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Debt, Land and Money, from Polanyi to the New Economic Archaeology

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Inspiration for The Great Transformation in the postwar monetary breakdown

Karl Polanyi's formative years in the aftermath of World War I were a period of monetary turmoil. The United States became a creditor nation for the first time, and demanded payment of the war debts that Keynes warned were unpayable without wrecking Europe's financial systems. (Hudson, Super Imperialism, 1972, summarizes this era.) France and Britain subjected Germany to unsustainably high reparations debts, while imposing austerity on their own economies by adhering to the gold standard. Jacques Rueff in France and Bertil Ohlin in the United States argued that Germany could pay any level of reparations in gold – and the Allies could pay their foreign-currency arms debts – by imposing unemployment high enough to make wages low enough to make its products cheap enough to run a trade surplus large enough to pay its debt service.

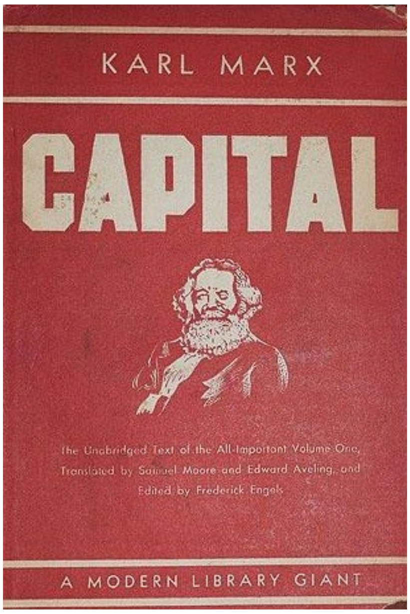
Most countries followed the 'hard-money' idea that money was (or could be made to act as a proxy for) a commodity by making it convertible into gold. Advocated most notoriously by the Austrians Ludwig von Mises and Friedrich von Hayek, the result was monetary deflation. It was a replay of what had occurred after 1815 when the banker David Ricardo insisted that returning to the gold standard would restore balance in the face of any given foreign debt payment or military subsidy. He claimed that any such payments deficit would automatically be recycled in the form of the recipient country's demand for imports from the 'capital-paying' economy. No such balance resulted.

When the gold standard was re-imposed after World War I, economies were starved of money in order to reduce prices and wages in a futile attempt to pay their debts. Rueff, Ohlin and Hayek claimed that imposing this deflation and poverty on debtor economies would (and should) represent a stable equilibrium.

Everything – including money, land and labor – was viewed as a commodity whose price would be set fairly by supply and demand, subject to 'demand' being eroded by debt service paid to creditors without limit. Money creation was to be kept out of the hands of government, because as Margaret Thatcher paraphrased Hayek's ideology: 'There is no such thing as society.' There is (and should be) only a market – one that inevitably is dominated by financial fortunes, banks and property owners.

Polanyi blamed the postwar breakdown and Great Depression on the imposition of free market ideology. Writing that 'The 1920s saw the prestige of economic liberalism at its height,' he forecast that, 'Undoubtedly, our age will be seen as the end of the self-regulating market,' (Polanyi, 1944: 148). He expected the chaos resulting from implementing this manic ideology to demonstrate the fallacy of claims that markets are self-regulating and can be 'disembedded' from their social regulatory context without causing economic destruction, unemployment and poverty.

To demonstrate the need for public regulation, Polanyi undertook a review of what modes of organizing money, credit and land use had sustained prosperity and which ones failed. Rejecting what he took to be Marx's sequence of modes of production, he emphasized modes of exchange. He accused Marx's set of 'historically untenable stages' as flowing 'from the conviction that the character of the economy was set by the status of labor,'(Polanyi, 1956: 256) from ancient slavery and usury, to serfdom under feudalism and wage labor under capitalism. Focusing on the transition from feudalism to industrial capitalism, driving labor off the land to become wage labor working for employers, Marx's aim was not to review the history of land tenure. Polanyi urged that 'the integration of the soil into the economy should be regarded as hardly less vital.' 'Under feudalism and the gild system,' Polanyi wrote, 'land and labor formed part of the social organization itself (money had yet hardly developed into a major element of industry).' Land was allocated as the basis of maintaining 'the military, judicial, administrative, and political system; its status and function were determined by legal and customary rules.' (Polanyi, 1944: 69) The proper task of government is to socialize rules for what its rent was to be used for – taxes, or payments to rentiers?



