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**Revisiting Free Market Utopia:
A Hayek-Polanyi Reminder**

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Abstract. As pundits discuss the causes and results of the 2008 financial crisis and ensuing Great Recession, economists of various strands—led mainly by Keynesians—are slowly beginning to question the supposed wisdom of unfettered markets. Since Keynesian-liberal disputes revolve around the symptoms of the crisis rather than the historical and structural features of market economies, we thought that a Hayek-Polanyi comparison would be a timely intervention in order to understand the real nature of the subject. This comparison may also pave the way for the creation of an alternative to the vagaries of unfettered markets.

Keywords. Polanyi, Hayek, Markets, Capital, State intervention.

JEL. A12, A13, B13, B15.

1. Introduction

Five years on from the official end of the Great Recession, most of the world economy is still in disarray in terms of growth numbers and prospects of opportunities to spur further private investment. While those of the neo-liberal creed have been hapless in explaining the reasons for the crisis and in offering solutions, the Keynesian economists' formula of monetary stimulus to reinvigorate demand through quantitative easing has created a bleak picture, and left the most notable of Keynesians discussing the probabilities of secular stagnation in the near future.

At this juncture, it is opportune to return to the historical debate between two great figures of political economy, namely Friedrich Hayek and Karl Polanyi, since the above-mentioned disputes between neo-liberals and Keynesians generally accept the market economy and its associated institutions as given in a trans-historical manner. From that premise, one may argue that since the days of F. Hayek, the concept of free markets has gradually become a new dogma in the science of economics. Furthermore, as most pundits, and especially Keynesians, question the nature of economics and its methods in a lurid critique of self-regulating markets, it is only fitting that Karl Polanyi's arguments regarding the historical context that created the market economy, and his methods that delve into the inter-subjective construction of economic institutions, should come to the fore again. In contrasting these two influential figures, we wish to emphasize the fact

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there are, in fact, alternatives which can fundamentally alter the nature of the main disputes in political economy today.

2. The Hayek-Polanyi Dispute

The main factor distinguishing these two powerful figures of the 1940s and '50s from each other was the methodology they adopted in describing the nature of social phenomena. While Hayek was a methodological individualist, Polanyi was what Erik Olin Wright called an anti-reductionist. Hayek defined the burden of historical structures on social relations as historicism, but for Polanyi, historicism and the historical context shaping the individual and social lives of human beings were the utmost explanatory factors in social sciences.

The methodological individualism that underpinned so many of Hayek's arguments asserts that in explaining events around us, social categories may be reduced to micro categories or individualist foundations, and at the same time rejects any explanatory power of social categories independent of individuals and their intra-relations (Wright, Levine, & Sober, 1992). As in description of the price mechanism in market economy and how prices are the ultimate expressions of the individual psychologies of market participants, or in his refutation of the feasibility of central planning because of the impossibility of gathering all required data regarding individual positions, his methodological individualist epistemology usually prioritizes the action and intentions of actors. It must be remembered here that, since Weber's time, most followers of this method have stressed that this is an entirely neutral form of explanation, and not value-loaded (Weber, 1922). This is fully in line with Hayek's rejection of use of collective actors in his explanation since, according to Weber, only an individual's mental reasoning can be learned clearly and correlates with objective knowledge of events. In Hayek, this individual action oriented understanding has a dual use, he not only emphasized the priority of human intentions in describing social life, but also argued that the existence of millions of different perspectives regarding the same phenomena shows the limitations of the individual's capabilities in rational actions (Hayek, 1941). Thus, individualism usually react to what they experienced in their immediate environment rather than gather all forms of information related to their future actions, which, according to Hayek, renders central planning and huge collective rational decisions useless, and indeed dangerous for human society (Hayek, 1941). Another point regarding Hayek's individualist methodology is his idea of spontaneous order, which is in line with the limitation of individual reasoning confronted with these multifarious signals. He, asserted that the success of the market as an institution is its open-ended form shaped by the unintended actions of individual subjects. This idea was clearly an extension of Newtonian physics and its explanation of nature without the intervention of humans, for Hayek, if there are spontaneous mechanisms at work in nature's evolution, then the same is applicable to human societies (Hayek, 1979).

