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'The Institutional Mechanisms of the Downfall of a Civilisation': Understanding Polanyi's Fictitious Commodities in the Context of the Double Movement

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Polanyi's project

"To trace the institutional mechanisms of the downfall of a civilization may well appear as a hopeless endeavor.

Yet it is this we are undertaking."

TGT, p. 4

Polanyi's "fictitious commodities"

- Commodity = produced for sale
- Not true of land, labour, money
- Really?

What is the *function* of the fictitious commodities in Polanyi's project?

- Fictitious commodities are points of intersection between his "institutional mechanisms," encapsulate
  - **The fabric of society (potentially shredded by markets)**
  - **The class structure of society**
  - **The gold standard adjustment mechanism**

The ‘double movement’ with fictitious commodities

“Social history in the nineteenth century was thus the result of a double movement: the extension of the market organization in respect to genuine commodities was accompanied by its restriction in respect to fictitious ones.”

Chapter 6, p.79

The “double movement” without fictitious commodities

- [The double movement] can be personified as the action of two organizing principles in society... The one was the principle of economic liberalism, aiming at the establishment of a self-regulating market, relying on the support of the trading classes, and using largely *laissez-faire* and free trade as its methods; the other was the principle of social protection aiming at the conservation of man and nature as well as productive organization, relying on the varying support of those most immediately affected by the deleterious action of the market—primarily, but not exclusively, the working and the landed classes—and using protective legislation, restrictive associations, and other instruments of intervention as its methods.

Chapter 11

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class structure

<u>fabric of society</u>

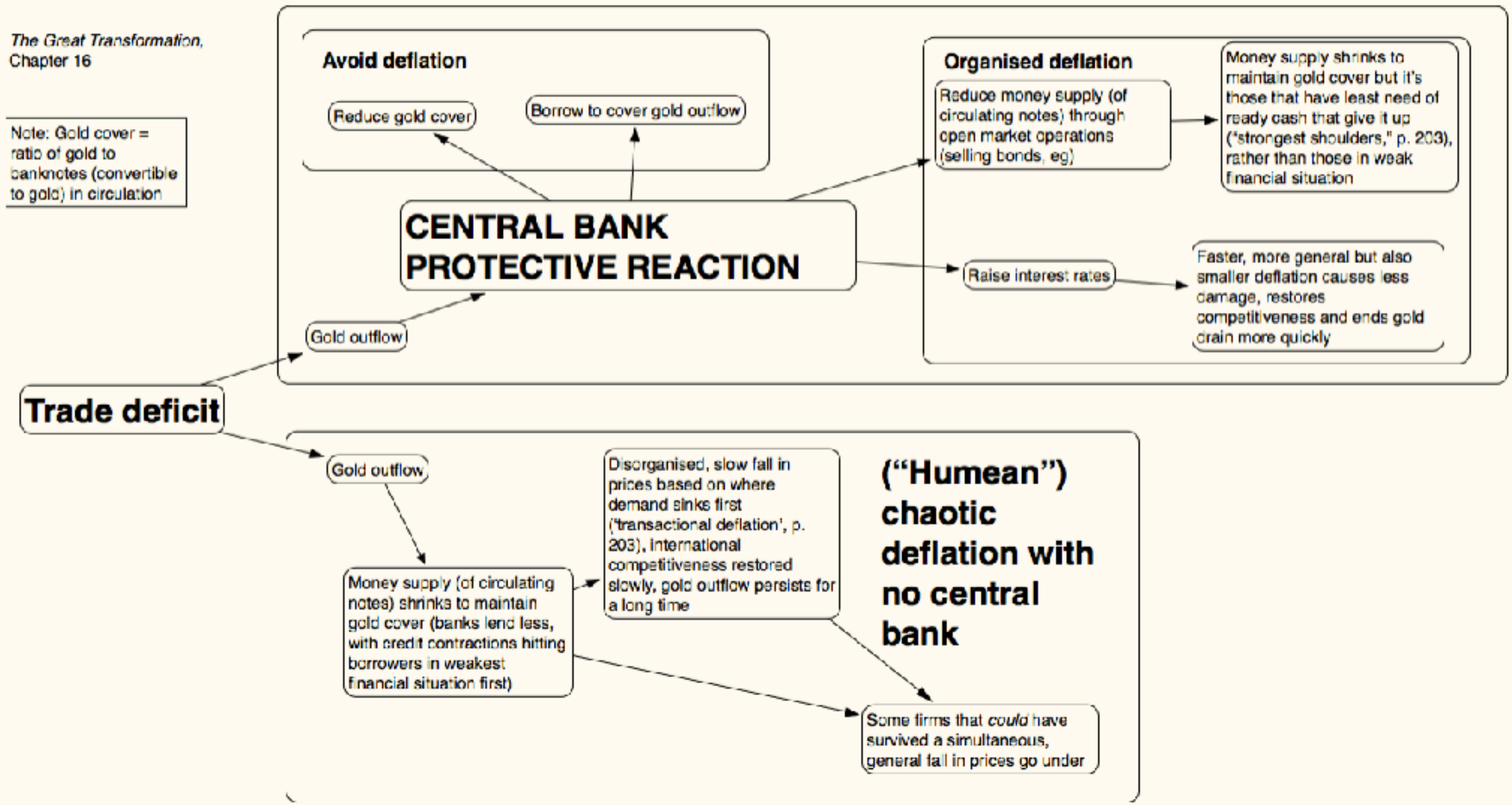
	Land	Labor	Money
Fabric of society ("general human interests")	Natural environment, local community	Social status, digntity, humane working conditions	Productive organizations (going concerns)
Class structure	Landed classes	Working class	Capitalists, employers, financiers

