

The Great Transformation

**Political Economy in the New
Millennium, POL 319
University of Wollongong
Week 6**

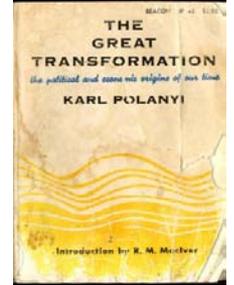
Brief Review

- What is 'capital'?
 - Only three answers in political economy:
 - Neoclassicals: capital is capital goods/equipment
 - Marxists: capital is unpaid surplus labour
 - Nitzan and Bichler: capital is commodified differential power where capitalization is the dominant ritual of capitalist societies.
- Investors capitalize expected future earnings, but earnings are not a narrow offshoot of production but the result of exerting power relative to others, over the entire social process.
- We not only have to think what firms do, but what they don't do.
 - Capital limits and controls the potential of society for profit.

Agenda

- Karl Polanyi and *The Great Transformation*
- The Subterranean Forest
- The Abandoned Road Hypothesis
- Freedom in a Complex Society

Karl Polanyi (1886-1964)



- Hungarian political economist, historian and philosopher.
 - Fled to the USA and later Canada from an increasingly fascist Austria
- *The Great Transformation: The Political and Economic Origins of our Times* (1944).
 - Basic research question: 19th century civilization has collapsed in WWI, the Great Depression and WWII.
 - Why?
 - Must find the roots of this general crisis in the development of a market society:
 - the birth of a new institutional mechanism: the belief in self-adjusting markets.

The Great Transformation

- The exceptional era of market economy:
- *No society could, naturally, live for any length of time unless it possessed an economy of some sort; but previously to our time no economy has ever existed that, even in principle, was controlled by markets. In spite of the chorus of academic incantations so persistent in the nineteenth century, gain and profit made on exchange never before played an important part in human economy. (p. 43).*

The Great Transformation

- *The transformation to this system from the earlier economy is so complete that it resembles more the metamorphosis of the caterpillar than any alteration that can be expressed in terms of continuous growth and development. (p. 42).*
- To understand this transformation we have to return to its birthplace – and for Polanyi as well as Marx and others – this means we have to go to England.

Polanyi's Argument x 3

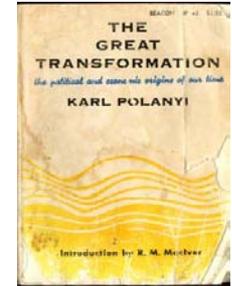
- The first major argument is that the transition to the market economy is largely the result of the machine:
 - ‘...once elaborate machines and plant were used for production in a commercial society, **the idea of a self-regulating market was bound to take shape.**’ (p. 40).
- Everything has to be available as ‘inputs’ into the machine process – meaning they have to be for ‘sale’.
 - Land, labour and money, Polanyi argues, are fictitious commodities.

Polanyi's Argument x 3

- Polanyi's second argument is that the 'self-regulating' market was not a natural outgrowth of society – it did not spring up spontaneously.
- Market society was state directed:
 - The road to the free market was opened and kept open by an enormous increase in continuous, centrally organized and **controlled interventionism**. *To make Adam Smith's "simple and natural liberty" compatible with the needs of a human society was a most complicated affair. (140).*
 - '...the market has been the outcome of a **conscious and often violent intervention** on the part of government which imposed the market organization on society...(p. 250).



Polanyi's Argument x 3



- Our thesis is that the idea of a self-adjusting market implied a **stark utopia**. Such an institution could not exist for any length of time without annihilating the human and natural substance of society; it would have physically destroyed man and transformed his surrounding 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. (p. 3-4).

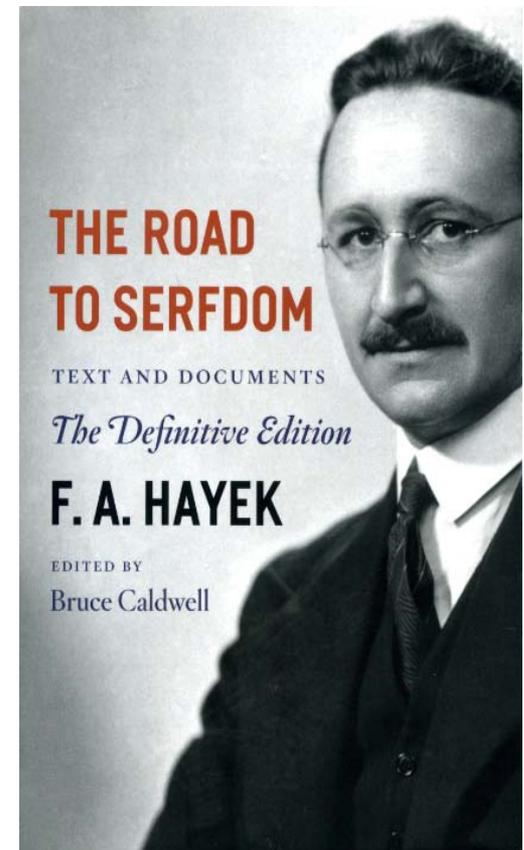
The Subterranean Forest

Book by Sieferle

- What Polanyi, like virtually every political economist, misses, is the transformation in energy regimes that begins in England first.
 - This is not ancillary to the great transformation to a market society, but absolutely central.
 - Jevons is the exception, but we'll talk more about this in a few weeks.
- The transition to coal and market society.

The Abandoned Road Hypothesis

- Hayek offers a completely different interpretation of the double movement.
- My take on a chapter in Hayek's now famous book.
- So what's the hypothesis?
 - it holds that in order to achieve the maximum benefits of freedom and material wealth, global society must not abandon the road to a liberalized market economy as it has done in the past.



Polanyi anticipates this defence

- Its [principle of *laissez-faire*] spectacular failure in one field did not destroy its authority in all. Indeed, its partial eclipse may have even strengthened its hold since it enables its defenders to argue that the incomplete application of its principles was the reason for every and any difficulty laid to its charge...A great intellectual and moral advance, was thus, it is claimed, frustrated by the intellectual and moral weakness of the mass of people; what the spirit of the Enlightenment had achieved was put to nought by the forces of selfishness. In a nutshell, this is the economic liberal's defense.
- **Polanyi argued that revealing the historical inaccuracy of this interpretation was the “most important problem of recent social history, involving as it does not less a decision on the claim of economic liberalism to be the basic organizing principle of society.**

Freedom in a Complex Society

- Socialism, Fascism and 'New Deal' like Keynesian welfare policies were all attempts to deal with the failure of a self-regulating market as it actually affected the real lives of people.
- Polanyi thought that society was moving in the direction of democratic social planning after WWII.
 - 'If industrialism is not to **extinguish the race**, it must be subordinated to the requirements of man's nature. The true criticism of market society is not that it was based on economics...but that its economy was based on **self-interest**. Such an organization of economic life is entirely unnatural, in the strictly empirical sense of exceptional.' (249).

Neoliberalism: A New Double Movement?

From the late 1990s:

Anti-globalization movement

- World Social Forum
- World Economic Forum

From 2011:

The OWS Movement

- The 1% versus the 99%