However, the subject of market is something entirely different for Karl Polanyi. Despite his differences from Marxists, Polanyi shared the idea that neither economy nor the institution of the market were governed by a spontaneous, machine-like order. They are completely subject to malleability throughout time, and entirely influenced by social conventions and norms (Polanyi, 1944). Historicism, or the specific historical context from which the market emerged, may only be understood through a combination of structural causes using the empirical findings of anthropology and history regarding human perceptions. Thus, this historicist explanation, while rejecting complete methodological holism, attributed some form of explanatory power to both collective level institutions and individual

decisions. One stark example of this in Polanyi was how he explained the collapse of the liberal capitalist order at the turn of the 20th century. Although the specific actions of individuals, firms and states had entirely different purposes like resisting ever-increasing commodification, hoarding over-accumulated profits, and trying to act within the rules of the gold standard all of them in combination destroyed the concept of self-regulating capitalism (Wright, Levine, & Sober, 1992). These arguments place Polanyi at the opposite pole to a methodological individualist like Hayek. At the same time, by not reducing all these factors to one all-encompassing cause, Polanyi defied the limitations and orthodoxy of structural holism, which, in the case of orthodox Marxism, explains human actions entirely through changes in the economic system.

3. Hayek's ideas on Market and Society

In his endeavor to defend the free markets and the concept of competition against supposed encroachments of government intervention and central planning on human freedom, and in line with his individualism, Hayek began with a rejection of any full comprehensibility of general social phenomena by the human mind (Hayek, 1979). That idea stemmed mainly from Hayek's thoughts on the capability of social science, and its inefficiencies relative to the scientific explanation of natural sciences. In his book *Counter Revolution in Science*, the observational areas of these two were contrasted by Hayek. He reached the conclusion that while the natural scientist has to identify the elements that make up the whole structure from an examination of the whole itself, this task is rendered nearly impossible in social sciences, since the subject matter, society, is not a whole but a consequence entirely of the unintended actions of individuals that make up the society. What social science can do at best is to arrive at an approximate reality heavily bounded by human perceptions of that reality (ibid). According to Hayek, given the complex and varying actions of multitudes of people, the suggestion that the natural science method is applicable in reaching an understanding of human societies with all those different views and interpretations, is wrong, and indeed dangerous, since data required for that enormous task is impossible to gather in the first place. This would be a harbinger of what he had to say on the impossibility of central planning in socialism. He further argued that as the appropriate objects of social science are the opinions and intentions of human beings, and these exist in dispersed, incomplete and inconsistent forms, then any attempt to pretend that this imperfect knowledge is an objective fact of human societies would mire the researcher in constant errors. Since knowing that totality is impossible, social science should take individual perceptions and action as the founding source of all uncomprehended and unintended human institutions (Hayek, 1979).

Another fault Hayek cited in his critique of scientism was that social scientists take provisional theories constructed by the popular mind as facts that explain relations among individual phenomena. For Hayek, wholes are never under observation, and treating them as social beings or attributing to them human characteristics was another of scientism's obsessions. Statistical information that humans try to gather to understand social institutions does not, in fact, reveal any knowledge about the real properties of individual elements that make up the whole. Given the human mind's inefficiencies in gathering all necessary information regarding the social whole, it is simply another erroneous attempt to extract historical knowledge simply by observing certain aspects of that totality in a given spatio-temporal limit (Hayek, 1941). Hence, Hayek argued, historical knowledge is often relative and contradictory. As

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opposed to that method, pragmatic explanations that progress from individual human actions may be more successful in clarifying the reasons behind unintended outcomes, i.e. most social institutions. Since Hayek believed these institutions are largely the unintended outcomes of separate individual actions, human efforts to redesign or control these unintended outcomes would severely constrain human freedom.

Another point of contention for him was what he described as the teleological and uni-linear understanding of the development trajectory of human societies (Hayek, 1941). In particular, Marxist arguments regarding changing forms of production and level of development from primitive societies to slavery, from feudalism to capitalism and the eventual socialist project was the most striking example of this understanding of history. As with his thoughts on social totalities, he adamantly opposed the idea that history has such a mission, and also accused Marxists of reading too much into a given episode of human society and rendering this into historical facts (Hayek, 2011).