Each class defends its corresponding piece of the social fabric, but success derives from broad support (Chapter 13)

	Land	**Labor**	**Money**
Fabric of society ("general human interests")	Natural environment, local community	Social status, dignity, humane working conditions	Productive organizations (going concerns)
Class structure	Landed classes	Working class	Capitalists, employers, financiers
Gold standard adjustment mechanism	Free trade/ <u>trade barriers</u>	Price flexibility/ <u>nominal rigidity</u>	Deflation/ <u>price level management</u>

Underlined: protective countermoves that interfere with self-regulating market

Polanyi on the gold standard adjustment mechanism with and without a central bank



Is protective countermove just Polanyi's 'restriction [of market] in respect to fictitious [commodities]?'

Maybe:

- Labour: unions + laws limits conditions of purchase and sale
- Money:
  - Reducing gold backing expands share of money produced 'for sale' (via bank lending)
  - Central bank control of interest rate limits price mechanism

No:

- Land: restrictions are on purchase/sale of *produce* of land, not land itself

From the "double movement" to the "downfall of a civilisation"

For a century the dynamics of modern society was governed by a double movement: the market expanded continuously but this movement was met by a countermovement checking the expansion in definite directions. **Vital though such a counter-movement was for the protection of society, in the last analysis it was incompatible with the self-regulation of the market, and thus with the market system itself.**

Chapter 11

Markets threaten the fabric of society

Class-led protective response

Interference with gold-standard adjustment mechanism (self-regulating market)

Economic consequences of interference with GSAM

No adjustment of trade imbalances

Accumulation of debts in trade deficit states

PRESSURE FOR AUSTERITY WHEN INTERNATIONAL LENDING COLLAPSES

Unemployment when wages above competitive levels

Unemployment payouts rise

The political effects of deflationism (TGT, Chapter 19)

The deflationist's ideal came to be a "free economy under a strong government"; but while the phrase on government meant what it said, namely, emergency powers and suspension of public liberties, "free economy" meant in practice just the opposite of what it said, namely, governmentally adjusted prices and wages (though the adjustment was made with the express purpose of restoring the freedom of the exchanges [i.e., unrestricted conversion of domestic currency to gold or international currency] and free internal markets) ... **[I]n the course of these vain deflationary efforts free markets had *not* been restored though free governments *had* been sacrificed.**

The GSAM & Political Stalemate

- Liberal policy: free trade, money supply contraction, wage level to drop
- Protective countermove
  - Labour strife (eg, 1926 general strike in UK), unemployment insurance
  - Trade protectionism
  - Replacement of gold reserves by other means
- Either
  - Political upheaval, fascism and other forms of the eclipse of democracy
  - Abandonment of the gold standard

“The institutional mechanisms of the downfall of a civilization"

Markets threaten the fabric of society

Class-led protective response

Interference with gold-standard adjustment mechanism (self-regulating market)

Catastrophic stalemate

Fascism and war

The GSAM & Political Stalemate

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Why not just get rid of gold?

- Economic reasons: for many countries, tantamount to dropping out of international economy
- Political reasons: threat of currency panic (when currency holders convert paper to gold *en masse*) is a useful political tool

Under the gold standard the leaders of the financial market are entrusted, in the nature of things, with the safeguarding of stable exchanges and sound internal credit on which government finance largely depends. The banking organization is thus in the position to obstruct any domestic move in the economic sphere which it happens to dislike, whether its reasons are good or bad. In terms of politics, on currency and credit, governments must take the advice of the bankers, who alone can know whether any financial measure would or would not endanger the capital market and the exchanges. ... **The financial market governs by panic.**

Conclusion

- Polanyi's definition of a 'fictitious commodity'
  - Doesn't really convince on its own terms
  - Inadequately conveys crucial argument
  - Indicates, though, the seams that hold his argument together
- Extensions of Polanyi ought to focus on the applicability of his *causal mechanisms*, not whether this or that is a 'fictitious commodity'