In Volumes II and III of Capital, Marx traced land rent and usury as survivals from feudal times, 'faux frais of production' that he expected industrial capitalism to do away with by freeing economies from landlords extracting ground rent, and from usurious banking. Instead, these rentier interests have regained control of economies, opposing public regulation by waving the flag of free-market individualism. Idealizing monetary gains without concern for how this affects the public good, bankers and other rentiers define 'natural' or 'pure' economies as meaning no regulation of prices or markets with social welfare in mind. The economy is seen as a market free-for-all, not as a social system regulating property, credit and debt to prioritize social stability and rising living standards.

By depicting public regulatory power as 'unnatural', free-market policy assumes that relinquishing the rules of property ownership, credit and debt to private wealth is natural and desirable. The reality is that there never has been a 'natural' market existing without social regulations. What passes for a free market amounts to little more than a jockeying for position, with the advantage lying with the wealthiest individuals. Their interest lies in minimizing public oversight and taxation of their rent-seeking, credit and foreclosure, and other business activities.

Polanyi set out to demonstrate the folly of subjecting labor, land and monetary policy to unregulated 'free markets.' What really is at issue is what kind of markets economies will have, and who will be their major beneficiaries – or victims. The Great Transformation credited feudalism and England's early industrial capitalism with its still-operating Poor Laws for preserving broad social objectives and regulations instead of throwing labor and land to the wolves (the wealthy) by treating them as commodities. Even in the earliest days of the development of capitalism, mercantilist nations 'were all equally averse to the idea of commercializing labor and land – the precondition of market economy. … Mercantilism, with all its tendency towards commercialization, never attacked the safeguards which protected these two basic elements of production – labor and land – from becoming objects of commerce' (ibid: 70).

From antiquity down through feudal Europe, land formed the universal tax base. In contrast to normal commodities that have a cost of production, land is provided freely by nature. 'Land, labor and money are obviously not commodities,' he explained. Labor is life, and 'land is only another name for nature,' not having been produced by labor and hence not having a cost of production (classical value), and its rent is a legal property claim. But markets give it a price so as to transfer ownership rights, enabling landlords to extract rental income without work (ibid, 72). Although land's site value is created mainly by public infrastructure investment, landholders fight to keep the land's rent for themselves. That prevents governments from keeping land rent should in the public domain as the tax base. And in antiquity, foreclosing creditors and large investors displaced smallholders, depriving governments of taxes as well as corvée labor and a free citizen-army.

When Polanyi called money a fictitious commodity, he was rejecting the idea of making it scarce by limiting its supply to that of gold, mimicking commodities as if money were part of a barter system. It also gave creditors overwhelming power over the rest of the economy, especially over its labor and land by pushing wage levels and crop prices below basic break-even needs when governments were deprived of the ability to create credit to employ labor. He criticized Ricardo for having 'indoctrinated nineteenth-century England with the conviction that the term 'money' meant a medium of exchange,' with bank notes readily convertible into gold (ibid: 196). That policy led to deflation, given gold's limited supply. Falling prices and wages penalized debtors when countries returned to gold convertibility after wartime inflations. That occurred in Britain after 1815, and in the United States after the 1870s when it sought to roll back prices so that the price of gold – and hence, wages and commodity prices – would be driven back down to their pre-Civil War level. The result was prolonged economic depression, causing land and other property to be transferred from debtors to creditors.

Polanyi's preferred alternative was to make money serve social aims by making it a public creation of law. Such token money has no inherent cost of production, 'but comes into being through the mechanism of banking or state finance,' and thus is not a commodity with an ultimate labor cost of production: 'actual money, finally, is merely a token of purchasing power which, as a rule, is not produced at all but comes into being through the mechanism of banking or state finance' (Ibid: 72).

Polanyi's Austrian adversaries argued that public money creation, social spending programs, regulations and subsidies distorted the supposedly efficient 'natural' economy of price-setting markets. In practice this meant low wages and a transfer of land to the wealthy. Unregulated market forces and gain seeking led the social system to be run for the purely financial aim of 'maximum money gains,' subjecting land, labor and money to pro-creditor bias instead of favoring the population's indebted majority. It was to prevent this economic polarization and austerity, Polanyi claimed, that 'Regulation and markets … grew up together.' Trade and incomes were regulated for most of history, thanks to the fact that, 'As a rule, the economic system was absorbed in the social system.' (ibid: 68)

But by the mid-1920s money-seeking drives were destabilizing agriculture and industry. France imposed austerity by adhering to the gold standard, and Britain's similar policy led to a nationwide General Strike in 1926. The moral, Polanyi said, was that:

