangers to society and to human life as we know it from this kind of treatment. Chapter 16 of ***The Great Transformation*** looks at the dangers to society from treating money as a commodity, and specifically at the dangers of the gold standard.

He explains that markets are based on prices and profits, both of which are measured in money. If money is a commodity with a price set in a market for money, then changes in the prices of money will change the prices and profits for other commodities. Polanyi cites David Hume for his theory that if the amount of money in circulation is halved, then prices will fall by half. As Polanyi notes, there is a big lag time in that adjustment, and businesses will fail before the adjustment is complete.

It appears to me Polanyi is relying on an informal version of the quantity theory of money. A somewhat more formal version is set out in this short post from the St. Louis Fed. In monetarist theory, inflation is solely the result of too much money in the economy chasing too few goods. Deflation is the result of not enough money chasing goods. The later problem was rampant in the 19th Century, with booms and busts caused by trade changes and financial frauds, and it is deflation that Polanyi addresses:

> But the expansion of production and trade unaccompanied by an increase in the amount of money must cause a fall in the price level—precisely the type of ruinous deflation which we have in mind.

> Scarcity of money was a permanent, grave complaint with seventeenth-century merchant communities. Token money was developed at an early date to shelter trade from the enforced deflations that accompanied the use of specie when the volume of business swelled. No market economy was possible without the medium of artificial money. P. 202.

The English economy was heavily dependent on trade in the early 1800s, and maintaining stable prices became crucial to the success of English merchants and the nation. Token money, either specie, bank or fiat money, only circulates within the boundaries of a nation. To deal with international trade, the gold standard became prevalent at about this time. With two types of money in circulation, one based on the gold standard and used in international trade, and one using bank or fiat money in internal transactions, it became necessary to harmonize the workings of the two kinds of money.

> Under nineteenth-century conditions foreign trade and the gold standard had undisputed priority over the needs of domestic business. The working of the gold standard required the lowering of domestic prices whenever the exchange was threatened by depreciation. Since deflation happens through credit restrictions, it follows that the working of commodity money interfered with the working of the credit system. P. 203.

That led to the creation of central banks, which could affect the level of credit in a nation's economy. Central banks could adjust the amount of credit in a country's economy to offset the worst of the consequences of sticking to the gold standard, and spreading the burden of sudden changes in the relation between the national currency and the price of gold. Elites supported central banks despite their insistence on maintaining self-regulating markets, because central banks were not thought to interfere with the free market in money, but rather to support it.

Polanyi says that this system worked as long as the gyrations in prices were slow enough and not too great. But when the changes were large, the activities of the central bank moved from technocratic to political, and people began to demand that government protect them from the dangers created by the gold standard. In the US, this can be recognized in the Free Silver Movement; from Wikipedia:

> The debate pitted the pro-gold financial establishment of the Northeast, along with railroads, factories and businessmen, who were creditors who would benefit from disinflation (resulting from demand pressures on the relatively fixed gold money supply against a backdrop of unprecedented economic expansion), against poor farmers who would benefit from higher prices for their crops (resulting from the prospective expansion of the money supplyby allowing silver to also circulate as money).

The gold faction won, but the pressure continued as crash after deflationary crash hit the US economy. The Fed was established in partial response to the Panic of 1907. For an interesting history see Nomi Prins, ***All the Presidentts' Bankers***. The goal was to stabilize the economy, a goal both of bankers and politicians though for different reasons. Bankers wanted to make sure they could harness the power of government to save them in times of financial disaster.

> In Washington, Republicans and Democrats both concluded that excessive reliance on bankers to stabilize the financial system in times of turbulence was too high a risk to their own influence over

> the country, and possibly damaging to American status in the world. The axiom that the group that controlled the money controlled the country remained true. But with the nation struggling economically, such a condition had political implications and had to be navigated accordingly. Id. at 19.

The result of central banking is that government becomes a participant in the market for money. The self-regulating market was thus defeated, even though its supporters claimed otherwise. They continued to see the central bank as a neutral player, one committed to the maintenance of the gold standard.

Several Republican Presidential candidates, including Mike Huckabee, Ted Cruz and Rand Paul, have called for return to the gold standard. Probably a lot of that is their disdain for government, particularly government interference in something as sacred as money. It's an extreme version of the proposal of Milton Friedman that the Fed adopt a firm rule for managing the money supply. After all, according to neoliberals, including Friedman, the market does a brilliant job of managing things if it's just left alone. We saw how that worked out once, in the wake of the 1929 crash. Surely we don't need to repeat the experiment.

THE GREAT TRANSFORMATION PART 7: LAND AS A FICTITIOUS COMMODITY

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The Great Transformation Part 5: Polanyi on Marxian Analysis

The Great Transformation Part 6: Labor as a Fictitious Commodity

In Part 6, I discuss labor as one of the three fictitious commodities described by Karl Polanyi in *The Great Transformation*. The other two are land and money. Polanyi explains that these three elements of production do not fit his definition of commodity as something produced for consumption, and that stripping away their social significance and reducing them to the equivalent of potatoes or shoes will be a nightmarish disaster. That should be obvious in the case of labor, which is essentially our lives themselves, and it is perfectly obvious in the case of land, as we can see all around us.

