

(ONE)

## THE FLAW

Now I a fourfold vision see,  
And a fourfold vision is given to me;  
'Tis fourfold in my supreme delight,  
And threefold in soft Beulah's night,  
And twofold Always. May God us keep  
From Single vision, & Newton's sleep!  
—WILLIAM BLAKE, *"Poems from Letters"*

If war is God's way of teaching Americans geography, recession is His way of teaching everyone a little economics.

The great unwinding of the financial sector showed that the smartest mathematical minds on the planet, backed by some of the deepest pockets, had not built a sleek engine of permanent prosperity but a clown car of trades, swaps and double dares that, inevitably, fell to bits. The recession has not come from a deficit of economic knowledge, but from too much of a particular kind, a surfeit of the spirit of capitalism. The dazzle of free markets has blinded us to other ways of seeing the world. As Oscar Wilde wrote over a century ago: "Nowadays people know the price of everything and the value of nothing." Prices have revealed themselves as fickle guides: The 2008 financial collapse came in the same year as crises in food and oil, and

yet we seem unable to see or value our world except through the faulty prism of markets.

One thing is clear: The thinking that got us into this mess is unlikely to rescue us. It might come as some consolation to know that even some of the most respected minds have been forced to puzzle over their faulty assumptions. Perhaps the most pained admission of ignorance happened in a crowded room in front of the House Committee on Oversight and Government Reform when, on October 23, 2008, Alan Greenspan described the failure of his worldview.

Greenspan was one of the acknowledged legislators of the world's economy over the past nineteen years in his role as chairman of the Federal Reserve. A card-carrying member of the free market brigade, he used to sit at the feet of Ayn Rand who, although largely unknown outside the United States, remains influential long after her death in 1982. Her 1957 book *Atlas Shrugged*, in which heroic business moguls fight the scourge of government officials and union organizers, has once again scaled the best-seller lists. Regarding altruism as “moral cannibalism,” Rand was the cheerleader for an extreme free market libertarian school of thought, which she called “Objectivism.” Drawn into her circle by this heady philosophy, Greenspan earned himself the nickname “the Undertaker” for his jolly demeanor and dress sense. When Greenspan chose a career in government, it was rather like a hippie joining the marines, a lapse that his former friends could never forgive. Despite this, Greenspan remained largely faithful to Rand's philosophy, continuing to believe that egoism would lead to the best of all possible worlds, and that any form of restraint would result in disaster.

At the end of 2008, Greenspan was summoned to the U.S. Congress to testify about the financial crisis. His tenure at the Fed had been long and lauded, and Congress wanted to know what had gone wrong. As he began to read his testimony, Greenspan looked exhausted, his skin jowly and sagging, as if the vigor that once kept

him taut had all been spent. But he came out swinging. In the first round, he took aim at the information he'd been working with. If only the input had been right, the economic models would have worked, and the predictions would have been better. In his words,

a Nobel Prize was awarded for the discovery of the pricing model that underpins much of the advance in derivatives markets. This modern risk management paradigm held sway for decades. The whole intellectual edifice, however, collapsed in the summer of last year because the data inputted into the risk management models generally covered only the past two decades, a period of euphoria. Had instead the models been fitted more appropriately to historic periods of stress, capital requirements would have been much higher and the financial world would be in far better shape today, in my judgment.<sup>1</sup>

This is a garbage-in-garbage-out argument: The model worked just fine, but the assumptions about risk and data, based only on the good times past, were faulty and so the output was correspondingly wrong. Greenspan's nemesis on the panel, Henry Waxman, pushed him to a deeper conclusion, in this remarkable exchange:

WAXMAN: The question I have for you is, you had an ideology, you had a belief that free, competitive—and this is your statement—"I do have an ideology. My judgment is that free, competitive markets are by far the unrivalled way to organize economies. We have tried regulation, none meaningfully worked." That was your quote. You had the authority to prevent irresponsible lending practices that led to the subprime mortgage crisis. You were advised to do so by many others. And

now our whole economy is paying the price. Do you feel that your ideology pushed you to make decisions that you wish you had not made?