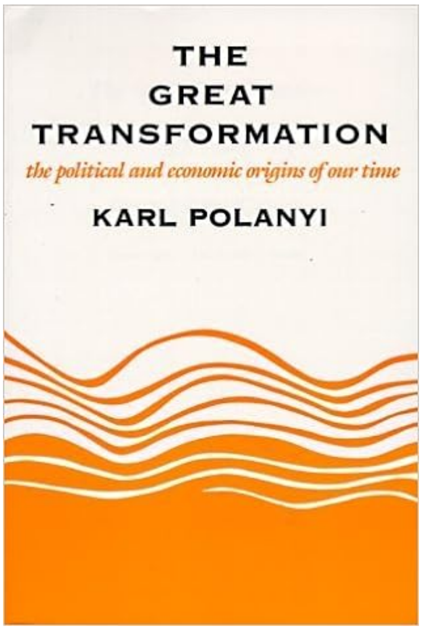
To allow the market mechanism to be the sole director of the fate of human beings and their natural environment, indeed, even of the amount and use of purchasing power, would result in the demolition of society. … the market administration of purchasing power would periodically liquidate business enterprise, for shortages and surfeits of money would prove as disastrous to business as floods and droughts in primitive society. (Ibid: 73)

Polanyi's Interdisciplinary Project at Columbia

The Great Transformation's publication in 1944 led to Polanyi's appointment at Columbia University (1947-53), where he organized a group of anthropologists and ancient historians to review how non-market societies shaped their labor, land and monetary relations. This provided an empirical alternative to the assumption that price-setting 'free' markets had always existed without government 'interference.'

The group's first research into alternatives to the free market version of history was Trade and Markets in the Early Empires (1957) was an outgrowth of the early 20th-century debate between the so-called primitivists and modernists. The modernist reading of history insists that self-seeking individuals innovated money and enterprise spontaneously, without chieftains, palaces or temples playing a role. Against this idea, Karl Bücher (1847-1930) countered that ancient economies were not organized along modern individualistic lines. He 'objected to both classical and neoclassical economics on the grounds that these theories had a narrow-time-bound concept of economy, a concept which they assumed was applicable to all historical periods' (Polanyi, 1962: 164).

Like Bücher, Polanyi rejected reconstructions that read as if a free-market economist got into a time machine and went back to the Neolithic to organize credit and markets along modern lines. If any archaic economy had followed that idealized textbook model, his follower Johannes Renger (1972) observed, debtors would have fled, or defected to rivals promising to cancel their debts. Mutual aid and its associated constraints on profiteering were preconditions for survival. Chiefs were expected to be openhanded, protecting the weak and needy.



Elaborating on the ideas developed in the Great Transformation, Polanyi drew on anthropology and ancient history to show that monetary 'obligations do not here commonly spring from transactions' to exchange goods in markets. They had more to do with the payment of taxes, debts and other obligations: 'The equating of such staples as barley, oil and wool in which taxes or rent have to be paid or alternative rations or wages may be claimed is vital' (Polanyi, 1957: 264f).

Polanyi characterized market exchange as one of three distinct exchange systems: reciprocity (gift exchange), redistribution and 'market' exchange. 'Reciprocity behavior between individuals integrates the economy only if symmetrically organized structures, such as a symmetrical system of kinship groups, are given.' Such symmetries can be disturbed by 'the rise of the market to a ruling force in the economy,' above all as 'land and food were mobilized through exchange, and labor was turned into a commodity free to be purchased in the market' (ibid: 225). He did not see this as having developed already c. 1800 BC in the Old Babylonian period, or that debt was the major lever enabling wealthy individuals to obtain land from smallholders. Creditors often got themselves adopted as 'sons' of the indebted landholder, so that they could inherit the land in due course under existing rules to keep land in the hands of hereditary families.

Polanyi summarized his hope that society would cure itself from having disembedded markets from their social context by restoring 'shapes reminiscent of the economic organization of earlier times.' Society needed to re-embed market structures for goods and services by administering key prices and incomes in a new redistributive economy. Such redistribution 'presupposes the presence of an allocative center in the community,' a palace or temple in earlier times, democratic government offices in today's world.

Polanyi's influence on Assyriology

Two of Polanyi's followers, Leo Oppenheim and Johannes Renger, described Sumer and Babylonia as redistributive temple and palatial economies. Renger's 1984 article on the palatial context for trade and enterprise showed the role of these large institutions in allocating and pricing resources. To undertake forward planning for their own operations and for transactions with the economy at large, palaces and temples needed to value payment of grain rents and fees in a consolidated overall balance sheet along with trade, herding and other activities. Their solution to this problem was to create what we know today as money.