In the melodramatic play *The Little Foxes*, Lillian Hellman has one of her characters say this :

> Yeah, they got mighty well off cheating [slur]. Well, there are people who eat the earth and eat all the people on it like in the Bible with the locusts. Then there are people who stand around and watch them eat it…. Sometimes I think it ain't right to stand and watch them do it.

The speaker is the daughter and heir of the eaters of the earth.

THE COSTS OF EQUAL OPPORTUNITY IN A NEOLIBERAL ECONOMY

Eric Loomis has a nice discussion of an article in the WaPo titled “White Americans long for the 1950s, when they didn’t face so much discriination.” The article reports these findings:

• 43% of all respondents said discrimination against whites is as much of a problem as discrimination against blacks and other minority groups.

• 60% of the white working class respondents said discrimination against whites is as big a problem today as discrimination against blacks and other minorities.

• White Americans feel put-upon and mistreated — and large shares of non-white Americans do not seem to have any knowledge of the challenges that white Americans say they face.

Loomis concludes that these feelings are the basis of the appeal of Donald Trump:

> I will however say that the numbers of the white working class are particularly important because the economic insecurity of an outsourced and automated economy, ***the effects of which are swept under the rug by the many proponents of unrestricted globalization***, are very real. I have said for a long time that if you want a stable society you have to have good paying jobs. Without those jobs, racial and religious prejudice becomes even more powerful than it usually is. That is part of what we are seeing in this recent rise of proto-fascism. It’s scary

> and should make us rethink a lot about the society we want to build before it's too late. Emphasis added.

I absolutely agree with Loomis, but there's more to be said. So here's a story. I was accepted at Indiana University Law School in the Summer Session of 1971. My college grades were mediocre, but I got a very good score on the LSAT and had two years in the Army to encourage me to study harder. My law class had 200 people of whom 20 were women, as I recall. I graduated 20th in my class, and 10 of the people ahead of me were women. I assume that all the white guys with better credentials than mine got in, so it's fair to guess that I would have graduated at least 10th if not for those really smart women. As it happened, it didn't affect my ability to get a great job with a brilliant mentor, Stanley Schwartz, who taught me how to be a real lawyer. But that was a good time for lawyers and for hiring in general. And if I had wanted a job in New York City with a big firm, that move down the graduation rank would have made that unlikely.

The same thing happened to athletes when African-American players were allowed to compete. Lots of really good white players lost their scholarships to better players. The same things happened when police forces opened the doors to everyone on more or less equal terms. The number of jobs didn't increase much, so the competition meant that some white men who would have been cops or office administrators or anything else didn't get those jobs. It wasn't a great problem until the decent jobs were disappeared by the rich. With the vast number of good jobs that had cushioned the entry of women and people of color gone, the previously privileged people, mostly white men, didn't automatically win. Instead, they had to deal with the fact that there many previously disqualified people who were smarter and better prepared than they were, and many more were at least as smart and well-prepared as they. Just like me, they lost their previous rank.

That is an actual loss for white men. It isn’t just an appearance, or an excuse, it’s a genuine loss.

That was bad enough, but it got worse. When the rich started their drive to collect all the money from work in the Reagan years, they explained to the working people that they needed to be better and smarter, and they needed more education, which the workers were expected to pay for. Then college tuition shot through the roof, and states cut support, first for higher education, and then, in the wake of the Great Crash, for all education. But at the same time, Republicans tell workers it’s their fault, they need to work harder and longer and better and smarter. It’s a horrible double bind. I think the result is that some people respond by blaming themselves, and others respond by blaming the people who beat them out, or the liberals who made equal opportunity more of a real thing.

No one, especially politicians and economists, blames the people who shipped all the good jobs out of the country. Not a single politician or economist points out that if Intel and Apple and IBM don’t ship physical, financial and intellectual capital to Taiwan, there won’t be any semi-conductor manufacturing low-wage jobs there. No one says out loud that if the heavy equipment used to manufacture washing machines isn’t shipped to Mexico, there won’t be washing machine plants in Mexico. Economists of all stripes applauded the hollowing out of US industry on the absurd theory that the benefits to some outweighed the costs to society, assuming, of course, that there are economists who think about the interests of society beyond money. Neoliberal policies, specifically the massive support for unrestrained movement of physical, intellectual and money capital, produced the current state of the US economy.

Certainly, restraints on free movement of capital might not have permanently insured that these jobs remained in the US. But the central lesson we learn from Karl Polanyi's *The Great Transformation* is that the pace of change is of crucial importance. See p. 39. The sudden and massive changes in the US economy have produced unnecessary misery, just as the Industrial Revolution did in the early 1800s in England. Whatever benefits there are in cheap foreign labor haven't gone to the working class in the US, or even to most of the middle class. A government that cared about human beings would have acted to slow down change so society could protect itself. But we had Reagan and a crowd of crappy Democrats.

