PART 3.2

Dynamics of Capitalism (II):

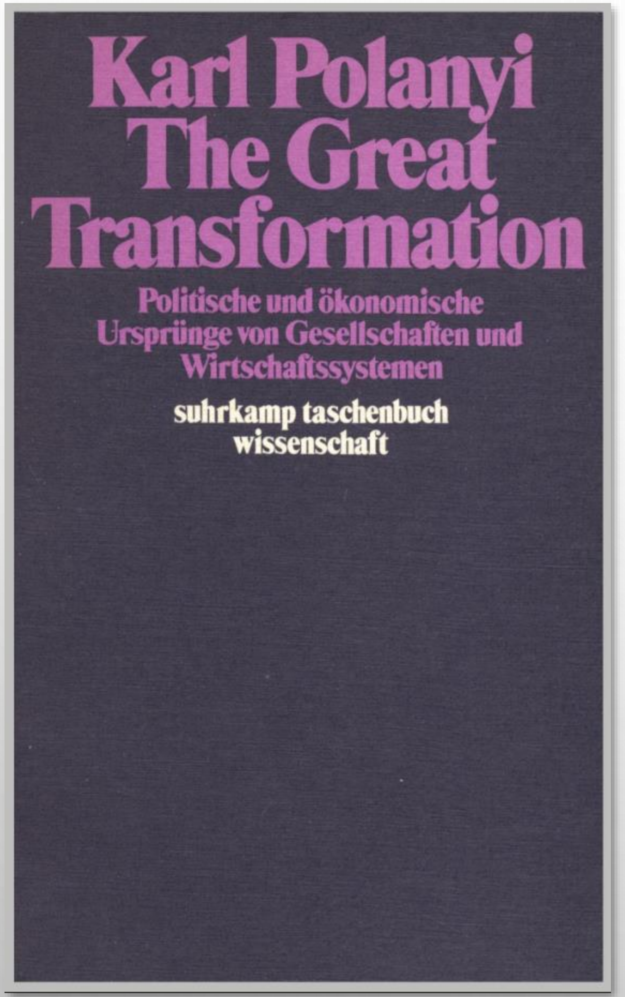
Polanyi &

The Great Transformation

KARL POLANYI

- October 25, 1886 - April 23, 1964
- Born in Vienna
- His most famous work, “the Great Transformation”, published in 1944 (wrote during the World War II.)
- Background of Polanyi's thoughts: the puzzles over the chaotic World War and the rise of fascist regimes from the 1930s

THE GREAT TRANSFORMATION



- The end of the 19th century economic system leads to either fascism (merely responds to dissatisfaction with the malfunction of a market system) or a new conception of liberalism
- Polanyi concludes that the intrinsic processes of the 19th century economic system were ***the mechanisms of its own destruction***
- The Utopian dream of the self-regulating market failed, and the future economic order cannot make the mistake of institutionally separating politics from the economy

CRITIQUES ON SMITH'S THEORIES

- Background of Smith's thoughts: the Industrial Revolution in Western Europe and Britain's relationship with its colony in North America
- Benefits of **the division of labor**: to increase productivity
- Where does the productivity come from?
  1) Improve dexterity through repeating the same task;
  2) Saving of time;
  3) Application of machinery, invented by workers or by mechanists

CRITIQUES ON SMITH'S THEORIES

Smith's ideas on the 'Market':

- Market is not only the marketplace; the agora, souq, bazaar
- Market—more concretely, is human's propensity to truck, barter, and exchange one thing for another—facilitates the division of labor
- **Motivations of market exchange**: self-interest
- Some markets are very free/unregulated, some are more regulated but still essentially market-based
- **The result of market exchange**: differentiation and specialization among people