Polanyi characterization of redistribution as an economy-wide mode of exchange – as if Mesopotamia could not be both redistributive and a market economy – implied that Mesopotamia did not also have a thriving profit-seeking trade in a sector where prices varied, especially among cities. This lay him open to criticism, most notably by Morris Silver, who cited examples of private profit-seeking trade such as that of the Assyrians in Cappadocia, as well as evidence that prices often exceeded those prescribed in royal proclamations. (Silver, 1983; Silver 1995)

Renger has described how many of the palace needs of the neo-Sumerian Third Dynasty of Ur III (late third millennium BC) 'were handled by entrepreneurs for the [royal] household for which they acted ('Palastgeschäft')' (Renger, 1994: 197). Merchants conducted entrepreneurial trade on their own account, often on consignment from the palace but also selling at a markup to the rest of the economy. They also lent on their own account, and collected taxes and fees for the palace. The intermixing between the redistributive palatial economy and the less formal parts of the economy where prices were more flexible makes it often difficult to distinguish between 'public' and 'private,' and thus between redistributive and 'market' exchange, lending and interest, and rents or other obligations (Yoffee, 2003: 6).

Entrepreneurial trade for the market and credit in Mesopotamia co-existed with palace redistribution with administered pricing and gift exchange, each in its own sphere. And Mesopotamia was not alone as a 'mixed economy'. Almost every society for the past five thousand years has been multi-layered, featuring all three of Polanyi's modes of exchange simultaneously. Even today, gift exchange among family and friends and administered prices for public goods and services co-exist with market exchange.

However, monetary gain-seeking usually was 'embedded' in an overall social context. Royal Clean Slate proclamations of 'justice and equity' annulled the backlog of grain taxes and other agrarian debts, liberated bondservants and restored land forfeited by smallholders. (I provide a history of such acts in '… and forgive them their debts': Lending, Forfeiture and Redemption, From Bronze Age Finance to the Jubilee Year [ISLET 2018]). This preserved a free citizenry to serve in the army and provide corvée labor instead of falling into permanent debt bondage to non-official creditors.

The past few decades of Assyriological research have shown that Mesopotamia was neither primitive nor modern as such. As Dominique Charpin has summarized, Polanyi's idea of Hammurabi's Babylonia as a non-market economy was formulated theoretically without the benefit of the documentation that is now available. Many of the texts published in recent years show very clearly that fluctuating prices characterised the market. It is all too easy to use these terms anachronistically and to allow misunderstandings to arise. (Charpin, 2003: 196)

Such misunderstanding had far-reaching consequences half a century ago. One of Polanyi's most influential followers, Moses Finley, excluded the ancient Near East from the narrative of Western civilization. Driven out of teaching in America during the McCarthy Red Scare of the 1950s for having been a Communist, Finley insisted that Western civilization developed out of primitive communities whose chieftainship practices evolved directly into the classical

Greek and Roman city-states. In his view:

The Near Eastern economies were dominated by large palace- or temple-complexes, who owned the greater part of the arable, virtually monopolized anything that can be called “industrial production” as well as foreign trade (which includes inter-city trade, not merely trade with foreign parts), and organized the economic, military, political and religious life of the society through a single complicated, bureaucratic, record-keeping operation for which the word “rationing”, taken very broadly, is as good a one-word description as I can think of. …The exclusion of the Near East is therefore not arbitrary … (Finley, 1985: 28)

This exclusion of Near Eastern economies on the wrong-headed ground that they had no entrepreneurial mentality missed their ‘mixed’ character. Its dualistic attitude epitomizes the tendency of some of Polanyi’s followers to think of societies as being either ‘social’ or ‘free market,’ as if commercial enterprise and interest-bearing debt were incompatible with public regulations and administered pricing. Finley treated it as a primitivist blind alley, like Karl Wittfogel’s interpretation of ‘Oriental despotism’ imagining that irrigated economies had a totalitarian Stalinist-type of authoritarianism. In reality, palaces were sponsors of enterprise and a resilient mixed economy that later provided classical Greece and Rome with their basic techniques of commercial enterprise and interest-bearing debt.

Commenting on how Finlay’s dualistic view has been controverted by the mass of documentation from merchants and investors, Steven Garfinkle notes:

The use of the term “primitive,” therefore, becomes particularly objectionable when applied to the Mesopotamian economy … To Finley, the ancient Near East was not just primitive, it was strange and, therefore, not part of “our” history. By placing the ancient Near East outside of the western experience, Finley was able to justify its exclusion from ancient history; but only if we understand the term “ancient history” to apply exclusively to the carefully screened origins of the “West.” (Garfinkle, 2012: 6f)

Assyriologists have shown the role of monetary gain-seeking entrepreneurs emerging above all in conjunction with the palatial economy, managing royal enterprises and trading with other cities and regions. Indeed, how else could trade and privatization have taken place? (Garfinkle, 2004a; 2004b)

The New Economic Archaeology as an outgrowth of Polanyi’s approach

The New Economic Archaeology is in many ways an outgrowth of Polanyi’s Columbia University group, emphasizing that markets almost always have been regulated to avoid chronic imbalance and insolvency. This school goes beyond Polanyi in emphasizing the role of debt, and also the role of enterprise that emerged out of a symbiosis between Mesopotamia’s palatial economy and individual merchants. The International Scholars Conference on Ancient Near Eastern Economies (ISCANEE) has sought to fill the gap in the history of civilization by a surveying Bronze Age palace and temple enterprise, land tenure, debt and the early development of money, as well as the primordial distinction between commercial credit and agrarian usury.