All this not only explains why people are so angry at both parties, it answers a basic question: why don't the poorest among us vote? These are the people who benefit from the scraps of safety net left after years of efforts by neoliberals of both parties to destroy it. This is from the NYT:

> While Mr. Bevin did not win Louisville, a Democratic stronghold, Mr. Conway did not win by nearly as big a margin here as Democrats usually do. William Benton, a Family Health Centers patient who voted for Mr. Conway, said he was not an inspiring candidate even for committed Democrats.
>
> "A lot of people felt really justified not voting," said Mr. Benton, a musician and part-time bakery worker who signed up for Medicaid this month to get help for his depression.

Not inspiring? That barely begins to describe a Democratic Party supporting neoliberalism at the expense of poor and the middle class.

THE GREAT TRANSFORMATION PART 6: LABOR AS A FICTITIOUS COMMODITY

Previous posts in this series:

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The Great Transformation Part 5: Polanyi on Marxian Analysis

In Chapter 6, Polanyi says that the theory of the self-regulating market, which is at the heart of laissez-faire and neoliberal economics, requires that all of the elements of production and consumption be subject to the price-setting mechanisms of a market, and that government is not allowed to interfere with those markets in any way. Polanyi defines commodities as things produced for sale; and markets are “contacts between actual buyers and sellers”. Following that definition, commodities are generally subject to market pricing, and that was generally true at the beginning of the Industrial Revolution, say the late 1700s. But three crucial elements of production were not at that time fully subject to markets: labor, land and money. In order for the self-regulating market to function, these three elements had to be brought under market control and freed from government regulation.

In Chapter 6, Polanyi calls these three elements “fictitious commodities”. That’s because they aren't produced for consumption as the definition requires. Labor is human beings, who are part of society, not some product. Land stands for our natural surroundings, the place we live, and if we treat it like a cornucopia of goodies we'll foul our own surroundings and make our lives miserable. Money is a social creation, not a commodity produced for sale.

And yet, for the self-regulating market to work, any element of humanity that extends beyond slavery, all efforts to preserve our home planet, and social control over our social creations must be stripped out, and the remains shoved into the same mold of one-dimensional value as potatoes and shoes. Anything less gives the defenders of laissez-faire and today's neoliberals room to argue that the self-regulating market has never been allowed to do its magic and provide us with a material heaven on earth.

Polanyi discusses the impact of bringing the three fictitious commodities into market control in Chapters 14, 15 and 16. We start with the market in labor, which means the market in people's lives. In Chapter 10, The Discovery of Society, Polanyi explains the separation of the economic and political spheres, starting with Joseph Townsend's 1786 *A Dissertation on the Poor Laws*. Townsend tells the story an island populated by dogs and goats. The dogs eat the goats until there are too few to support the number of dogs. Then the dogs die down and the goats thrive. Then the dogs thrive and eat the goats, so the population of goats goes down. Here's Townsend's moral:

> The weakest of both species were among the first to pay the debt of nature; the most active and vigorous preserved their lives. It is the quantity of food which regulates the numbers of the human species.

Here's how Adam Smith explains it in Book 1 Chapter 8 of *The Wealth of Nations*:

Every species of animals naturally multiplies in proportion to the means of their subsistence, and no species can ever multiply be yond it. But in civilized society, it is only among the inferior ranks of people that the scantiness of subsistence can set limits to the further multiplication of the human species; and it can do so in no other way than by destroying a great part of the children which their fruitful marriages produce.

The liberal reward of labour, by enabling them to provide better for their children, and consequently to bring up a greater number, naturally tends to widen and extend those limits. It deserves to be remarked, too, that it necessarily does this as nearly as possible in the proportion which the demand for labour requires. If this demand is continually increasing, the reward of labour must necessarily encourage in such a manner the marriage and multiplication of labourers, as may enable them to supply that continually increasing demand by a continually increasing population. If the reward should at any time be less than what was requisite for this purpose, the deficiency of hands would soon raise it; and if it should at any time be more, their excessive multiplication would soon lower it to this necessary rate. The market would be so much understocked with labour in the one case, and so much overstocked in the other, as would soon force back its price to that proper rate which the circumstances of the society required. It is in this manner that the demand for men, like that for any other commodity, necessarily regulates the production of men, quickens it when it goes on too slowly, and stops it when it advances too fast.

It’s an unpleasant picture, but with decent nutrition and good medical care along with birth control and abortion, it’s an accurate description today. Birth rates decline in recessions and increase when the economy is booming. The difference, of course, is the element of choice available today, as this recent Wall Street Journal article explains:

> While the uptick in fertility and birthrates is modest and could reverse, it appears the country’s improving economy is encouraging more couples to have children. The lingering financial toll of the recession prompted many young and less-educated Americans in particular to delay childbearing.

In Chapter 14, Polanyi describes the technique for bringing labor under market control.