CRITIQUES ON SMITH'S THEORIES

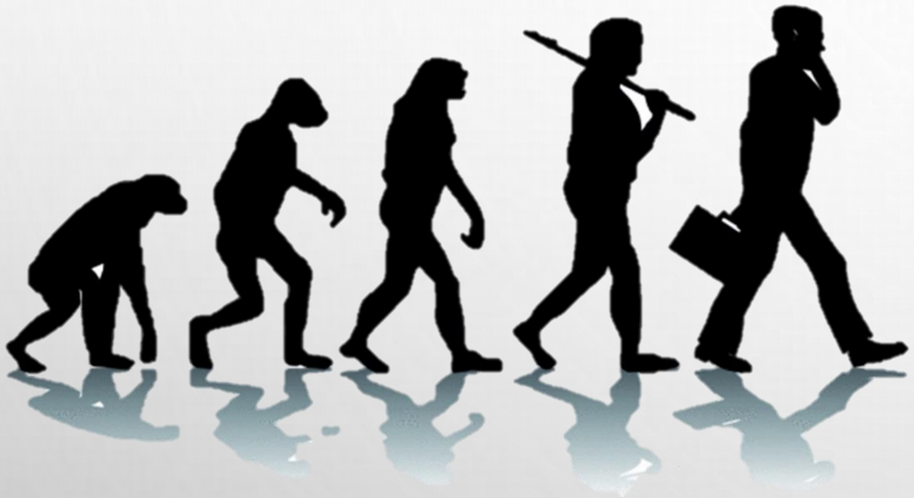
Self-regulating market:

- **Market price** is regulated by the quantity brought to market and the effectual demand
  - When supply exceeds effectual demand: the actual price falls below the natural rate
  - When supply falls short of the effectual demand, the market price rises above the natural price
  - When supply is equal to effectual demand, the market and natural price coincide
- **Natural price of a commodity**: based on the cost of land, labor and materials

CRITIQUES ON SMITH'S THEORIES

- Most economists and developmental agendas are based on Smith's ideal.
- Example: the World Trade Organization
  - Reference on WTO and Smith's thesis: Article: "Who Needs the WTO?" (Economist, December 2nd, 1999)

CRITIQUES ON SMITH'S THEORIES



Two core assumptions:

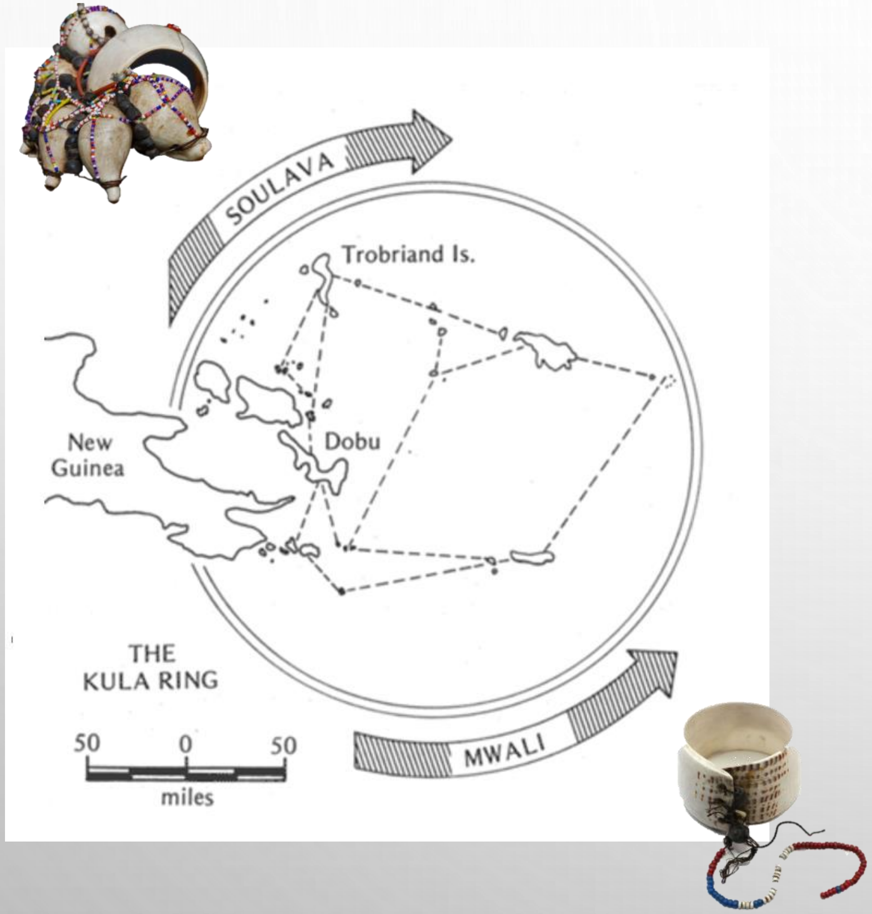
- 1. Market is a uniquely **"natural" form** of economic organization of society
- 2. Human economic behavior is naturally, inevitably motivated by the goal of maximizing profits

POLANYI'S ARGUMENTS

Bronislaw Malinowski

- If the market economy is so new, what came earlier?
- The self-regulating market in Adam Smith's terms, for Polanyi, was a product of a particular political-economic setting during the late eighteenth and early twentieth centuries.
- Under the influence of anthropologist research, Polanyi believes that the understanding of primitive societies would shed light on our understanding of how livelihood should be.