GREENSPAN: Well, remember, though, what an ideology is. It's a conceptual framework with [*sic*] the way people deal with reality. Everyone has one. You have to. To exist, you need an ideology. The question is, whether it is accurate or not. What I am saying to you is, yes, I found the flaw, I don't know how significant or permanent it is, but I have been very distressed by that fact.

WAXMAN: You found a flaw?

GREENSPAN: I found a flaw in the model that I perceived is the critical functioning structure that defines how the world works, so to speak.

WAXMAN: In other words, you found that your view of the world, your ideology, was not right, it was not working.

GREENSPAN: Precisely. That is precisely the reason I was shocked, because I had been going for 40 years or more with very considerable evidence that it was working exceptionally well.

The flaw, to be clear, wasn't a minor one of shoddy data. Nor was it the bigger Black Swan problem that writers like Nassim Taleb discuss, a problem of failing to account for highly unlikely events that, should they happen, involve catastrophic consequences. Greenspan's flaw was more fundamental still. It warped his view about how the world was organized, about the sociology of the market. And Greenspan is not alone. Larry Summers, the president's senior economic advisor, has had to come to terms with a similar error—his view that the market was inherently self-stabilizing has been “dealt a fatal blow.”<sup>2</sup> Hank Paulson, Bush's treasury secretary, has shrugged his shoulders with similar resignation. Even Jim Cramer from CNBC's

*Mad Money* admitted defeat: “The only guy who really called this right was Karl Marx.”<sup>3</sup> One after the other, the celebrants of the free market are finding themselves, to use the language of the market, corrected.

The extent of Greenspan’s admission has passed most of us by. If you trawl the op-ed pages of the financial press, you’ll find plenty of analysis that fits Greenspan’s first gambit, with pundits offering stories about how risk was incorrectly priced (which it was), how the lack of regulation allowed the panic to feed back into the financial system (which it has), how the incentive structures rewarded traders who were able to push financial risk far into the future (which they did) and how free market ideologues removed the sorts of circuit-breaking policies that might today have helped (and they did that too). But these are all it-could-have-been-fixed-if-we’d-planned-better responses. I am not sure that we’re able to comprehend what Greenspan’s admission might really mean for us. It would be too big a shock to have the fundamentals of policy in both government and the economy proved wrong, and to have nothing with which to replace them.

It’s as if one day, you were to wake up and find yourself transformed into a cockroach.<sup>4</sup> This is the premise of Franz Kafka’s novella *Metamorphosis*. In the first sentence, a young salesman named Gregor Samsa wakes up, after a night of bad dreams, to find that he has turned into an enormous bug. Gregor Samsa’s response is revealing, telling us a little bit more about ourselves than we’d like. For what does Samsa do when he discovers he’s a bug? He doesn’t scuttle from his room screaming, or ponder how this happened, or what his transformation means, and what he might become tomorrow. His response is essentially this: “Poor me! How am I going to keep my job?”

Which is almost exactly how we’ve reacted to this economic crisis.

While no one has yet woken up in the body of a bug, we have all found ourselves in a world turned upside down, where everything

we were told was to our advantage has turned out to be its opposite. Greenspan's "flaw" has profound repercussions—to understand it fully would mean a complete reappraisal of the way we conduct our lives. We would need not only a new way of mooring our expectations of our society and our economy, one based on richer assumptions about human nature, but also a different ideology governing the exchange of goods and services.

Prices do some heavy ideological lifting in Greenspan's world. They provide a way to see and know the collective wants and resources of our small planet. This is Friedrich Hayek's economic philosophy, in which prices are the tendrils through which wants and needs are communicated. Science fiction fans will already be familiar with what this looks like. In *The Matrix*, liberated humans (and the programs who hunt them) can see the world in its raw form, as a digital rain of symbols and signs. This is the science fiction that governs economic fact. Data pelting down monitors is what the masters of the universe on the global financial exchanges stare at, their eyes darting from screen to screen, trying to see through the world and profit from it. In *The Matrix*, the signs were a simulation of the real world, hiding more than they revealed. The trouble is that this unreliable digital ticker tape has now become a central prop in the drama of modern commerce.

