



PHILOSOPHY OF ECONOMICS & POLITICS

LECTURE 10: POLANYI

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Today's agenda

- * Today, we'll finish our series on '**Great Books** on Capitalism and Democracy'
- * ... by looking at what has been called **the greatest critique yet of market liberalism**: Karl Polanyi's *The Great Transformation*
- * Polanyi's book was published in the same year as Hayek's *Road to Serfdom*
- * Both were Viennese intellectuals, and **both occupied with the problem of freedom in an industrial society**
- * But their conclusions were **polar opposites...**
- * First, however, the leftovers from last week!

Evolutionary Rationality

- * Hayek regarded the human mind as a **complex system of rules** that emerged out of a long-term evolutionary process in which supraindividual patterns of interaction exert selective force on the change of those rules
- * We cannot explain all aspects of behaviour as a consequence of intentional choices as the rules evolve as a consequence of **unintended consequences** of earlier choices
- * Three layers of rules: those shaped by
 - * **Darwinian selection**, by
 - * **Cultural selection**, and by
 - * **Individual selection**
- * Hayek is suspicious of the constructivistic design of rules because he believes that the supraindividual process of evolution is more powerful in accumulating information than mere individual information processing

Evolutionary Rationality

- * Recall the **chain-store paradox**: here the incumbent can realise the ‘rational’ (highest) payoff only by behaving irrationally in the second step; but if the rival knows/believes this, he never needs to realise the irrational option
- * Change interpretation: ‘**harem game**’
- * Here the **payoffs realised in the game determine the behavioural patterns** with which players enter future games
- * Evolutionary rationality is a **higher-order rationality** that encompasses rational and irrational behaviour (as defined by traditional rational choice theory)
- * In this way apparently irrational behaviour can be explained, for example co-operation in (one-shot) prisoners’ dilemma or public-goods game due to **social norms and emotions that help to sustain them**

Conclusions

- * The main lessons of last week's discussion are:
 - * There is more than one '**model of rationality**'
 - * There is much evidence that individuals behave in ways that **violate traditional rational choice theory**
 - * There is **more than one way to respond**
 - * Hayek developed an **alternative account of rationality that can explain at least some of the experimental phenomena**

Great Transformation: Main Ideas

- * Drawing on a vast reading of history, anthropology, and social theory, Polanyi sought to explain the **long period of peace 1815-1914**, its collapse and the rise of fascism
- * Answer: an international system, '**laissez-faire liberalism**', composed of: a balance-of-power system between the major powers, the gold standard, the self regulating market, and the liberal state
- * Why did it break down? Considered in the abstract, a self-regulating economy could be perfectly efficient, but in the real world it depends upon **non-commodified inputs**: people, nature, and money
- * The commodification of labour land, and money evokes protective '**countermoves**' on the part of society
- * The rise of fascism and totalitarian socialism are explained by the **deadlock** caused by an inability of liberalism and its opponents to solve social problems

The Great Transformation:

Three main concepts

- * We cannot understand Polanyi without understanding what he means by:
 - * **Embeddedness** (of the economy in society)
 - * **Fictitious Commodities** (land, labour, money)
 - * **The Double Movement**

Embeddedness

- * The Liberal Ideal: A '**Self-Regulating Economy**'
- * With classical economics a fiction took hold of economics: **that economic phenomena could be treated in separation from other social phenomena** such as politics, culture and religion
- * This conflicts with the reality of human societies throughout recorded history
- * In particular Polanyi criticised the commodification of things such as **labour, land,** and **money** – their treatment as economic commodities (which are goods *produced for sale in the market*):
 - * Labour is just productive activity;
 - * Land divided nature; and
 - * Money a government-guaranteed symbol of purchasing power.
- * Modern economics starts by pretending that these **fictitious commodities** will behave in the same way as real commodities but that pretence has severe adverse consequences

Embeddedness

- * These arguments have both a **moral** and a **political** dimension:
 - * *Morally*, Polanyi simply **thinks it wrong to treat nature and human beings as objects** the price of which will be determined entirely by the market
 - * (This foreshadows later environmentalist concerns!)
 - * *Politically*, (neo-)classical economic thinking **ignores the important roles the state plays**, in:
 - * Labour: education, unemployment protection, control of migration
 - * Land: protection of agriculture, environmental and land-use regulations
 - * Money: central banking; management of interest rates and money supply
- * ‘**Laissez-faire was planned, planning was not**’