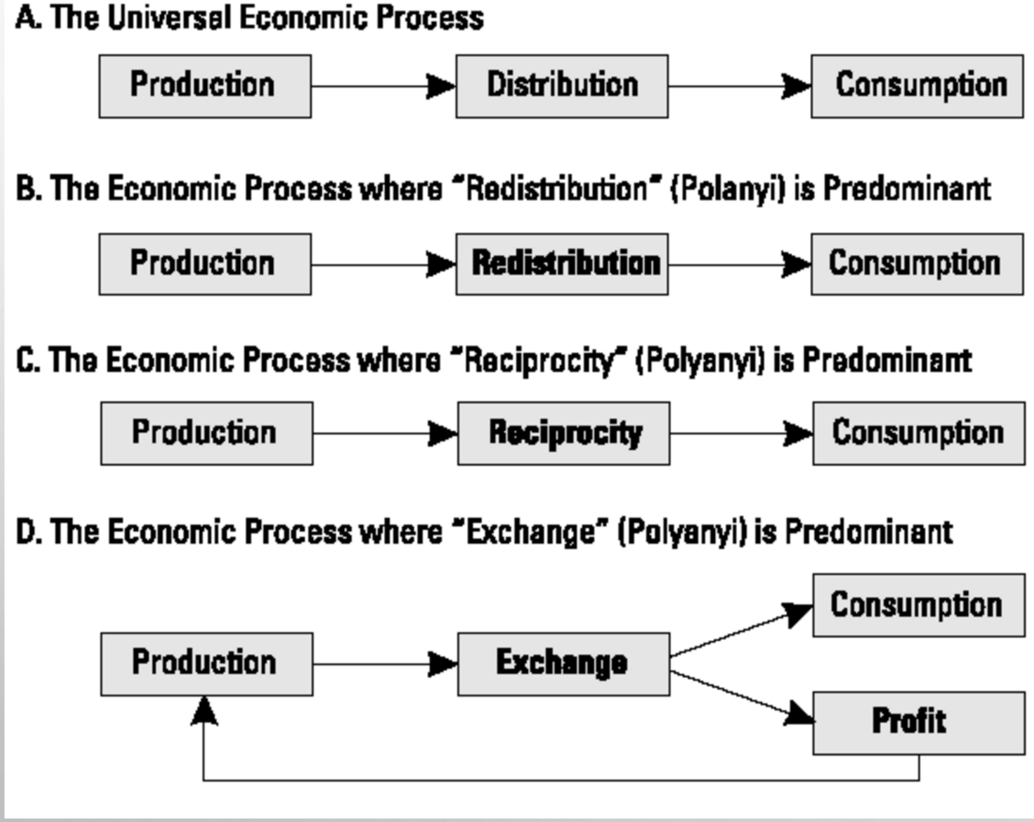
POLANYI'S ARGUMENTS



- Bronislaw Malinowski's research in the Trobriand islands: the exchange beteen a shell (soulava) and other armbands (mwali): one item of trade moves clockwise and the other moves counterclockwise.
- "Why would men risk life and limb to travel across huge expanses of dangerous ocean to give away what appear to be worthless trinkets?"
- The purpose of the trade is not to gain material benefits but to reinforce and strengthen relationships between givers and receivers.
- Reciprocity is an implicit part of gifting; no "free gift" is given without expectation of reciprocity

Source: Roger M Keesing, *Cultural Anthropology: A Contemporary Perspective*, Holt, Rinehart and Winston,New York, 1976, p.322.