Our group began in 1994 when I worked with Karl Lamberg-Karlovsky at Harvard’s anthropology department – the Peabody Museum – to organize a series of colloquia to which we invited leading Assyriologists, Egyptologists and archaeologists to find the origins of civilization’s commercial and monetary practices and how eary society managed to prevent personal debt from destabilizing and polarizing economies, as became the case in Greece and Rome. Our group has produced five colloquium volumes on land tenure and urbanization, money and interest, the organization of labor, commerce and enterprise. Together, they show how the basic techniques of commercial enterprise were innovated in the Bronze Age Near Eastern mixed economies.

The first conference was held in November 1994 at New York University, on Privatization in the Ancient Near East and Classical World (published by Harvard's Peabody Museum, 1996). It focused on the relationship between the large institutions and the rest of the economy in an era when land was held by clan units and mercantile activities were dominated by the palace, while temples acted as what today would be called public utilities, supplying handicraft exports to merchants engaging in the import and export trade.

That colloquium was followed by a combination of two meetings, hosted first by NYU in 1996 and the next year by Russia's Oriental Institute in Saint Petersburg on Urbanization and Land Ownership in the Ancient Near East (Peabody Museum, 1999). Its contributors pointed to the role of usury in undermining clan-based land tenure. Debt historically has been a lever to concentrate land in the hands of foreclosing creditors.

These two volumes laid the groundwork for what we intended to be the capstone in our series, dealing with the logic that led Bronze Age rulers to annul rural usury debts and arrears so as to preserve economic stability. The third colloquium was held in 1998 at Columbia University: Debt and Economic Renewal in the Ancient Near East (CDL Press, 2002). In contrast to the then-widespread modernist belief dismissing Clean Slates as a utopian ideal of the past, our group documented legal records showing that these royal amnesties were indeed enforced in practice.

The reason was clear enough: Societies would have succumbed to bondage and monopolization of the land millennia ago they had viewed 'free markets' to mean the sanctity of personal debts being paid. Rome was the first major society not to cancel agrarian and personal debts. For its oligarchy, the 'sanctity of property' meant a license to foreclose on the self-support land and other property of debtors.

Our group was recognized as extending the work of Polanyi's generation, and the colloquium included a visit to the archive of his papers at Columbia. We received such positive responses that we held a fourth colloquium in 2000 at the British Museum on the origins of money, Creating Economic Order: Record-Keeping, Standardization and the Development of Accounting in the Ancient Near East (CDL Press, 2004). The next colloquium was held in Germany in 2005: Labor in the Ancient World (ISLET, 2015). Together, these five volumes have drawn a new picture of the Neolithic and Bronze Age Near East that extends the fundamental insights of Karl Polanyi.

The role of temples and palaces in the origins of money

Money originated in the accounting practices developed by Mesopotamia's large institutions in the 3rd millennium BC to denominate transactions between them and the rest of the economy, headed by payment of taxes, fees and for goods and services. Silver served to denominate the debts run up by merchants for consignments to trade for raw materials and luxury goods (with the palace usually being the major customer), while land rent, fees for services and advances to cultivators during the crop year were measured in grain. Most exchange occurred on credit, to be settled at the end of the crop season on the threshing floor, or at the end of a stipulated trade-venturing period. Acceptance of silver and grain by the palace made them acceptable as general means of payment for the economy at large.

Polanyi emphasized money's legal creation by government. Aristotle long ago noted that the Greek term for coinage, nomisma, is based on the root nomos (the root of our term numismatics), meaning law. What gave monetized commodities currency above all was being accepted as payment of taxes or fees for palace and temple goods and services. Modern governments can pay for social spending and provide the economy with money to grow as long as they levy taxes to create a use value for this money.

Taxes, debt service and public creation of money are ignored by those who follow the Austrian economist, Carl Menger and the fable of money he drew up in 1871. He depicted money as emerging among individuals bartering commodities and preferring small portable objects as their vehicle for exchange and eventually also for saving and wealth accumulation (Menger, 1871/1892). Subsequent Austrians denounced Trade and Empires as a threat to this individualistic and outright anti-government line of theorizing. Fritz Heichelheim called the academic effort 'amateurish' and 'a most regrettable book,' and said that it should not have been published. 'Systematic economic theoreticians will either have to reject or to remodel the ideas about economic history which are expressed in this book,' (Heichelheim, 1960: 108).