What made Hayek an individualist was the influence on him of the ideas of earlier German and Austrian philosophers and thinkers on human perceptions and the mind. Like Leibniz, German idealists, focused on human mind and metaphysical harmony that precedes materialist actions. Or, for example, Leibniz's thought on monads, that act independently of each other, and which mean that the intrinsic properties of objects are always superseded by relational properties in ontological questions, since he, Leibniz, took them as mirrors of universe and complete subjects in themselves (Stanford Encyclopedia, 2012). Alan Ebenstein wrote that Hayek was also influenced by Carl Menger's theory of value, which established human perception as the main determinant of value rather than objective measurements of labor etc. (Ebenstein, 2003). Austrian economist Wieser followed on from Menger, and invented concepts of marginal utility, which assigned values to human perception rather than material inputs to the production system. All of these Austrian economists' ideas found their place in Hayek's thoughts on markets and society (Ebenstein, 2003).

In line with those individualistic thinkers and the association of their ideas, Hayek wrote his major work *Road to Serfdom* in the mid-1940s. This was his response to the increasing influence of Keynesian and socialist thoughts on planned economy, which was in ascendance then as a radical alternative to the free markets. The period during which Hayek penned his defense of markets against encroachments, the 1930s and '40s, were chaotic both economically and politically and full of uncertainties as the rise of totalitarianism in both East and West engulfed the concept of liberal democracy. He was particularly concerned with Nazism in Germany and Stalinism in the Soviet Union, both of which he branded as collectivist economy in *Road to Serfdom*. Rather than looking at the historically specific structures of those two countries and delving deep into discussion of differing property relations, Hayek chose to place these two countries in the same basket, since from his perspective both formed an existential threat to human freedom (i.e. Western liberalism). Their social and historical variations were of little importance to him. Like the 17th century English philosopher Hobbes, who wrote *Leviathan* during the troubling times of the English civil war, Hayek was under the impression that the social institutions of World War II were harbingers of a pessimistic future (Hayek, 1976). Thus, these institutions symbolized trans-historical truths regarding the nature of central planning and non-market interventions in the economy. Yet here we see his diagnoses about the nature of central planning within that time frame actually contradicting his own method, since, in his earlier work, he had accused scientism of trying to extract a general truth about society by observing just a short period of history (Hayek,

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1976). Here, one can assert that Hayek's misinterpretation of historicism was some form of teleological understanding of historical development, in which successive developmental stages of human societies follow on from each other with history having a Hegelian mission, and his methodological individualism misguidedly led him to erroneous conclusions.

On the subject of competition, Hayek professed that not only was it the most efficient way to allocate resources known to humanity up to that point, but that it also gave individuals the chance to measure the risks and advantages of their economic choices. Having these qualities, competition was a crucial part of liberal freedoms, as it did not require a conscious human design or intervention in the private life of individuals in the process of realizing its largely spontaneous benefits. With this assertion, Hayek cleverly ignored power differences among various actors with different access to resources, thus enabling himself to consider all interventions in market relationships as forms of coercion (Hayek, 1976). Though he supported some legal limitations—especially against the exploitation of ignorance—he forgot the fact that some commercial activities were direct examples of that exploitation (all arbitrage gains coming from geographical and communication limits in markets). On the issue of competition and monopoly relationship, Hayek took a detour from the entire history of the production process, and blamed the state's cooperation with these large private firms for restricting competition (Hayek, 1976). By stripping these two institutions, state and private monopolies, from their social origins, Hayek formed a moral defense against distortions to the free market. However, from a critical perspective, one may be curious about the formation process of these monopolies within the free markets, as they were not institutions created overnight. During their formative years, all the giants firms made precise use of their structural power in the market to accumulate more resources, in line with the general requirements of capitalist competition. Besides, private monopolies' relations with the state at the point of restricting competition overlooks the structural power of capital in shaping political institutions through codifying tax and other legal frameworks. Hayek's writings treated the issue as if the state remained a neutral observer on the sidelines until a certain threshold was breached by private firms, although this threshold is itself hard to establish: Who determines how much market share by a certain firm constitutes a threat to competition?