> To separate labor from other activities of life and to subject it to the laws of the market was to annihilate all organic forms of existence and to replace them by a different type of organization, an atomistic and individualistic one.
>
> Such a scheme of destruction 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 restrained his freedom. To represent this principle as one of noninterference, as economic liberals were 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.
> P. 171.

Could that be closer to the neoliberal view of humans? Economic freedom is the only kind that matters, say the neoliberals. And government is to be used to enforce the kinds of contracts the neoliberals want, and strike down all contracts neoliberals don't like. All debts are to be enforced to the letter against human beings and cities. All cooperation among workers is a restraint of trade, and is stopped by courts. All labor is available for consumption by employers, and if you don't want to work, you are free to starve.

Meanwhile, the capitalists will not accept the possibility of any reduction in their take from the system, currently at absurd levels. When Donald Trump, who represents the Republican consensus, says that wages are too high, he means that returns to capital must be kept at the highest possible level. In order for profits to remain high, we have to keep wages low. Then we have to destroy the social safety net so workers will be forced to work for whatever wages are available. The lash of hunger should do the job, along with a militarized police force. This is the society envisioned by the early economists.

And, this is what Polanyi means when he talks about the dangers of treating labor like any other marketable commodity. It means the subordination of every aspect of the lives of workers to the maintenance of the wealth of the filthy rich.

THE GREAT TRANSFORMATION PART 5: POLANYI ON MARXIAN

ANALYSIS

Previous posts in this series:

The Great Transformation: Mainstream Economics and an Introduction to a New Series

The Great Transformation Part 1: The Market

The Great Transformation Part 2: More on Markets

The Great Transformation Part 3: Neoliberalism Before It Got Its New Name

The Great Transformation Part 4: Reaction and Counter-Reaction To Self-Regulating Markets

The Great Transformation is an examination of the origin of the theory of self-regulating markets and its errors. Polanyi’s argument is that when a society is threatened by violent intrusions, such as the sudden introduction of markets as the dominant new organizing principle, it fights back. As discussed in Part 4, beginning in the 1840s or so there was a general feeling among the upper classes that the self-regulating markets were so destructive that social control had to be imposed to reduce the damage and prevent further harm. There was no theory, and no plan, just case-by-case legislative action. Factory and agrarian workers and other members of the lower classes could not vote, so that impetus came from other classes.

Polanyi says that for the society to survive, it was necessary for laborers and the impoverished to come into existence as a class with the right to make demands and expect to see them answered. Under the Speenhamland system and the Poor Laws in effect in the early 1800s, this was difficult, perhaps in part because of the split between those on relief and those with miserable poorly-paying work. When those laws were repealed and the poor put on the street where they served as the army of unemployed to keep wages at very low levels, it became possible for them to identify as a class. This sounds a bit like Marxian analysis. And, in fact, Marx agreed with the economic liberals of that day that the natural level of wages was the subsistence level. This is from the Paris Manuscripts:

> The lowest and the only necessary wage rate is that providing for the subsistence of the worker for the duration of his work and as much more as is necessary for him to support a family and for the race of labourers not to die out. The ordinary wage, according to [Adam] Smith, is the lowest compatible with common humanity, that is, with cattle-like existence.

The reference to Smith is to Chapter VIII of The Wealth of Nations. Smith's analysis of the wages of labor is much more complicated than this quote from Marx shows. He says that wages depend on a number of factors including whether a nation is declining or thriving. He says that in England in the 1770s wages were above mere subsistence, and the lives of workmen were improving. That helps explain the reaction to the intrusion of the free market in labor brought on in the early years of the Industrial Revolution. The sudden change from a reasonably pleasant life to a much more miserable existence contributed to the social demand for restraining the self-regulating market. Smith seems to approve of the higher wages workmen were receiving:

> Is this improvement in the circumstances of the lower ranks of the people to be regarded as an advantage, or as an inconveniency, to the society? The answer seems at first abundantly plain. Servants, labourers, and workmen of different kinds, make up the far greater part of every great political society. But what improves the circumstances of the greater part, can never be regarded as any inconveniency to the whole. No society can surely be flourishing and happy, of which the far greater part of the members are poor and miserable. It

> is but equity, besides, that they who feed, clothe, and lodge the whole body of the people, should have such a share of the produce of their own labour as to be themselves tolerably well fed, clothed, and lodged.

The laissez-faire cheerleaders of the 1800s and their neoliberal counterparts don't agree, and perhaps Marx' pessimism is more realistic than Smith's approbation.

In Chapter 13, Polanyi gives two reasons for his disagreement with Marxian analysis. First, Marx teaches that classes are the basic elements of society. Polanyi says that far more often classes arise to suit the form society has taken. When a society is stable, class interests can be used to understand the evolution of the society. When society undergoes structural changes, the class structure may fracture. A class that has become functionless may disintegrate and be replaced by other classes or not at all. These structural changes may be environmental, the result of war, technological advance, or the rise of a new enemy. In such cases, class theory doesn't predict the outcome.