Consider the fate of Volkswagen, which at the end of October 2008 managed briefly to become the world's most valuable corporation without having to sell a single vehicle. With the economy still in free fall, traders on stock-market floors were taking a dim view of Volkswagen. They looked at their screens and concluded that, just like every other auto manufacturer, Volkswagen was heading for tough times. Imagine you're a trader who feels in your bones that the stock price can only fall. One way to cash your hunch in is to sell Volkswagen stock today, and buy it back when the price falls. Since you don't walk around with Volkswagen stock falling out of your

pockets, you'll turn to someone who does, like an institutional investor. You borrow their stock, for a price, and promise to return all of it very soon. The institutional investor is happy because they make money from lending out the stock, which they will get back in one piece. You're happy because you can sell this stock, wait for the price to fall, buy it back and, with the profit, not only pay back the institutional investor, but make the next installment on your yacht in Monaco. This practice is called "shorting."

The trouble was that Volkswagen's rival, Porsche, had started quietly buying Volkswagen stock, aiming to secure 75 percent of the company. When the scale of Porsche's buying spree came to light, it became rapidly clear that there was little of the company left to trade. With Porsche sucking up all the shares, the price for Volkswagen didn't drop. Traders were selling borrowed stock to Porsche, and when Porsche announced its intentions to hold the stock, traders panicked. This led to a "short squeeze," a flocking of investors looking to cover the ill-conceived bets that they'd paid for with stock that they didn't own. They'd wagered that Volkswagen's price, like that of any other car company in a recession, would fall. When it became clear that even if Volkswagen wasn't doing well in the car market, its share price was nonetheless defying gravity, the speculators rushed to buy before the price went any higher.

Their combined purchases drove the price of shares up further. So high did the price rise that Volkswagen entered the DAX 30 index of the largest corporations on the German bourse. This triggered another buying spree, driven not by stock-market gamblers, but by their polar opposites—conservative institutional investors. Pension funds, for instance, invest with an eye to long-term returns; they prefer a slow and certain accumulation of wealth rather than risky bets. One way that they keep their portfolio on an even keel is to buy shares in nothing but blue chip corporations, ones that are guaranteed to be least susceptible to the shocks that stocks are heir to, ones that are

in the top, say, thirty corporations traded in the open market. When Volkswagen joined the ranks of the DAX 30, a flock of institutional investors automatically wanted in. So they bought Volkswagen shares at whatever price they could find them. The result? The price per share went from €200 to €1,000 in a week—an increase in company value of €300 billion (£244 billion; \$386 billion). It made Volkswagen, briefly, bigger than Exxon-Mobil (with a book value of a mere \$343 billion). And for this, the company didn't raise a finger.

In the end, the rules on the DAX were changed, the price settled down and, in 2009, Volkswagen bought Porsche. It is easy enough to tell this story as one where institutional investors got caught with their pants down, where there was imperfect information about the size of the market, where the rules of different short-run and long-run games tangled. But look more closely. Underwriting this version of the story is a conceptual structure that lies beneath every story of excess and crash. The very notion of a bubble relies on the premise that when the bubble pops, things return to a normal state, a situation of price reflecting value more accurately. This is the story told after every boom and bust, from the South Sea Bubble of 1720 to the housing catastrophe of 2008. There's a widely shared opinion that normality will ultimately return to the world economy—but it's a consensus view that rests on a story where bubbles are exceptions to the standard (and successful) procedures of market valuation. If those procedures themselves were flawed, as Greenspan suggests, then our faith in a gentle return to earth is misplaced, for there is and never has been any solid ground beneath our feet.

There is a discrepancy between the price of something and its value, one that economists cannot fix, because it's a problem inherent to the very idea of profit-driven prices. This gap is something about which we've got an uneasy and uncomfortable intuition. The uncertainty about prices is what makes the MasterCard ads amusing. You know how it goes—green fees: \$240; lessons: \$50; golf club:

\$110; having fun: priceless. The deeper joke, though, is this: The price of something doesn't measure its value at all. This prickly intuition has become entertainment. An alien from another planet would find it strange that one of the most popular TV shows in dozens of countries is one that trades on the confusion around what something's worth: *The Price Is Right*. In the show, the audience is presented with various consumer durables, and asked to guess the retail price of each. Crucially, you don't win by correctly guessing how useful something is or how much it costs to make—prices are poor guides to use and true costs of production. You win by developing an intuitive sense of what corporations believe you're willing to pay.