As far as central planning is concerned, Hayek dismissed the idea from the start by emphasizing the inescapable problem of coordination among millions of individual decisions. He stressed that if we protect the basic liberties of citizens and respect their life decisions, then it follows that no group of people or institution may have the ability to predict the outcomes of all those millions of separate actions (Hayek, 1976). Though this line of thinking seems like a valid argument at first, a closer look reveals that it completely ignores developing levels of communication and the social nature of economic decisions. Even the price system, so adored by Hayek for its ability to coordinate competition and economic behavior, is not an isolated phenomenon: it has a social dimension and requires communicative practices. As a relevant note, he further criticized central planning as necessitating almost complete agreement in all walks of life for a definite action to be taken to arrive at common ends. For Hayek, this complexity inevitably forces central planning to delegate decision-making powers to an elite group of autonomous bodies (Hayek, 1976). He completely dismissed the possibility of a planning mechanism springing from and supervised on the local level, which seems ironic these days, as neo-liberal free market defenders espouse, more than any other tendency, the technical management of economy isolated from political pressures.

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On page 80 of *Road to Serfdom*, Hayek professed that in central planning, the state ceases to be utilitarian machinery intended to help individuals towards the fullest development of their personality, and becomes instead a moral institution (Hayek, 1976), here meaning value-laden. Similarly to ordinary liberals or positivists, Hayek tended to see the state as a value-neutral body created to serve human needs, and therefore abstracted it from the specific historical processes from which it emerged. And he refuted the probable success of planning, as it must formally eliminate the rule of law in its target to increase the advantages of particular groups in society rather than being neutral towards all sectors, as in a liberal state.

As the global financial crisis spurs doubts regarding the viability of the free market, I have tried throughout this essay to come to an understanding of the philosophical and social origins of Hayek's ideas on markets and society. A possible conclusion is that his individualistic approach to the subject missed quite a few points ranging from historicity of market relations to the social nature of communication that underpins the power of price and competition. Hence, the second part of this study will lead the reader to his rival, Karl Polanyi, and his take on what constituted the origins of market economies and questioning of whether or not they were really an extension of natural human tendencies.

4. Polanyi's ideas on Market and Society

Karl Polanyi and Friedrich Hayek were born in the Austrian Hungarian Empire, and their most influential respective works, *The Great Transformation: the political and economic origins of our time* and *Road to Serfdom* were both published in 1944, while World War II still raged. Despite this, they present to the world completely different views on economic order and state-market-society relations. Indeed, Polanyi's book provides one of the most important critiques of the liberal economic system supported by Hayek and many other scholars. In general terms, as mentioned earlier, liberal Hayek opposes state intervention in the market and claims that such intervention leads to loss of individual freedom, which from Hayek's perspective ultimately leads to tyranny. For Hayek and other liberals, all forms of protectionism are a mistake. The market can and does resolve problems which may arise.

In response to the Hayekian interpretation of unfettered markets as embodiments of freedom, Polanyi, in his research on the social consequences of this rising power of market economy in all walks of human life, pointed out that subordination of three crucial elements—land, labor and money—to the commoditization frenzy of markets leads to terrifying outcomes for human societies. He claimed that land, labor and money were produced and used strictly because of their natural use values, and unlike other manmade other commodities their marketization as another ordinary good endangers the social fabric and gradually undermines the well-being of human societies. Over-accumulation and consumption of land inevitably brings about environmental damage and pollution, while uncertainties involving the labor markets and the presence of large reserve labor, i.e. unemployment, bring with them bad working conditions, and constant market neglect of the needs of human psychology resulting in social dislocation. Thirdly, usage of money in speculative activities and sudden volatility in its supply and demand within market economies creates sudden collapse of companies or economic crises of the sort that has significant fallout for human social organization. Since Polanyi believed that a healthy society cannot bear these crisis-prone tendencies, humans collectively introduce measures to cope with the vagaries of market economies.