> Secondly, there is the equally mistaken doctrine of the essentially economic nature of class interests. Though human society is naturally conditioned by economic factors, the motives of human individuals are only exceptionally determined by the needs of material want-satisfaction. That nineteenth-century society was organized on the assumption that such a motivation could be made universal was a peculiarity of the age. … Purely economic matters such as affect want-satisfaction are incomparably less relevant to class behavior than questions of social recognition. Want-satisfaction may be, of course, the result of such recognition, especially as its outward sign or prize. But the interests of a

> class most directly refer to standing and rank, to status and security, that is, they are primarily not economic but social. P. 160.

Of course, the assertion that human behavior is motivated solely by material want-satisfaction wasn't just a peculiarity of the 19th Century, it's the dominant idea of neoliberal economics. The idea that human beings are solely devoted to getting stuff at the best price is central to their models, and to their understanding of their ill-defined markets. It is just as false today as it was in Marx' time. I googled the term "experiment pay compared to other people", and got a bunch of papers and articles saying that pay isn't the important thing. Other factors, including comparative pay levels, and the intrinsic rewards of the tasks are more important. Here's one. Beyond that, we know humans have needs that go far beyond material goods. Just take a look at Maslow's hierarchy of needs. Material goods satisfy the needs for safety and security, but stuff by itself isn't going to get you much in the way of love and belonging, esteem or self-actualization.

One of the goals of neoliberalism is to re-imagine human beings as the utility maximizers of their theories. Here's a paper that flatly says that money isn't the important issue even for the most sociopathic set, CEOs. Giving them huge bonuses for increasing stock prices doesn't produce higher stock prices. Even the John Galts of the Corporate Jungle aren't good little neoliberals.

THE GREAT

TRANSFORMATION PART 4: REACTION AND COUNTER-REACTION TO SELF-REGULATING MARKETS

Previous posts in this series:

The Great Transformation: Mainstream Economics and an Introduction to a New Series

The Great Transformation Part 1: The Market

The Great Transformation Part 2: More on Markets

The Great Transformation Part 3: Neoliberalism Before It Got Its New Name

The standard history of the industrial revolution in England says that it was accompanied by environmental messes in cities, miserable lives for those with jobs, and even worse misery for those without. One of the victims of that misery was Charles Dickens who worked in one of those factories for several months at the age of 12, while his father was imprisoned for debt. That experience informed much of the social commentary in his novels The damage was not limited to the lives of the poor, but extended to all sorts of problems affecting much of society. There was plenty of agitation for legislation to rein in the excesses of the self-regulating market, and gradually legislation was enacted.

Polanyi gives a list prepared by Herbert Spencer, most widely knows as the father of Social Darwinism, "a social theory that applies the law of the survival of the fittest to society; humanitarian impulses had to be resisted as nothing should be allowed to interfere with nature's laws, including the social struggle for existence.", as Wikipedia explains it. The list ranges from restrictions on hiring of boys under the age of 12 to vaccinations to laws requiring the inspection of gas works and requiring vaccinations. Spencer and other liberals decried these laws as betrayal of liberal principles, or as the deleterious actions of the enemies of liberalism, the collectivists.

> This is the myth of the anti-liberal conspiracy which in one form or another is common to all liberal interpretations of the events of the 1870s and 1880s. Commonly the rise of nationalism and of socialism is credited with having been the chief agent in that shifting of the scene; manufacturers' associations and monopolists, agrarian interests and trade unions are the villains of the piece. Thus in its most spiritualized form the liberal doctrine hypostasizes the working of some dialectical law in modern society stultifying the endeavors of enlightened reason, while in its crudest version it reduces itself to an attack on political democracy, as the alleged mainspring of interventionism.
> P. 150-1

Polanyi explains these and all of the myriad regulations passed by Parliament in the wake of the industrial revolution as the natural response of a healthy society to the intrusions of the self-regulating market. There was no conspiracy, and there isn't even a theory justifying these challenges to the self-regulating market, merely a pragmatic case-by-case examination of a specific problem and a more or less reasonable response to that problem.

That won't do, of course. There were two lines of attack by the liberal economists who pushed the theories of laissez-faire. The first one, just emerging when Polanyi wrote, was that the Industrial Revolution was steady evolution of the economy that steadily benefited the poor. Polanyi explains their argument that by normal measures of population growth and wage income, things were getting better for everyone, including the nascent working class, throughout the industrial revolution. As a result, there was no need for the kinds of interventions that the Parliament imposed.

The controversy continues to today. Here’s a brief recent summary by Clark Nardinelli. The data cited by Nardinelli supports the claims of commenter Ian Turner on the previous post in this series, suggesting that despite the theory that subsistence wages were good and useful, manufacturing and other interests were unable to push wages to that level. Today the dispute among economic historians over standards of living, as Nardinelli explains it, isn’t as simple as wages and population growth. The concept of standard of living now includes many non-cash items, like living conditions, wars, taxes, famines, working conditions, social ties, social status, and much more. We have a good example of this discussion in the wake of the recent speech by Paul Theroux on poverty in Mississippi, as this by Dave Dayen. Oddly, this discussion mirrors Polanyi as well.