In the world of fund management, the systematic confusion surrounding what something is worth has made some people very rich. Traders' salaries are linked to the returns above expected rates for the risk they take on, the so-called alpha that they contribute to the returns. Think of a bet on a coin flip, with odds of two to one. I bet \$1 that I will hit heads, and every time I do, I get \$2. In the long run, I'd expect a dollar bet with those odds to return a dollar because I'll come up heads about half the time. But if I'm returning \$1.50 on the bet, I'm making magic happen. This magic gets turned back into coins that I get to keep, through bonuses and increased salary. This is a tough trick to pull off because there are only a handful of ways to create added value in fund management—I can pick undervalued stocks that outperform expectations, I can nurture innovations that change the rules of the game, or I can create new bespoke assets that institutional investors might like. So we would expect alpha to be rare, and it is, but driven by the desire to cash in, there were many who created *fake* alpha through bets that appeared to produce consistently good returns despite having a small built-in chance of catastrophic loss. If the expected value of this loss were factored in, the alpha would disappear. But the risks were ignored

and bonuses flowed. The frat boys who ran the economy, and profited from its poor regulation, made billions. They were paid today for outcomes that they predicted would happen in the future, using a “mark to model” accounting practice that essentially allowed them to book today what they projected they’d earn tomorrow.<sup>5</sup> This practice was justified on the grounds that “markets know best.”

That markets should know best is a relatively recent article of faith, and it took a great deal of ideological and political work to make it part of governments’ conventional wisdom. The idea that markets are smart found its apotheosis in the Efficient Markets Hypothesis, an idea first formulated by Eugene Fama, a Ph.D. student in the University of Chicago Business School in the 1960s. In the ideological foundations it provided for financiers, it was a mighty force—think of it as *Atlas Shrugged*, but with more equations.

The hypothesis states that the price of a financial asset reflects everything that a market knows about its current and future prospects. This is different from saying that the price actually *does* reflect its future performance—rather, the price reflects the current state of beliefs about the odds of that performance being good or bad. The price involves a bet. As we now know, the market’s eye for odds is dangerously myopic, but the hypothesis explains why economists find the following joke funny:

Q: How many Chicago School economists does it take to change a lightbulb?

A: None. If the lightbulb needed changing, the market would have already done it.

The problem with the Efficient Markets Hypothesis is that it doesn’t work. If it were true, then there’d be no incentive to invest in research because the market would, by magic, have beaten you to it. Economists Sanford Grossman and Joseph Stiglitz demonstrated

this in 1980, and hundreds of subsequent studies have pointed out quite how unrealistic the hypothesis is, some of the most influential of which were written by Eugene Fama himself.<sup>6</sup> Markets can behave irrationally—investors can herd behind a stock, pushing its value up in ways entirely unrelated to the stock being traded.<sup>7</sup>

Despite ample economic evidence to suggest it was false, the idea of efficient markets ran riot through governments.<sup>8</sup> Alan Greenspan was not the only person to find the hypothesis a convenient untruth. By pushing regulators to behave as if the hypothesis were true, traders could make their titanic bets. For a while, the money rolled in. In the mid-1990s, the *Financial Times* felt able to launch a monthly supplement, entitled *How to Spend It*, to help its more affluent readers unburden themselves. The magic of the past decade's boom also touched the middle class, who were sucked into the bubble through houses that were turned from places of shelter into financial assets, and into grist for the mill of the financial sector. But ordinary homeowners couldn't muster the clout that banks could: Governments enabled the finance sector's binge by promising to be there to pick up the pieces, and they were as good as their word. When the financiers' bets broke the system, the profit that they made from these bad bets remained untouchable: The profit was privatized, but the risk was socialized. Their riches have cost the whole world dear, and yet in 2009 the top hedge fund managers have had their third-best year on record. George Soros is, in his own words, "having a very good crisis," and staff at Goldman Sachs can look forward to the largest bonus payouts in the firm's 140-year history.<sup>9</sup>