POLANYI'S ARGUMENTS



- Economic activities are not only via the market mechanism.
- **1. Householding** (œconomy): Self-production for household consumption
- **2. Reciprocity**: (Exchange between social equals). given-and-take principles (symmetry, regarding two or more axes)
- **3. Redistribution**: (Exchange between social unequals). The allocation of goods is collected in one hand and takes place by virtue of custom, law or ad hoc central decision (centricity, integrating groups at all levels and all degrees of permanence from state itself to units of a transitory character)
- **4. Market Exchange**: Exchange under a price-setting mechanism

POLANYI'S ARGUMENTS

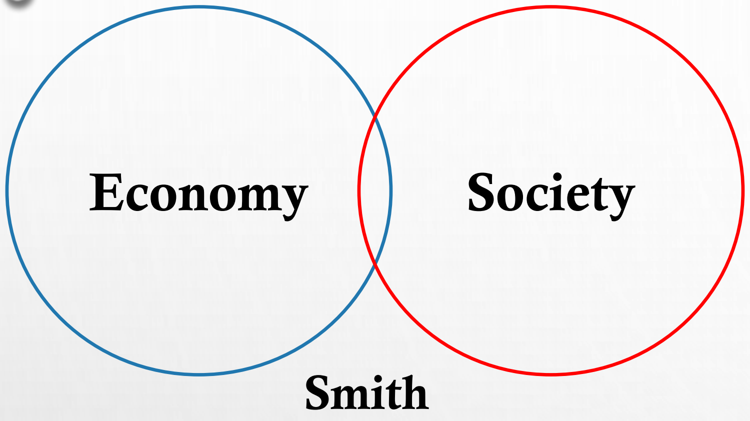


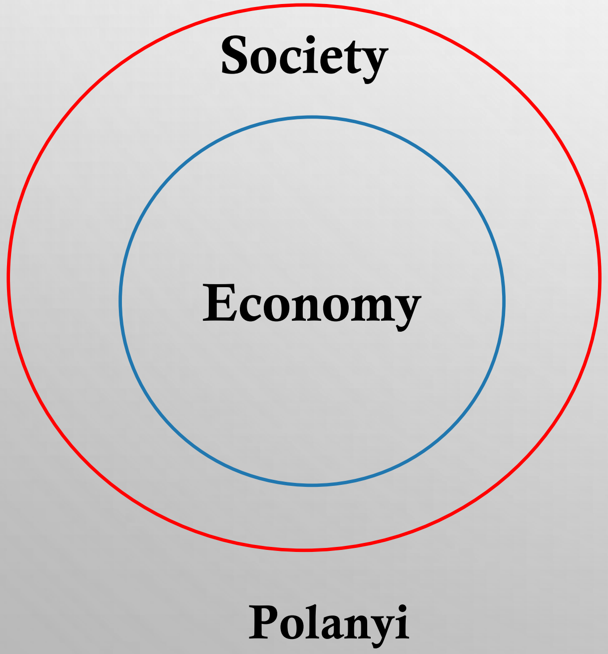

- Economic systems contain these practices in varying degrees and scales.
- An economic system is defined by the most dominant of the practices.
- Early economies were based on Reciprocity, Redistribution and Householding.
- It is only within the last 400 years that market patterns have become dominant.
- Market patterns create their own institutions – markets!

POLANYI'S ARGUMENTS

- The **societal effects** of individual behavior depend on the presence of definite institutional conditions, these conditions do not for that reason result from the personal behavior in question
- "Men's economy is submerged in his social relationships". These relationships are integrated.
- Material motives (such as hunger and gain) should not dominate the economy.
- Polanyi emphasizes the desire for social status and subsistence vs. the desire for maximum profit & accumulation for accumulation's sake

POLANYI'S ARGUMENTS





- Market Economy - based on self-interest – is therefore an unnatural foundation for a society
- "A ***self-regulating market*** demands nothing less than the institutional separation of society into an economic and political sphere. ….
- Such an institutional pattern could not function unless society was somehow subordinated to its requirements.
- **A market economy can exist only in a market society**. …
- In market societies, markets control social relations.
- Instead of the economy being embedded in social relations, social relations are embedded in the economic system.