Heichelheim earlier created a 'private enterprise' fable that had no role for archaic temples and palaces. He theorized that interest originated when Neolithic creditors 'advanced' animals and seed crops in exchange for a share in the surplus. His 'modernist' assumption that early interest rates reflect productivity, profit rates and risk is not even valid today, yet is applied back in time as if it explains the origin of interest (Heichelheim, 1958: 54f).

The individualistic creation myth of money and interest depicts cultivators and craftsmen bartering their products with each other, and asking for interest for loans of cattle and grain to produce a surplus, out of which the debtor pays interest to creditors. More affluent creditors are said to have preferred pieces of metal for compact and non-perishable means of saving. Left out of account is where this metal is supposed to have come from. Throughout all antiquity it was refined in the temples, which guaranteed its degree of purity, while the palace sponsored the trade to obtain silver and gold. Imported silver was the most prestigious item, with royal donations to temples establishing their social and ceremonial status. The palace made it the main medium for trade and mercantile contracts, and for management of palatial-sector enterprises.

Private individuals bartering cannot be a realistic explanation. A long thread of denunciation of merchants and creditors using false weights and measures runs from Babylonian 'wisdom literature' through the Bible – a light weight for lending or selling, and a heavy weight for debtors repaying and for buying. This literary record makes it clear that even commodity money could never be left to private individuals, because doing so would have opened the gates for creditors and tradesmen to act crookedly. Effective public authority always has been necessary to rein in fraud and guarantee fair dealing in market exchange. That is why fraudsters seek to dismantle government's regulatory ability whenever possible, using the hypocritical slogan of free markets.

Who else but temples and palaces could have provided honest standards? Monetary exchange could not have been workable without their oversight of standardized weights and measures, attesting to the purity of the monetary metals, and sanctions against fraud. That is why silver was minted in temples from Mesopotamia through Rome. Our word for 'money' comes from Rome's Temple of Juno Moneta – the 'warner,' whose honking geese warned Rome of the threat of invasion. (The word 'moneta' originally referred to an omen.)

It is not possible to explain the origins and early development of money without recognizing the catalytic role of the temples and palaces in the 3rd millennium BC. In addition to denominating debts owed to the palatial economy, money provided a basis for palace and temple cost accounting and resource allocation. Employment and production in these large institutions were on a scale far beyond that of interpersonal barter. As part of the redistributive economy, Sumerian temples provisioned labor employed in their workshops to weave textiles and make other handicrafts, which the palace exported for silver and other raw materials.

Temples created and regulated weights and measures for silver shekels and minas, and ku 'bushels' of grain in their sexagesimal (60-based) calendrical allocation system based on standardized 30-day months for ease of distributing salaries. Silver (minted at a specified purity) and grain were designated as the major means of paying taxes, fees and other debts at harvest time. The value of a silver shekel was set as equal to a gur 'quart' of grain for payment of fees and taxes to the palace or other rural creditors. (To be sure, grain was traded among cities at prices that might rise steeply in times of crop failure, such as occurred at the end of the neo-Sumerian Ur III empire.)

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As Lamberg-Karlovsky (2009) points out, 'In the patrimonial state there is little functional division between private and official spheres. Official offices originate in the ruler's household.' In this relationship, profit is not the aim, but stable continuity. Ease of account-keeping and stable price relations were a logic for not letting prices vary. And silver is the prime luxury, exempt from supply-and-demand or cost-profit calculations.

In addition, reciprocity and redistribution are organized along just lines as rational as a market economy, but the logic is different. It is based on establishing a system of regularity and order, not flexible price-making markets.

Third Millennium Mesopotamia's imports did not affect prices either by varying supply and demand or by being substantially more or less expensive. Market prices either were administered or, once set, continued by inertia with little response to shifts in supply and demand except for seasonal variations in crop prices or responses to crop failure. Moreover, rather than relying on trade for everyday essentials as advocated by today's trade enthusiasts, the main imports to Mesopotamia (where prices, weights and measures and hence monetary equivalency is first documented) included producers' goods such as ores, tin, or copper, or luxuries such as gold, silver and luxurious gemstones. The main exports were prestige textiles woven in the temple and palace workshops (mainly with dependent war widows and their children), as well as functional items such as knives and chisels. 'Trade in luxuries (a significant percentage of Mesopotamia's long-distance trade – as evidenced by their archaeological recovery) involved a very small part of the population'.