What this suggests is that the rhetoric of "free markets" camouflages activities that aren't about markets at all. Goldman Sachs employees are doing well because their firm turned some distinctly nonmarket tricks. *Rolling Stone* journalist Matt Taibbi has recently revealed, with characteristic verve, how Goldman Sachs has bought the U.S. government. In the Obama administration's economic team,

Wall Street has a generation of finance-friendly appointees, from Treasury Secretary Tim Geithner, who arranged a historic \$29 billion loan to persuade JPMorgan Chase to acquire Bear Stearns during his tenure as chair of the Federal Reserve Bank of New York; to Larry Summers, who earned \$5.2 million by working one day a week for a couple of years in a large Wall Street hedge fund. Their new positions in the White House make them the Tarzans of the economic jungle. Wall Street has reason to be pleased. Goldman had invested heavily in AIG, the insurance giant whose financial products division had brought the ninety-year-old giant to bankruptcy. With the 2008 AIG rescue, the \$13 billion that Goldman invested was repaid at full face value. Investors in Chrysler, by contrast, stand to get twenty-nine cents for every dollar they invested.<sup>10</sup>

Anyone concerned with democracy should be worried that the seam between Wall Street and the government is almost invisible. At the very least, it raises serious reasons to doubt that the institutions that facilitated the crisis can clean up their mess. Nassim Taleb points to the absurdity here: “People who were driving a school bus (blindfolded) and crashed it should never be given a new bus.”<sup>11</sup> The problem is that because both our economy and to a larger extent our politicians aren’t really subject to democratic control, the bus drivers are always going to be graduates of the same driving school.<sup>12</sup>

Despite the ongoing hijack of government by Wall Street, a word that hasn’t been heard in over a generation is being uttered by politicians: “regulation.” It’s true that Goldman Sachs and others are profiting handsomely from the collapse, but there is nonetheless a growing sense among politicians that the market may have been allowed too free a rein. Naomi Klein’s devastating critique *The Shock Doctrine* demonstrates how disasters were turned into platforms for rabidly free market policies, and it’s an analysis that explains the post-World War II era and today’s ongoing financial plunder, from California to Wall Street to the City of London, very well. But there

is a recognition among the public and some politicians that today's economic crisis is a failure of free market thinking, and not a warrant for more. In response to popular outcry, politicians around the world seem ready to discuss how to regulate and restrain the market. The question is, can they, and, if they can, in whose interests will this regulation work?

From its inception, the free market has spawned discontent, but rare are the moments when that discontent coalesces across society, when a sufficiently large group of people can trace their unhappiness to free market politics, and demand change. The New Deal in the United States and the postwar European welfare states were partly a result of a consortium of social forces pushing for new limits to markets, and a renegotiation of the relationship between individuals and society. What's new about this crisis is that it's pervasively global,<sup>13</sup> and comes at the last moment at which we might prevent a global climate catastrophe. But the breadth and depth of both these crises reflect how profoundly our society has been transfixed by free market culture. To understand how this will affect us in the twenty-first century, we need to understand how it began, and to ask why today's markets look the way they do.

## **THE STORY OF THE STORY OF STUFF**

On the weekends and holidays when I helped out in my family's convenience store, I most enjoyed being sent to the stockroom to refill shelves, which meant finding sweet things in the labyrinth of boxes and shelves, and then using the price gun on them. The gun itself was a mechanical plastic device about as big as this book, and when I squeezed the trigger it stamped and spat out a small sticker with whatever number you'd set on its dial. I spent many happy hours pulling the trigger, toting it like a Glock for junior capitalists,

tickering out random prices and generally making a nuisance of myself by setting the price of Mars bars to £999.99. The best thing, though, was a game where I set the price to 0.01p and ran around trying to tag my brother.