The consequences of ignoring embeddedness

- * It is not plausible to assume the state to exist ‘outside of the economy’
- * **Market societies need the state to play an active role in managing markets**, and that role requires political decision making; it cannot be reduced to some kind of technical or administrative function (cf. Schumpeter!)
- * Bad things will happen if the socio-economic system is pushed towards more laissez-faire:
 - * Individuals become vulnerable to unemployment
 - * Farmers have to compete with imports, loss of national autonomy in food production
 - * Bad monetary management

The 'double movement'

- * Efforts to separate the economy from society encounter resistance
- * Market societies thus experience **two opposing movements**:
 - * the **laissez-faire movement** to expand the scope of the market;
 - * the **protective countermovement**
- * The 'countermovement', a spontaneous and unplanned response to excessive marketisation, is only partly a working-class movement as all classes participate (cf. last Financial Crisis)
- * When the movement for laissez-faire is too powerful, speculative excesses and growing inequality destroy the foundations for continuing prosperity

Polanyi, Marx, and democracy

- * Even though throughout his life Polanyi was sympathetic to the socialist movement, he differed markedly in his analysis of society and the economy
 - * Most fundamentally: Marx had learned his economics from the classical economists (in particular, Ricardo), and thus assumed economic phenomena to be separate – even more fundamental than other social phenomena
 - * He also disagrees with Marx that a completely unregulated capitalism was even a choice – for him it was a **utopian vision**
 - * Polanyi (much like Hayek) defined socialism as the ‘transcending of the self-regulating market by consciously subordinating it to a democratic society’, which, to him (and unlike Hayek), **allowed markets to continue playing a role**
 - * Depending on how we embed markets in society, **there are numerous solutions that allow for substantive growth *and* democratic direction**

Freedom in a complex society

- * The last chapter of the book asks how freedom was possible in a regulated economy (a good question too since Hayek denied that it was...)
- * To show how it was possible, Polanyi distinguished freedom at an *institutional* and at a moral, religious or *fundamental* level (cf. Tocqueville)
- * At the institutional level, regulation both extends and limits freedom; **what matters is the balance**
 - * Redistributive taxes limit the freedoms of some, but increase them for many others
 - * Ditto with regulations of product quality, workplace safety etc.
 - * And civil and personal liberties must become chosen aims of the societies toward which we are moving (i.e., we need to fight for them)

Freedom in a complex society

- * Moves toward planning should comprise the strengthening of the rights of the individual in society because politics and economics are **better integrated** in a non-self-regulating economy
- * The answer to the threat of bureaucracy as a source of abuse of power (cf. Tocqueville) is to **create spheres of arbitrary freedom** protected by unbreakable rules
- * At the fundamental level, we encounter a **dilemma** if we understand freedom in the liberals' (negative) sense:
 - * we can either stick to a **utopian ideal of freedom**, but that will eventually crash at the reality of society;
 - * or we can **accept the reality of society** and but then have to give up freedom (which is what has led to fascism/totalitarian socialism)
- * Somehow optimistically, Polanyi thought that the **welfare state** (i.e., a regulated economy) could **overcome the dilemma** and preserve freedom (in a different sense) *and* face up to the reality of society

In sum, ...

- * Market liberalism makes demands on ordinary people that, Polanyi argues, are **not sustainable**
- * Workers, farmers, and small business people will **not tolerate** for any length of time a pattern of economic organisation in which they are subject to **periodic dramatic fluctuations** in their daily economic circumstances
- * It is thus inevitable that people will **mobilise to protect themselves** from these economic shocks
- * Unlike Schumpeter, **Polanyi remained optimistic about the future**: he thought the cycle of international conflict could be broken
- * Once free of the obsolete market mentality, the path would be open to **subordinate both national economies and the global economy to democratic politics** (thus to re-embed the economy)
- * He saw a model in Roosevelt's New Deal