Polanyi explains that the real damage done to the workers was through a cultural catastrophe:

> The economic process may, naturally, supply the vehicle of the destruction, and almost invariably economic inferiority will make the weaker yield, but the immediate cause of his undoing is not for that reason economic; it lies in the lethal injury to the institutions in which his social existence is embodied. The result is loss of self-respect and standards, whether the unit is a people or a class, whether the process springs from so-called culture conflict or from a change in the position of a class within the confines of a society. P. 164-5.

At one level, this is an argument about measuring standard of living, as in the

Nardinelli article. Polanyi however uses it to support his idea that when a society is threatened, it seeks to protect itself.

The second main thrust of the liberal argument is that laissez-faire was never fully implemented, and therefore it hasn't had the chance to improve the lives of everyone everywhere.

> … Its spectacular failure in one field did not destroy its authority in all. Indeed, its partial eclipse may have even strengthened its hold since it enabled its defenders to argue that the incomplete application of its principles was the reason for every and any difficulty laid to its charge.
>
> This, indeed, is the last remaining argument of economic liberalism today. Its apologists are repeating in endless variations that but for the policies advocated by its critics, liberalism would have delivered the goods; that not the competitive system and the self-regulating market, but interference with that system and interventions with that market are responsible for our ills. P. 149-50.

We hear that argument all the time, regardless of the subject, from conservative economists and conservatives generally. Some things never change.

One of the things that doesn't change is that people accept the general idea of capitalism so firmly that only changes around the edges are allowed in polite discourse, and all regulation effectively requires the consent of the people who benefit from things as they are. This was true in the 1830s, the 1860s and the 1930s (to a somewhat lesser extent) and today. Thus, in the wake of the Great Crash, it was obvious that something was badly wrong with the financial sector. Any benefit it might provide to society was swamped by the misery inflicted by the Great Crash. And yet, when Congress and the Obama Administration considered changes to the regulatory structure, the financial sector was on all sides of the table, and essentially won. Dodd-Frank is weak, and it gets weaker as bad regulators like Mary Jo White listen to the financiers and ignore social demands.

That’s why Bernie Sanders, the Portuguese Leftists, and Jeremy Corbyn are so scary to the oligopoly. These politicians don’t think twice about throwing out broken regulatory and other systems and replacing them with social controls over capitalism.

THE GREAT TRANSFORMATION PART 3: NEOLIBERALISM BEFORE IT GOT ITS NEW NAME

Previous posts in this series:

The Great Transformation: Mainstream Economics and an Introduction to a New Series

The Great Transformation Part 1: The Market

The Great Transformation Part 2: More on Markets

The text for this post is Chapter 12 of The Great Transformation, which begins:

> Economic liberalism was the organizing principle of society engaged in creating a market system. Born as a mere penchant for nonbureaucratic methods, it evolved into a veritable faith in man’s secular salvation through a self-regulating market. Such fanaticism was the result

> of the sudden aggravation of the task it found itself committed to: the magnitude of the sufferings that had to be inflicted on innocent persons as well as the vast scope of the interlocking changes involved in the establishment of the new order. The liberal creed assumed its evangelical fervor only in response to the needs of a fully deployed market economy. P. 141

In Chapters 7-9, Polanyi gives a description of the grim state of the working people of England prior to 1832. Forcing people to change from peasants into reliable industrial workers was brutal, but at least most people were able to eat thanks to the Speenhamland system of poor relief. The economic liberals of the day argued against these laws, on the grounds that the best way to force people to become good little robots was starvation. Polanyi discusses at length Joseph Townsend's 1786 *Dissertation on the Poor Laws*, which reads like the comments of your average jackass Republican congressional or hack economist at the Cato Institute:

> But in this day it often happens that the industrious firmer [I think this is the equivalent of a small businessman] is oprest with poverty. He rises early, and it is late before he can retire to his rest; he works hard and fares hard; yet with all his labour and his care he can scarce provide subsistence for his numerous family. He would feed them better, but the prodigal must first be fed. He would purchase warmer cloathing for them, but the children of the prostitute must first be cloathed. The little which remains after the profligate have been cloathed and fed, is all that he can give to those, who in nature have the first claims upon a father.

The only way to insure that this terrible event does not occur is to starve the beneficiaries of the Poor Laws.

> In general it is only hunger which can spur and goad [the poor] on to labour; yet our laws have said, they shall never hunger. The laws, it must be confessed, have likewise said that they shall be compelled to work. But then legal constraint is attended with too much trouble, violence, and noise; creates ill will, and never can be productive of good and acceptable service: whereas hunger is not only a peaceable, silent, unremitted pressure, but, as the most natural motive to industry and labour, it calls forth the most powerful exertions; and, when satisfied by the free bounty of another, lays a lasting and sure foundation for good will and gratitude.
> …
> … The wisest legislator will never be able to devise a more equitable, a more effectual, or in any respect a more suitable punishment, than hunger is for a disobedient servant. Hunger will tame the fiercest animals, it will teach decency and civility, obedience and subjection, to the most brutish, the most obstinate, and the most perverse.