What tickled my ten-year-old self is what also makes phrases like “Joe would sell his mother to go to the football game” funny. While Joe may very much want to see the game and there may be no more valuable person in his life than his mother, he can’t *actually* make the trade. My brother wasn’t worth 0.01p, and the notion that he might be exchanged for that, or for anything else, was the source of my own private comedy. But this same idea that price labels can be attached to everything is not only one of which our politicians and business elites seem uncommonly fond, it can also lead to public tragedy.

In 1920, two German professors, Karl Binding and Alfred Hoche, caused a sensation with the publication of their *Permission for the Destruction of Life Unworthy of Life*. They presented an argument for killing “incurable idiots, empty human husks, useless eaters, whose ballast lives” might be jettisoned so as to allow the nation to soar ever higher. They clinched their argument with an extended calculation of the cost of care, which they summed up as “a massive capital in the form of foodstuffs, clothing and heating, which is being subtracted from the national product for entirely unproductive purposes.”<sup>14</sup> Their calculus was impeccable but their conclusions were repugnant.

The immediate objection to this is that it’s horrifying to put a price on human life. Yet governments and corporations routinely do exactly this: The British government, like the U.S. health industry, calculates what it costs to provide a treatment against the years of life the treatment saves because, with limited resources, they want to make sure they’re saving as many lives as possible. Joseph Stiglitz and Linda Bilmes estimated the cost of American lives lost in the

Iraq War by using a standard U.S. governmental and actuarial figure of \$7.2 million per life as part of their calculation of the total costs of the war to the United States: in excess of \$3 trillion. Applying just that valuation of human life to Iraq, the cost of the war to Iraqi civilians is \$8.6 trillion. There's still something rather unsavory about this, even if no one is actually suggesting trading a human life for \$7 million dollars.<sup>15</sup> But Professors Binding and Hoche took it a step further. They suggested that not all human life is worth the same, and that society as a whole could save money by killing the mentally ill. Finally, they proposed that the full force of the government should be put behind their recommendations. All of this, of course, provided the intellectual foundations for Nazism, but the practice of turning people into commodities whose lives might be bought or extinguished according to profit isn't unique to National Socialism. Most of Europe and the United States have profited from slavery in one form or another.

Times have, however, changed, and although human trafficking is widespread in the twenty-first century, with a value in 2006 estimated at \$42 billion, there are few parts of the world where the notion is still favorably entertained. There are no more legal markets in people and it is generally agreed that this is a good thing. Indeed, there are now even prohibitions on the way we can place *ourselves* into markets. We are not, for instance, legally allowed to sell our organs. Give them away, yes. Sell, no.

The history of slavery shows not only that the set of things allowed into markets can change but also that decrees establishing what belongs in markets can be revoked. Once, slavery was allowed. Now it isn't. In other words, there is nothing *natural* about buying and selling things for profit, and allowing markets to determine their value. Before commodities can be bought and sold, they have to become objects that people *think* can be bought or sold. Most of the things that we buy and sell weren't always commodities in the way we

understand them today—land, music, labor, care, people and food once had a much more ambiguous status. These things *became* commodities through complicated and layered processes, to be exchanged in markets with very specific attributes. In 1944, a dissident Hungarian writing in Britain in the middle of the Second World War published one of the most penetrating examinations of how this worked.

Karl Polanyi's book *The Great Transformation* is a history of eighteenth- and nineteenth-century England, with a long discussion of what sounds like a bit of eighteenth-century arcana, the Speenhamland laws. These were English "poor laws" designed to relieve the worst aspects of rural poverty by providing a form of welfare linked to the price of bread. Polanyi's argument, however, is about much more than pre-Victorian safety nets—he makes the case that markets and the society around them are bound together. Contrary to Greenspan's philosophy, Polanyi suggests that capitalism needs society's institutions in a very particular way. In order for markets to work, society needs to license the turning of things into commodities that can be bought and sold within the economy. Hence Polanyi's choice of title. The "transformation" describes how the most powerful groups in society tried to turn land and labor into "fictitious commodities," into things that were in principle very different from the goods that had previously been exchanged in markets.

It may sound odd to think about land or labor as fictitious when the heart of contemporary working life beats to the rhythm of paychecks and rent, but that's a measure of how "great" the transformation was. It transformed social arrangements so dramatically that it is impossible to think of them in any other way. In other words, the transformation not only changed society, it also changed *us*, by changing the way we see the world and our place in it.