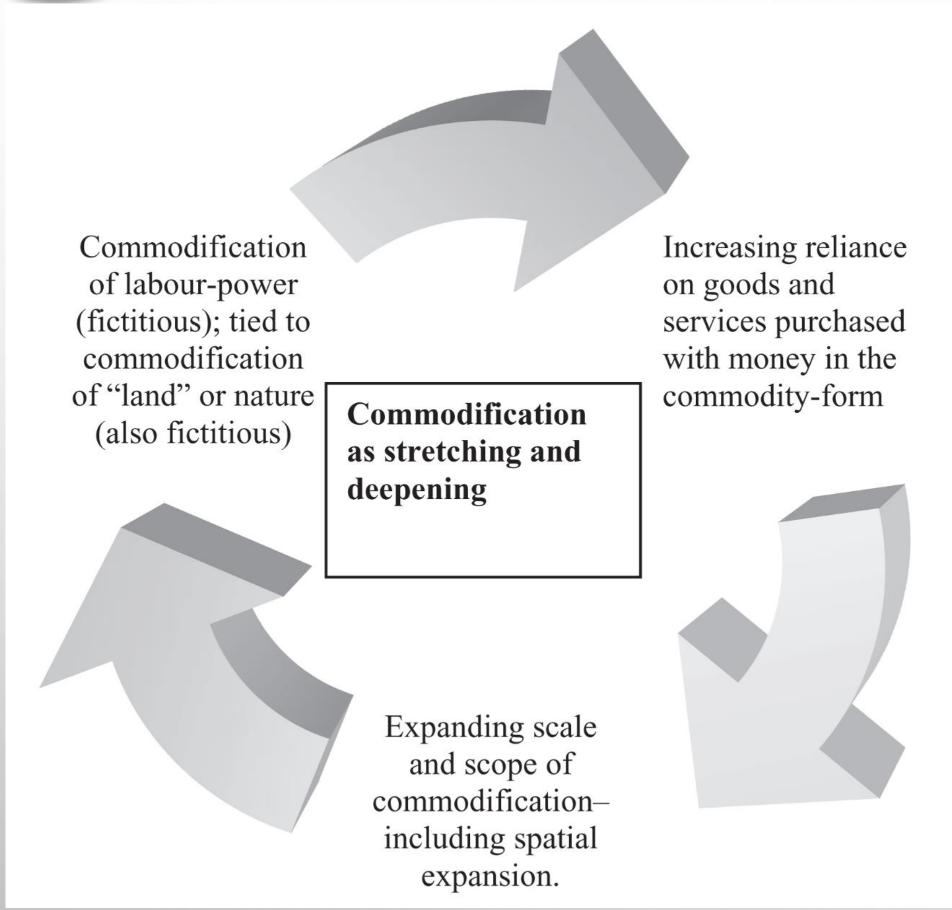
POLANYI'S ARGUMENTS

- A **market economy** must comprise all elements of industry, including labor, land, and money…..
- But labor and land are no other than the human beings themselves of which every society consists and the natural surroundings in which it exists.
- To include them in the market mechanism means to subordination the substance of society itself to the laws of the market
- **Reciprocal and redistributive systems** still feature ritualized exchange, self-interested behavior
- Redistributive power also tends to enmesh the economic system proper in social relationships.
- Can we build an economic system based on reciprocity today?

POLANYI'S ARGUMENTS

- "Laissez-faire was not a method to achieve a thing, it was the thing to be achieved"
- "Laissez-faire was planned; planning was not"
- **Disembedded Economies**

COMMODIFICATION



- As labours mobilized, it increasingly sought through politics the social protection that the economic order could not provide, but in so doing undermined the market system itself
- This transformation paves the way for the commodification of land, labor, and money: the three "**fictitious commodities**"
- A truly self-regulating market will never again be the core of the international order because ***labour, land, and money have been pulled out of the market***

LAND COMMODIFICATION

- ***Land Enclosures*** offer an example.
- In retrospect nothing could be clearer than the Western European trend of economic progress which aimed at eliminating an artificially maintained uniformity of agricultural technique, intermixed strips, and the primitive institution of the common."
- Enclosures increased the value of land, BUT: left the common laborer utterly dependent on employment
- Also, conversion of formerly common land to pasturage reduced employment, damaged the land through erosion