Hunger was a tool to make the poor work for survival for the benefit of the more delicate members of society, like the English Country Squire or the capitalists behind the cotton mills. This theory was taken up by the utilitarian Jeremy Bentham.

> Bentham believed that poverty was part of plenty. “In the highest stage of social prosperity,” he said, “the great mass of the citizens will most probably possess few other resources than their daily labour, and consequently will always be near to indigence.…” Hence he recommended that “a regular contribution

> should be established for the wants of indigence," though thereby "in theory want is decreased and thus industry hit," as he regretfully added, since from the utilitarian point of view the task of the government was to increase want in order to make the physical sanction of hunger effective. P. 122-3.

These views were much appreciated by the voters, which at that time included none of those poor people, only people of property, owners of manufacturing, merchants and country squires, along with the aristocracy. When these believers triumphed in the elections of 1832, they abolished the entire structure of poor laws, and loosed the miseries of the self-regulating market on those people who depended for their lives on their ability to sell their labor.

But this free market in labor is just one leg of the liberal economic project. The other two legs, the fiercely enforced gold standard, and the absolute commitment to free international trade, had to be forced into existence at the same time, or, as Polanyi explains, the entire project would collapse. And so it came to pass. England bound itself to the gold standard, and used its military to enforce free trade, especially in grain. That meant the end of England's ability to feed itself, and meant that international fluctuations in the price of gold influenced the starvation wages paid to workers.

The upheaval of these massive social changes was immense, and was thoroughly justified by the liberal economists of the day, including the Englishman William Stanley Jevons, writing in the 1870s, who based his theories on Bentham's calculus of pain and pleasure. Those theories are still the driving force of mainstream economists. It's an article of faith that free trade is just the best, that a sound currency is just the best, that the self-regulating market is just the best, all things on which today's neoliberal economists would agree.

But those same myths affect even today's "liberal" economists. They too supported NAFTA, especially Paul Krugman, on grounds that would be familiar to Bentham. Krugman was sure NAFTA would bring benefits to the US. Here's William Greider writing in The Nation on free trade deals:

> _ Like Krugman, governing elites dismissed critics and simply stated that free trade will be good for America because US energies and endless creativity are sure to prevail, as they always have in the past. Opponents like organized labor were typically ridiculed as backward Luddites, promoting what Krugman called "disguised protectionism."

Compare that with Polanyi's description of the economists of the 1840s on trade:

> … the English nation would face the prospects of continuous industrial dislocations in the firm belief in its superior inventive and productive ability. However, it was believed that if only the grain of all the world could flow freely to Britain, then her factories would be able to undersell all the world. P. 144.

England slashed its agriculture sector, and when the First World War started, it was importing 80% of its wheat and 40% of its meat. After German U-boats started their campaign against merchant vessels, the government forced land into grain production, enabling the country to survive with the help of rationing. In the wake of the war, the elites tried to reinstate the pre-war golden age, by reestablishing free trade, the gold standard and self-regulating markets. The Great Depression followed hard on the heels of the crash of financial markets. Regulations piled up on those self-regulating markets. Nations left the gold standard, But free trade was untouchable. At the start of WWII, England was importing "… more than 50% of its meat, 70% of its cheese and sugar, nearly 80% of fruits and about 70% of cereals and fats", and Germany again tried to destroy shipping. The war ended in May, 1945, but rationing was not suspended until 1954.

NAFTA didn't bring benefits either to US or Mexican workers, but it was great for stockholders of multinational corporations.

Both Polanyi and John Maynard Keynes predicted the end of this kind of liberalism in economic thinking. Both have been proven wrong. We just fight the same old battles under new names. This time it's neoliberalism. In each case, the result is the enrichment of the rich.

THE GREAT TRANSFORMATION PART 2: MORE ON MARKETS

The first two posts in this series are:

The Great Transformation: Mainstream Economics and an Introduction to a New Series

The Great Transformation Part 1: The Market

In Part 1 I discussed the definition of markets in *The Great Transformation*, and noted that Karl Polanyi gives a definition, while mainstream neoliberal economic theory doesn't. The absence of a definition in neoliberal theory is crucial to its success. Neoliberal economists do not have to account for the vast differences among markets: they can treat all markets as identical for purposes of their mathematical edifices.

Polanyi's simple definition enables him to discuss the differences among markets and the different purposes they serve in different societies. In the Mercantilist era, say up to about the early 1800s, Polanyi identifies three different kinds of markets: external, internal and local. Local markets serve the local community as in the case of householding societies. Polanyi says they are not intrinsically competitive, nor are they focused on gain. P. 61

External markets are for long-distance trade, what Polanyi identifies as the carrying trade. They form at natural stops along the trails of transport, at river crossings and ports. They do involve gain, and the propensity of some people for truck and barter, but they are limited to specific sites and specific goods. They are not essentially competitive, Polanyi says. Over time, long-distant market sites turn into towns, and their principle purpose is to manage external trade. They are not a function of the nation state, but of those towns, which work to keep their long-distance markets apart from the lives of those in the countryside.