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As the markets gradually began to penetrate every sphere of life, Polanyi gave examples from history to support these ideas on the self-protection initiatives of societies. One of his chapters deals with the Speenhamland Laws, which were introduced in the late 18th century and tried to create a scale to measure rural poverty and somehow prevent rural destitution from worsening. He argued that these kind of laws inherently refuted the logic of self-regulating markets in the early industrial revolution (Polanyi, 1944). Since then, other laws to protect agriculture and the prevent overuse of land resources of Europe all aimed to establish a protection mechanism around human society, without which market externalities could easily cripple a society's ability to feed itself through agriculture. Between 1870 and the inter-war era, measures such as minimum wage laws, New Deal policies, increasing unionization coupled with capital controls, and rising protectionism over industry also signified what Polanyi called double movement; a reaction to the ravages of the capitalist economy. In pointing out these historical tendencies, Polanyi not only proved that free markets are not the natural inclination of human societies, but that their operation and penetration into all fields of life require an external force, namely either states or giant companies' monopolistic controls. He further hinted at the relations of alienation under conditions of commodity fetishism which would ossify the human cooperation required to realize human freedom in the societal sense.

Although initially published more than seventy years ago, *The Great Transformation* is still relevant and presents important arguments in understanding the current structure and functioning of political economy. Polanyi starts his analysis by describing the emergence of the modern economic system and stresses the role the Industrial Revolution played in its formation. The economic transformation witnessed in England forms the center of Polanyi's analysis. By focusing on economic history, he explains the evolution of capitalism and major dilemmas originated from this system.

From Polanyi's perspective, state-market-society interactions must be reconciled, and the state has to protect society against the market by mediating the effects of the economy. In England, for example, the Speenhamland Laws were introduced to protect labor, and the state may protect different groups for different reasons. Hence, as Polanyi saw it, the general purpose of the state is protection of society from market effects. These arguments have found many supporters in many countries. Indeed, in parallel with Polanyi's argument, during the 20th century in different parts of the world, states did take several measures to protect their societies against the market's devastating effects. Such measures being taken by states entails political mobilization of the working class and the existence of a strong economy in which people can present their demands. Therefore, Polanyi, in presenting one of the most important critiques of liberalism, supports democratic politics where various segments of a society can express their wishes. In this respect, separation of politics and economics is not seen as natural, but rather perceived as an artificial situation where the goal is to make the state not interfere in the economy.

Polanyi opposes a market economy which functions in a self-regulating system. In a market economy, production and distribution of goods, as well as prices of economic commodities, are determined within this self-regulating mechanism. For Polanyi, a market economy based on a self-regulating mechanism is not a natural phenomenon and it does not emerge automatically. If the state does not interfere in the market economy to take protective measures, the society will eventually be destroyed. In Polanyi's words:

[T]he idea of the self-adjusting market implied a stark utopia. Such an institution could not exist of any length of time without annihilating the

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human and natural substance of the society; it would have physically destroyed man and transformed its surroundings into a wilderness. Inevitably, society took measures to protect itself, but whatever measures it took impaired the self-regulation of the market, disorganized industrial life, and thus endangered society in yet another way. It was this dilemma which forced the development of the market system into a definite groove and finally disrupted the social organization based upon it (Polanyi, 1944; p.3-4).

“Double movement” is the term used by Polanyi to describe the tension which arises as a result of state-economy-society interactions. At one end of this movement there is economic liberalism, which supports establishment of a self-regulating market in which laissez-faire is the main principle. At the other end, however, lies social protection, arguing for applications of various protective measures against the effects of the market economy. While economic liberalism relies mainly on support from the trading classes, social protection is supported by those whose economic and social statuses are negatively affected by the market economy. In other words, the beginning of economic liberalism caused the formation of a countermovement of protectionism (Polanyi, 1944; p.132, 200).

5. Double Movement: Neo- Liberalism in the World Economy

Even in our current era, where the world economy has reached to an unprecedented level of interconnectedness, it is possible to say that the double movement is still going on. People negatively affected by the globalizing world economy are calling on the state to intervene, for application of protective measures and sustainment of welfare systems. On the other hand, economic liberalism still has many supporters, especially powerful ones like the richest segments of societies and multinational corporations who prefer to carry out their operations in a border-free world economy. Since *The Great Transformation* was published in 1944, states have taken measures in line with social protection. In Western Europe in particular, states empowered welfare systems for the purpose of protecting the poorest segments of their societies and in order to halt the expansion of socialism in the post-World War II era.