MONEY COMMODIFICATION

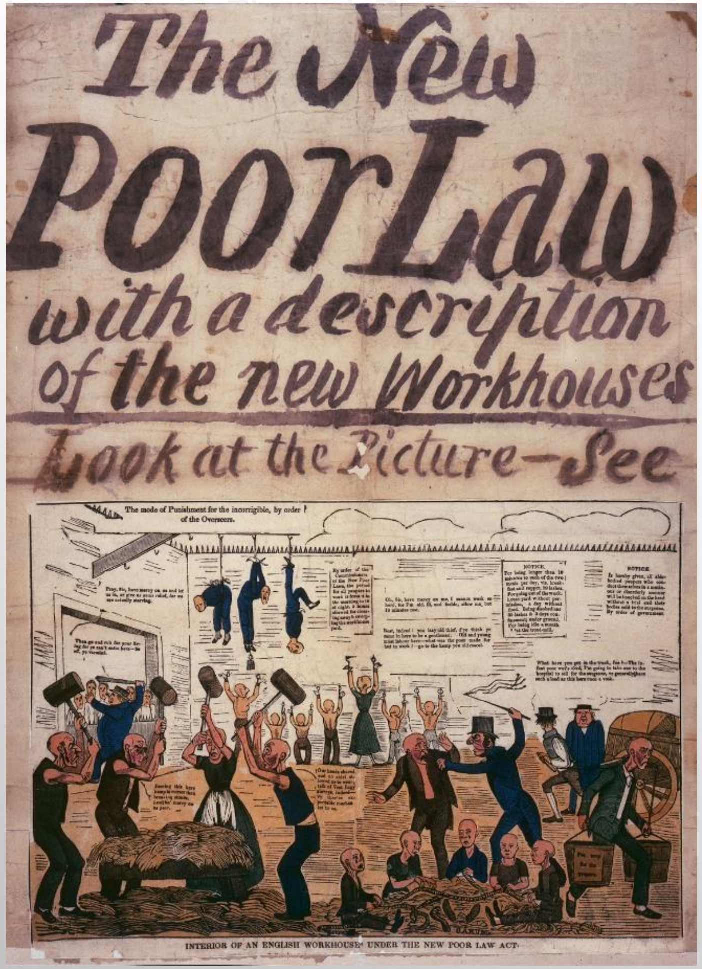
- ***International Gold Standard***
- Money = another name for a commodity used in exchange more often than another!
- 1844 the Bank Charter Act: A gold standard is a monetary system in which the standard economic unit of account is based on a fixed quantity of gold
- Global Market Place Without Global Government!
- "Gold standard and constitutionalism were the instruments which made the voice of the City of London heard in many smaller countries which had adopted these symbols of adherence to the new international order"

LABOR COMMODIFICATION

-BRACERO PROGRAM, 1960S, MEXICO

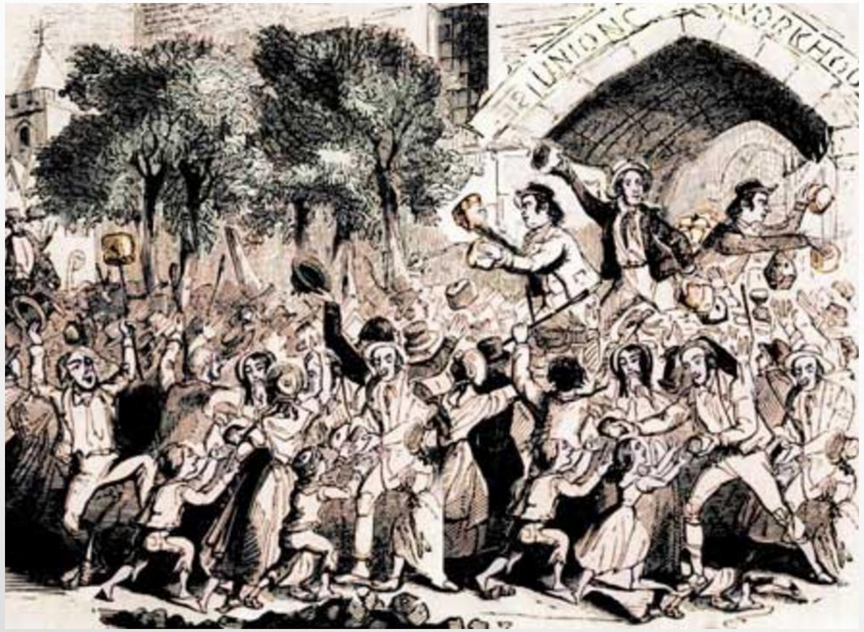
- The mechanization of labor changes the context in which policymakers and laypeople make choices for greater productivity
- The full commodification of labor came after land and money
- The commodification of land, labor, and money cause severe hardships for large groups of people
- Polanyi argues that extreme degrees of deregulation & privatization will always threaten society, provoke social protest

POOR LAWS



- The ***Speenhamland*** system was a form of outdoor relief intended to mitigate rural poverty in England at the end of the 18th century and during the early 19th century.
- The law in 1975 was an amendment to the Elizabethan Poor Law.
- The authorities at Speenhamland approved
  - A means-tested sliding-scale of wage supplements in order to mitigate the worst effects of rural poverty
  - Families were paid extra to top up wages to a set level according to a table.
  - This level varied according to the number of children and the price of bread.