The great transformation demanded a great deal of social upheaval. In order to buy and sell land, the people who were previously using it had to be evicted. This happened through the sometimes violent

process of enclosure, where peasants were evicted from common land and consigned to cities where they might find income through selling their labor, and provide demand by becoming consumers. In other words, the great transformation required that the social rules governing land and work be entirely rewritten—and through this transformation, entirely new things became eligible for ownership, and for pricing. The process hasn't stopped. The engineers of new financial products work at the bleeding edge of this transformation in the twenty-first century. So do the makers of the cap-and-trade policies designed to solve climate change, in which the right to pollute becomes a commodity.

What Polanyi offers is a way of understanding not only why the economy and society are part of the same set of processes, but also why we erroneously believe that market and society are separate. The culture of profit-driven markets, what Polanyi calls the myth of the self-regulating market, turns out to need society far more than it pretends to—but the myth that economy and society are two distinct realms needs to be widely propagated if the self-regulating market is to spread farther. We generally think it unwise for one conjoined twin to operate on another, but what the market myth fosters is the belief not only that the twins are separated, but that one is the doctor, and one the patient.

In times of crisis, the myth becomes far easier to see through. After all, the failure of the banks could have spiraled into total economic meltdown were the public sector not there to catch it. Capitalism can no more bail itself out than it can stand on its own shoulders. The market has always depended on society, which is why the language of “too big to fail” simply means “so big that it can depend on society to pick it up when it topples.” The logic of *laissez-faire* always needs a social base, and this is why Polanyi does not separate the way we live into “government and the free market”—for him, it's simply “market society.”

By the same token, the market society is embedded in the natural world, which the myth of the self-regulating market equally tries to deny. Human civilization depends on Earth's ecology, even though we're literally exploiting it to death—by some estimates, human activity has raised extinction rates for other species by one thousand times normal levels.<sup>16</sup> In the relentless enclosure of the natural world, we have destroyed our planet and, if the quiet whispers among many climate scientists are to be believed, it may already be too late to do anything about it.<sup>17</sup> The perpetual quest for economic growth has turned humankind into an agent of extinction, through the systematic undervaluing of the ecosystemic services that keep our Earth alive. In the words of Herman Daly, one of the pioneers of ecological economics,<sup>18</sup> “Current economic growth has uncoupled itself from the world and has become irrelevant. Worse, it has become a blind guide.”<sup>19</sup> In short, the economy takes a great deal for granted, for free, and is constitutionally unable to pay for it.

## ANTON'S BLINDNESS

Seeing the world through markets has got us in trouble. Yet the great transformation has been so profound that it is hard to imagine that we might value, and manage, the world in any other way than by pricing it, and letting the free market sort it out. We cling to the myth of self-regulating markets, no matter how imperfect they are, because without them we feel we would be lost. We've only one compass when we think about what things are worth, and even if it rarely points north, it permits the fantasy that we know where we're going.

It's as if, collectively, we suffer from Anton's blindness. Named for the Austrian neurologist Gabriel Anton (1858–1933), this is a rare medical condition that can occur after a stroke or traumatic brain

injury, in which its sufferers are blind, but possessed of a fervent belief that they can see. Doctors treating the condition, also known as Anton-Babinski syndrome, are confronted by patients who insist there's nothing wrong with them despite experiencing strange hallucinogenic episodes. Patients see unexplained phenomena—one patient reported seeing a new village outside her window that she couldn't recall being built, and on another occasion seeing a girl in her house who needed food.<sup>20</sup> People with Anton's blindness explain their bruises and injuries as a result of clumsiness or absentmindedness, not deficient vision. Their twisting confabulations, in which they rationalize their injuries, provide a way of diagnosing the disease. Insisting that free markets can light up our world, and making excuses when they fail spectacularly, is no less a confabulation than pretending to see when you are blind.