> The [Hanseatic League] were not German merchants; they were a corporation of trading oligarchs, hailing from a number of North Sea and Baltic towns. Far from “nationalizing” German economic life, the [Hanseatic League] deliberately cut off the hinterland from trade. The trade of Antwerp or Hamburg, Venice or Lyons, was in no way Dutch or German, Italian or French. London was no exception: it was as little “English” as Luebeck was “German.” The trade map of Europe in this period should rightly show only towns, and leave blank the countryside—it might as well have not existed as far as organized trade was concerned. P. 66.

The third kind of market, the internal market, is a deliberate creation of the nation-state. As Polanyi explains it, the towns worked to maintain the separation between long distance and local markets, as a matter of selfprotection of the town and of the town officials and elites. They feared the destructive impact of mobile capital on their existing institutions, and on their prerogatives and status.

> Deliberate action of the state in the fifteenth and sixteenth centuries foisted the mercantile system on the fiercely protectionist towns and principalities. Mercantilism destroyed the outworn particularism of local and intermunicipal trading by breaking down the barriers separating these two types of noncompetitive commerce and thus clearing the way for a national market which increasingly ignored the distinction between town and countryside as well as that between the various towns and provinces. P. 68-9.

This classification of markets by their reach is convenient for the story Polanyi is telling, but there are modern counterparts. In many cities around the country, but especially in Europe, say Paris, there are local market streets, where you can find your daily food and your minor needs, like a plate to replace the one that mysteriously broke. There are weekly or bi-weekly markets where you can find all sorts of things, from a sweater to a giant vat of choucroute garnie, with nearly black juniper berries punctuating the Toulouse sausages and the hunks of pork. These are just like the local markets Polany describes, and just as important to daily life in these otherwise impersonal cities.

Scattered throughout the city, there are stores focused on specific area of France, Auvergne butchers, stores selling Charolais beef, Perigord stores, with their jars and cans of confit du canard, and many others, wine shops specializing in Champagnes or wines from Burgundy. These stores connect people to their roots in the country, and might be regarded as internal markets.

In the wealthier parts of the city there are other kinds of markets. You can find African, Indian and Near Eastern textiles and jewelry, and lots of similar things. There are shops selling Italian shoes and clothes, branded and unbranded. There is fantastic jewelry and jeweled pieces from world makers, and at prices that bug out the eyes. Each of these kinds of stores are grouped together, so that a person searching for antique French furniture only has to visit a few streets to get a good sense of what is available. This view of consumer culture reinforces Polanyi's view that a market is a place.

Of course, standard economics rejects this simple definition. Here's a typical reaction, from Santhi Hejeebu & Deirdre McCloskey (H/T commenter Alan)

> …Polanyi never got over the noneconomist's inclination to think of markets as literal marketplaces, rather than relationships among people in many different places…

The authors are both economists, so this is not a mistake. Their definition of a market is "relationships among people in many different places. Let's try an example. In *BKB Properties, LLC v. SunTrust Bank*, (MD Tenn. 2011) the owners of the plaintiff wanted a fixed rate loan from SunTrust Bank to build a new building for their car dealership. SunTrust would only agree to a floating rate loan, and offered to sell plaintiff an interest rate swap to create a synthetic fixed rate. Plaintiff agreed. Several years later, when interest rates fell in the wake of the Great Crash, BKB's owners wanted to refinance the note, and when SunTrust refused, plaintiff exercised its right of prepayment. SunTrust refused to accept the prepayment and release the mortgage on the land unless the plaintiff paid a stiff penalty to cancel the interest rate swap, which had a 10 year term, while the note was prepayable. The Court ruled for SunTrust, saying that this is just a routine contract case, and that the parties are assumed to understand the terms of the documents they signed.

Note that SunTrust could have purchased a swap to protect its interests more intelligently than BKB Properties, Ltd., a shell corporation set up by a car dealer. SunTrust could have canvassed offers from several banks and hedge funds, which at least sounds like a market.

But on the given facts, was this a market transaction? In the world of Hejeebu and McCloskey it certainly is. After all, these are two parties with some kind of relationship who are in different places. Swap creators don't post prices, don't disclose transactions in any usable way, and according to the Court don't have any duties to their customers. The relationships that Hejeebu and McCloskey talk about are limited to Buyer Beware, and that's good enough for them.

In Polanyi's world, maybe not. At that time, there was no physical place one could go to buy and sell swaps, at least if you were a car dealer in a suburb of Nashville, TN. Specifically, there was no analogue to the stock market, or an electronic exchange. There was no place to find data, no place to find alternative bids, no quote sheets, and there was often negotiation over the terms of a swap which affected its value to both parties, again with no transparency to outsiders who might have learned of its existence. In sum, there was no place for any activity that sounds market-like.

Definitions matter. Polanyi's definition gives us a good idea of what he is talking about, and his three kinds of markets are useful and convenient in his analysis. How do we talk sensibly about the "swaps market"? In what way is it like the market for choucroute garnie?