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These findings are consistent with the findings of Polanyi's early collaborator Leo Oppenheim, who described Mesopotamia's economy as based neither on price-setting 'free' markets nor as primitive, but as a mixed economy with administered prices within the large institutions for their own account-keeping and to denominate payments owed to them.

The dominant role of debt

In view of the problems that debt has caused through the ages, the analysis of how societies have regulated credit and debt should be at the very center of our understanding of money. And in view of the fact that the paradigmatic Mesopotamian debts were owed to the palaces, temples and collectors in their bureaucracy – for fees and taxes, tribute from conquered peoples, and by merchants acting on consignments or orders from the palace – the analysis of early money, debt and fiscal policy must logically go together.

Mainstream economists treat credit (and implicitly, arrears as well as loans) as always being productive and helpful, not as extractive and socially destabilizing. They depict government intervention to annul debts as leading to economic crisis, not as saving populations from impoverishment and disorder. This doctrinaire approach ignores the fact that, in practice, the 'security of debt' meant making ancient debtors falling into arrears liable to lose their land and personal liberty. This meant insecurity of their property rights. That is the real crisis.

Much as Ricardo argued that all foreign debts could be paid by automatic reciprocal demand, modern business cycle theorists describe equilibrium as occurring as a result of wage and price flexibility. To deem widespread foreclosure on debtors' property a viable policy requires an assumption that economies self-adjust in a stable, fair and efficient way. The reality is that deregulating debt and land tenure relationships imposes debt-ridden austerity.

Depicting credit and the financial business plan as having only positive economic effects produces a travesty of history. Viewing debt and its interest charges simply as a bargain between individuals fails to recognize how the economy-wide debt burden tends to grow beyond the ability to be paid. It casts a blind eye toward how financial oligarchies act in the absence of public checks. Money-greed is applauded as if securing creditor claims is the most rational way to organize an economy. The implication is that there is no need for government action from 'outside' the market, e.g., by Clean Slates to reverse the effects of the rural usury that eroded traditional land tenure in the Old Babylonian period (2000-1600 BC).

Throughout history debt has been the major lever privatizing land and reducing populations to bondage. Mesopotamia managed to delay this polarizing dynamic by subordinating creditor rights to the aim of dynastic survival. But classical Greece and Rome lacked the tradition of royal Clean Slates. That was the great turning point. Livy, Plutarch and Diodorus described how debt disenfranchised the Roman population, yet a modern survey citing a seemingly comprehensive list of 210 causes on which posterity has blamed Rome's decline and fall at one time or another does not even include debt. (Demandt, 1984)

Western civilization as a disembedding of economics from its social context

Records disappear in the Aegean after 1200 BC. By the time they reappear six centuries later, Greek and Italian chieftains and warlords had adopted the practice of interest-bearing debt brought by Syrian and 'Phoenician' traders around the 8th century BC. Crucially, however, they adopted it selectively, without the Clean Slates that liberated debtors from bondage and restored land rights that had been lost to foreclosing creditors. Greek and Roman oligarchies privatized credit and freed themselves from royal overrides.

'Free market' advocates pick up the thread of Western civilization 'in the middle,' only after credit, debt and property relations became disembedded and decontextualized from the checks and balances that sustained the Near Eastern takeoff. It is as if the Bronze Age agrarian debt cancellations were a blind alley (or even 'Oriental despotism'). Their exclusion fosters the idea that from classical Greece and Rome to today's wave of pro-creditor austerity and deregulation, the 'sanctity of debt' and foreclosure are a primordial result of Darwinian natural selection and survival of the fittest (namely, the richest), not as leading to social dissolution.

The inherent conflict between rulers seeking to keep their citizens free of debt bondage on the one hand, and creditors seeking their own gains at the palace's expense, has been a thread running down the history of civilization. The distinctive feature of Western economies is privatization of credit, land natural and public infrastructure. That is the real detour from earlier millennia. Archaic societies treated land required for subsistence as a basic right for their citizenry. Instead of commodifying labor and land ownership to make debt bondage and foreclosure irreversible, Mesopotamian rulers proclaimed Clean Slates so as to avoid the financial polarization between creditors and debtors that later brought on a Dark Age. Today the debt dynamic is imposing austerity on today's Western world, transferring property to creditors who have gained enough control over government to block protection of debtors.

Polanyi's optimistic theory of the 'double movement' asserts that when society becomes too exploitative and polarized, there is a reaction to re-socialize it. That is done by re-establishing public regulation of money, exchange and land, with a view to long-term growth instead of short-run financial gain seeking. He expected socialism to provide basic services as a human right, on the premise that people should not have to lose their liberty and rights as the price of paying for basic needs:

Socialism is, essentially, the tendency inherent in an industrial civilization to transcend the self-regulating market by consciously subordinating it to a democratic society. It is the solution natural to industrial workers who see no reason why production should not be regulated directly and why markets should be more than a useful but subordinate trait in a free society. From the point of view of the community as a whole, socialism is merely the continuation of that endeavor to make society a distinctively human relationship of persons.