From the early 1980s onwards, with popularity of the Washington Consensus on the rise, the trend towards social protection was reversed. In this new era, economic liberalism gained in support and social protections measures began to gradually diminish. According to the policies introduced by the Consensus, “the role of the state in the economy should be drastically reduced and the economy should be opened to the outside world [...] governments should deregulate and privatize the economy” (Gilpin, 2001; p.315). Indeed this was the prescription given by the International Monetary Fund (IMF) to all less developed countries (LDCs) and any country on the lookout for international funds was required to obey.

In the post-World War II era, the IMF and the World Bank (WB) became the main pioneering institutions of the new liberal world economy. With failure in the foundation of an International Trade Organization, a new formula was developed and the General Agreement on Tariffs and Trade (GATT) went into effect in 1948. In its first years, GATT did not overly concern itself with the worries of LDCs, and was viewed as “a rich man’s club” by the latter. This perception of GATT meant that during the 1950s most of its members happened to be developed countries with LDCs taking little, if any, part in its negotiations. One of the main purposes of the IMF, WB and GATT was liberalization of the world economy by pulling down any barriers on the path to international trade. In the 1960s, LDCs were able to form a strong opposition to the international trade system proposed by these international

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financial institutions and they formed the Group Seventy-Seven (G-77) (Spero & Hart, 1997; p.216, 221-222). The G-77 argued that while free international trade may very well provide some absolute gains to LDCs, they would gain nothing in relative terms compared to developed countries (Gilpin, 1987; p.276). By the end of the 1970s, although LDCs' calls for a fairer international trade order continued, their influence decreased (Spero & Hart, 1997; p.230), and by the 1980s the Washington Consensus had become the dominant paradigm in international trade. The GATT remained the primary tool of promoting liberal international trade until 1995 when it was incorporated with the World Trade Organization (WTO). With emergence of the WTO, the pressure for liberalization of international trade reached an unprecedented level. As an international organization, the WTO shares the GATT's goal of reducing trade barriers, but instead of being based on an agreement, its authority and responsibilities are broader than the GATT. However, are we living in a borderless world where goods, capital and people move freely? In fact, the world we live in now is not as "global" as these pro-liberal institutions would have us believe. What Polanyi wrote more than seventy years ago is still relevant when describing the international political economy:

[S]ince the 1870s an emotional change was noticeable though there was no corresponding break in the dominant ideas. The world continued to believe in internationalism and interdependence, while acting on the impulses of nationalism and self-sufficiency. Liberal nationalism was developing into national liberalism, with its market leanings towards protectionism and imperialism abroad, monopolistic conservatism at home (Polanyi, 1944; p.198).

In the contemporary world economy, it is no secret that liberal trade policies are promoted by developed countries and that these mostly work to their advantage. Neither is it a secret that even as they use the various international financial institutions such as the IMF and WB to impose these policies on the LDCs, they themselves do not adhere to them. When differences among countries are taken into account, forcing all LDCs to follow the same set of policies clearly does not promote development, but this has been the IMF policy toward LDCs for a long time. Forcing states to follow policies that do not fit with their economic and social structures does not contribute to these countries' development efforts. It simply causes existing problems to become more entrenched. Contrary to the promises of the Washington Consensus, in the era when these policies have been most widely imposed on LDCs, as Lant Pritchett argues, "[f]ar from narrowing, the gap between the incomes of the rich and poor countries has grown markedly and is likely to widen further." (Pritchett, 1996; p.40). Despite the fact that a shift has taken place from social protection to economic liberalism in many parts of the world, double movement is still going on in our current era and Polanyi continues to provide great assistance to us in understanding the tension between economic liberalism and social protection.

6. Societal Responses to Neo-Liberalism

From Polanyi's perspective, contrary to an artificial and unhistorical self-regulating market, protectionism is a natural phenomenon, arising out of the need to protect society from the effects of the market. The demands for social protection, according to Polanyi, are not peculiar to specific classes but may arise from various segments of society. On class interests, Polanyi goes further and argues that they do not provide satisfactory explanations in explaining long-term social processes. For him, the class interest approach contains many fallacies, and he considers the interests of a class to be "primarily not economic but social." Since the social interests of different segments of a society are negatively affected by the market,

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people from different segments combine their power to meet threats caused by the market. Placing too much emphasis on economic interests leads to neglect of social interests. “Social exploitations” like “cultural degeneration” caused by market forces usually take place in parallel with “economic exploitation”. (Polanyi, 1944; p.152-157).