The clinical category into which Anton's blindness falls is called anosognosia—a word invented by the French neurologist Joseph Babinski (1857–1932) and derived from the Greek for “lacking knowledge about disease.” It happens not just with a false sense of sight, but with other faculties too. Three anosognosiac patients with left-side paralysis were put in front of a mirror and asked to raise their arms. The arms stayed put but the patients insisted that they were moving. A research assistant who wasn't paralyzed was placed in a chair next to them. He was asked to raise and lower his hand, but he didn't. Two out of the three patients insisted that they saw him raise and lower his hand.<sup>21</sup> Anosognosias like Anton's blindness aren't merely individual afflictions—they're social too, transforming not only the way we see ourselves, but the very possibility of seeing others as they are. Seeing the world through markets not only distorts our sense of our selves, but projects our own disability onto everyone else.

As a metaphor, Anton's blindness helps us appreciate why it is so hard to understand today's economy. We're trapped by a culture and politics that insist that unfettered markets are the way to value the

world properly, that we can through the unrestricted exercise of supply and demand make the world more perfect. This is not only delusional—it also distorts the way we see other people. Seeing fellow human beings as mere co-consumers blinds us to the deeper connections between us, and distorts our political choices. As a consumer of food, you can either proclaim your objections or refuse to buy—voice or exit.<sup>22</sup> There's no space to renegotiate so that everyone gets to eat, no way to become a co-producer—there're only the possibilities of supplicating for change, or walking away. I heard a young protester outside the Iranian embassy in London recently use this impoverished political vocabulary of consumerism. She said that she was part of a demonstration there to insist, in the wake of Iran's election fraud, that the government “make it right”—as if the government were experiencing a failure of customer service, which might be addressed by giving appropriate feedback to someone's supervisor.

I am not, however, arguing for a world without markets. The idea of a market as a place in which people with diverse needs exchange goods is one that can be found in every human civilization. What characterizes today's markets is exchange driven not by needs, but by profit.<sup>23</sup> It is pure ideology to think that the best way for society to function is to let markets seek profit, and that the best way for markets to function is with minimal interference. The terms on which markets operate are set by the powerful; our tragedy is to have let this happen. The blindness, the anosognosia here, is our faith in a faculty that routinely betrays us—in the demonstrably false promise that profit-driven markets can point to true value.

Which raises the question of how we are to heal ourselves. History shows that the cure cannot come from government alone, but requires change from within market society. As Polanyi makes clear, the birth of the free market required a great deal of violence, but he also observed something else: People fought back. The Speenhamland laws were introduced because of the anger of a rural public

suffering the rapacity of enclosure. Poor laws are not an example of how self-regulating markets turn new things into stuff that might be bought and sold—they are a response to society’s demands in the age of self-regulating markets. Polanyi showed how people fought back *against* the expanding market. In this back and forth, Speenhamland provided an example of what Polanyi called the double movement. On the one hand, transforming land and labor into things that might be bought and sold required widespread disenfranchisement—this is the first movement. The second movement is a response from society, which seeks to heal the wounds that the self-regulating market has inflicted. And both these movements happen within the framework of the market society.

Although the relative strength of movement and countermovement varies, this isn’t a tug-of-war between markets pulling society forward into the future, and countermovements yanking it back into the past. Countermovements are built out of the politics that people have to hand, and with those politics and associations, entirely new institutions are built like the New Deal in the United States, or the welfare state in Europe. Social change, according to Polanyi’s model, isn’t a one-step-forward-one-step-back process, a sort of collective Charleston where, after a lot of motion, you end up where you started. It’s more like an infinite symphony, with one movement building from the previous one.

Today’s countermovements will tweet and blog, using the latest ideas and technology, as well as old-fashioned direct action, to fight for a different and sustainable world. The future will be shaped by our will to imagine a different kind of market society, and new ways of valuing the world without resorting to the tic of free markets. The outline of our twenty-first-century countermovement is the subject of the second part of this book, which looks at how global social movements and organizations are limiting the power of markets and its most powerful agents, and in so doing redefining how democracy

might work. But before we can overcome our current blindness, we need to understand more clearly how the culture of the free market affects us, how things become stuff to be bought and sold and how we have all become the blind seers of modern market society—consumers.