In his view, 'free market' policies lead to so much poverty and strain that they create a reaction toward greater social regulation. This is a political version of Newton's Third Law of

Motion: Every action creates an equal and opposite reaction. That was the essence of classical political economy's 19th-century reforms moving toward socialism: 'Society protected itself against the perils inherent in a self-regulating market system,' (Polanyi, 1944: 76). Polanyi expected the devastation wrought by World War II to create political pressure to renew the path along which Western economies seemed to be moving before the Great War.

We can now see that there is no assurance that societies automatically evolve onward and upward. Such determinism focuses on potential – what economies could achieve if they use all knowledge to best advantage. Warlords, creditors, landlords and monopolists have deprived populations of the fruits of technological potential throughout history. Neither Polanyi nor any other economic futurist of his day focused on the exponential growth of debt as the main dynamic polarizing economies and serving as the lever to force privatization and reverse Progressive Era reforms.

Polanyi's 'double movement' may take the form of a reaction sponsored by the vested interests against reforms as well as for them. Despite the flowering of British and European democratic socialism after World War II, the 1980s saw such a reaction, in the neoliberalism of Thatcherism and Reaganomics ushering in a post-1980 wave of privatizations and deregulation of property markets. Today's financial lobbyists and their pet academics are advocating government intervention not to stabilize economies but to prevent a social reaction such as Polanyi's double movement.

All forms of society have managed markets. The key is who manages them, above all in the sphere credit relations and the balance between government authority and private wealth. Freeing monetary gain-seeking from regulation is economically polarizing, as when antiquity's long collapse into serfdom sidetracked many societies for many centuries. Polanyi's contribution to social history demonstrates the need to regulate finance, land and labour markets in an overall social context in order to maintain prosperity instead of impoverishment.

Polanyi's focus on modes of exchange emphasized that land and its tenure should be treated as a social institution, not as a commodity. This was not at odds with Marx's view. Each of his economic stages had its own mode of land tenure as well as labor's role in production. Self-support land was the basis for antiquity's citizens and military (until they lost their land and liberty through usury). Under feudalism, conquerors appropriating the land's rent as lords of the land. Under industrial capitalism, Marx expected, land and its rent would be socialized (as it would be for Polanyi). Instead, real estate ownership under finance capitalism has been democratized on credit, with most land rent being paid to bankers as mortgage interest.

Modes of money and credit also evolved from antiquity via feudalism to the modern era. Reflecting the Bronze Age origin of general-purpose money in payments to the palace (or in classical antiquity to civic authorities), prices and interest rates for debt and fiscal payments were administered. That was an initial precondition for stability. Before markets for wage labor, usury became the earliest way to obtain dependent labor and the land of smallholders. However, Mesopotamian rulers proclaimed Clean Slates to avert debt bondage and loss of land tenure on more than a temporary basis.

Roman emperors engaged in fiat currency issue, leading to price inflation as a result of their inability to tax the wealthy families – the only ones able to pay in the shrinking imperial economy. Medieval kings likewise ‘cried down’ the coinage in an attempt to pay for their wars. The alternative was a financial innovation’ royal debt to bankers and foreign bondholders.

When royal war debts could not be paid, creditors demanded mineral rights, public infrastructure and the creation of royal monopolies (such as the East and West Indies trading companies of the Netherlands, France and England). Finance thus became the main lever to privatize the public domain, much as it pried away land rights in antiquity by making the land ‘marketable’ to the wealthy and subject to foreclosure by predatory creditors – irreversibly.

Interest rates are ‘redistributive,’ set by government. So are prices for bonds and stocks under the post-2008 Quantitative Easing pursued by U.S. and European central banks. Pentagon capitalism is not a market minimizing costs as is depicted in textbook free-market competition. It operates on cost-plus contracts, in which military-industrial companies increase their profits by maximizing costs of production.

Behind today’s ‘free market’ advocacy is the power of financial wealth to appropriate the political, fiscal and central planning role that Polanyi, Marx and other socialists hoped to see expanded in the hands of democratic government. The resulting financialized market in property and debt instruments is the opposite of what reformers hoped to create a century ago. The financial takeover of government policy reflects a business plan of asset stripping and economy wide austerity.

This is not what either Marx or Polanyi expected. If it is where Western civilization’s financialized market dynamics are leading, it will be a replay of the collapse of antiquity as a collapse into feudalism.

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