On the process of formation of states, Polanyi emphasizes the role of the working class, who according to him played an important role. The process of the French Revolution helping the bourgeoisie in their war against feudalism also served to help the working class to gain class consciousness and put forward its demands at the political level. As a result, the European working class won protection of various forms against the market economy’s negative effects (Polanyi, 1944; p.174-176).

Treating factors of production, labor, land and capital as commodities endangers society. In arguing that no segment of society is immune to the negative effects of market economy, Polanyi tells us that just as the working class and various other segments need protection against the effects of a self-regulating market, so too do capital-owning rich business people. To try and secure this kind of protection, according to Polanyi, mechanisms such as central banks were introduced. Although protectionist movements for labor, land and capital were seen in different ways and on different scales, they were all caused by “impaired self-regulation of the market” which in turn led to “political intervention” (Polanyi, 1944; p.174-176, 203, 206).

Indeed, civilization as a whole is under threat from the self-regulating market. The goal of increasing material welfare puts society in peril. Any method of intervention “must obstruct the mechanism of the self-regulating market” (Polanyi, 1944; p.219, 231). For Polanyi, the market system looms so threateningly that it even lay at the root of the emergence of Fascism in many countries in the twentieth century, with crisis in the market system leading to the appearance of such regimes. Recognizing the danger emanating from the market system, newly-emerging fascist and socialist regimes discarded the principles of laissez-faire (Polanyi, 1944; p.242). Currently, we can see societal reactions against this neo-liberalism and unfettered market hegemony in the manner of Polanyi’s double movement in Greece and Spain. With political parties Syriza and Podemos in Greece and Spain respectively garnering their political support on a platform questioning the wisdom of neoliberals’ austerity recipes in the aftermath of the Great Recession, cracks have begun to appear in the foundations of the free market idea, although the medium-term results of these parties’ challenges remain to be seen. In the UK and France too, the respective extreme right platforms of the UKIP and Le Pen’s National Front can be counted as challenges to the economic hardships associated with unfettered markets. As yet, these contestations of neo-liberalism and capitalisms failures have not brought any natural end to the system, a reminder to us again that actual organized societal intervention is required to create an alternative system. Thus, these processes further falsify the Hayekian notion of methodological individualism and spontaneous order, while strengthening Polanyi’s position on conceptual frameworks such as institutional embeddedness and double movement.

7. Conclusion

As world economies struggle with negative developments from low growth and higher unemployment to financial bubbles, the future of the market economy and whether it can provide a sustainable way out of the present turmoil is coming increasingly under question. Hayekian liberals and Keynesian economists are the

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most vocal protagonists in the disputes. Throughout this essay, we have tried to prove that markets and their economic effects are neither natural to nor harmonious with human nature. On the one hand, we looked at the Hayekian perception of the market, the perspective which sees it as a natural and spontaneous extension of individual decisions in our society. We then explored Polanyi's approach, which examines the issue of the market from an opposite angle and through the lens of history. He argues that unnatural tendencies to commodify in market economies are inevitably confronted by a strong reaction from society, mostly in the form of state interventions.

In our comparison, it is revealed that while Hayek used methodological individualism, and largely perceived the world ahistorically as an accumulation of spontaneous human actions, Polanyi objected to this depiction of reality and reminded us of the non-commodified nature of pre-capitalist societies, in which gift giving, solidarity etc. were the main determinants of human relationships. Polanyi added that it was only after certain historical conditions were met and through the unnatural support of the state and certain classes that market economy and commodity exchange became the all-powerful determinant of human social relationships.

From the Speenhamland laws of the late 18th century to the recent Syriza victory in elections in Greece, one can see that Polanyi's understanding of societal reaction to protect itself from market vagaries of markets has been happening, albeit in different forms and societal conditions. These societal reactions can be classified as what Polanyi called double movement, and they have become much more significant in the aftermath of the 2008 Great Recession. Thus, at this historical nexus and amidst disputes among pro-market liberal and Keynesian economists on potential solutions to the crisis, a timely comparison of Hayek and Polanyi is a breath of fresh air that helps scatter the illusions of the free markets that they are the natural outcomes of ordinary human action.

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