POOR LAWS



- Poor Law reform in decade following 1834 brings about transition to market society (or closest example we've ever had).
- Act abolishes the "right to live." People could move into workhouses, but these were so degrading/full of destitute people that many poor families refused, became homeless and starved.

"If Speenhamland had overworked the values of neighborhood, family, and rural surroundings, now man was detached from home and in, torn from his roots and all meaningful environment"

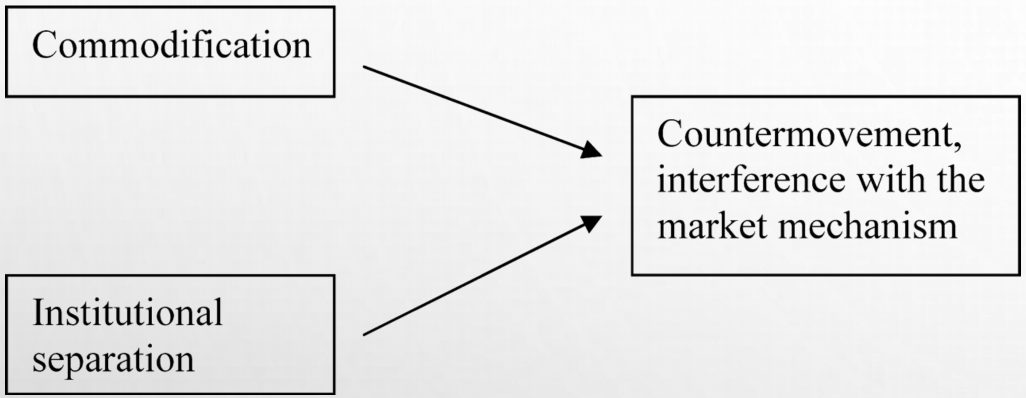
ADAM SMITH:

- “Economic men”
- Division of labor is based on market
- The separation of land, labor and capital

KARL POLANYI:

- “Social Men”
- Division of Labor is based on social relationship
- The integral relationship between land, labor and capital

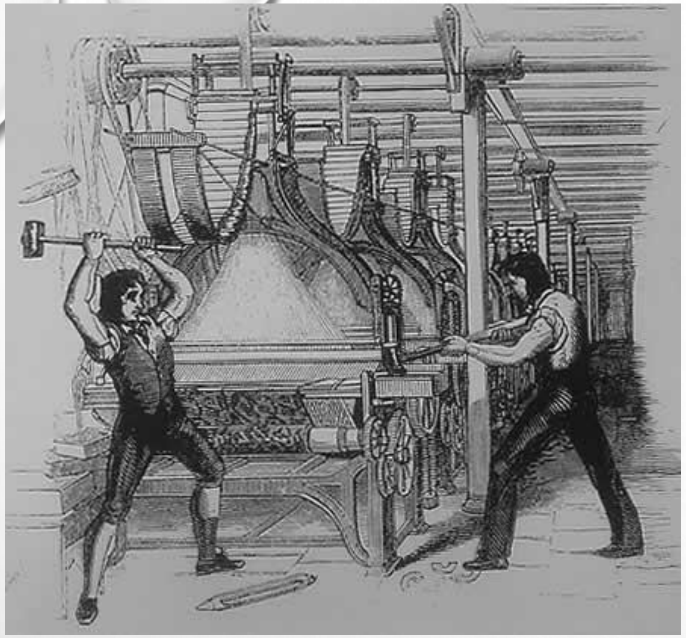
DOUBLE MOVEMENT



- The laissez-faire reformers’ idea to seek to "disembed" the economy is a utopian project, as economies are always embedded in societies
- To the degree the liberal market expanded in industrial Europe, it created ***counterpressure*** among the social groups most vulnerable to its excesses, especially ***labours***
- The dialectical process of marketization will push for social protection against that marketization
- A reactionary "**countermovement**" arises whereby society attempts to re-embed the economy through the creation of social protections such as labor laws and tariffs

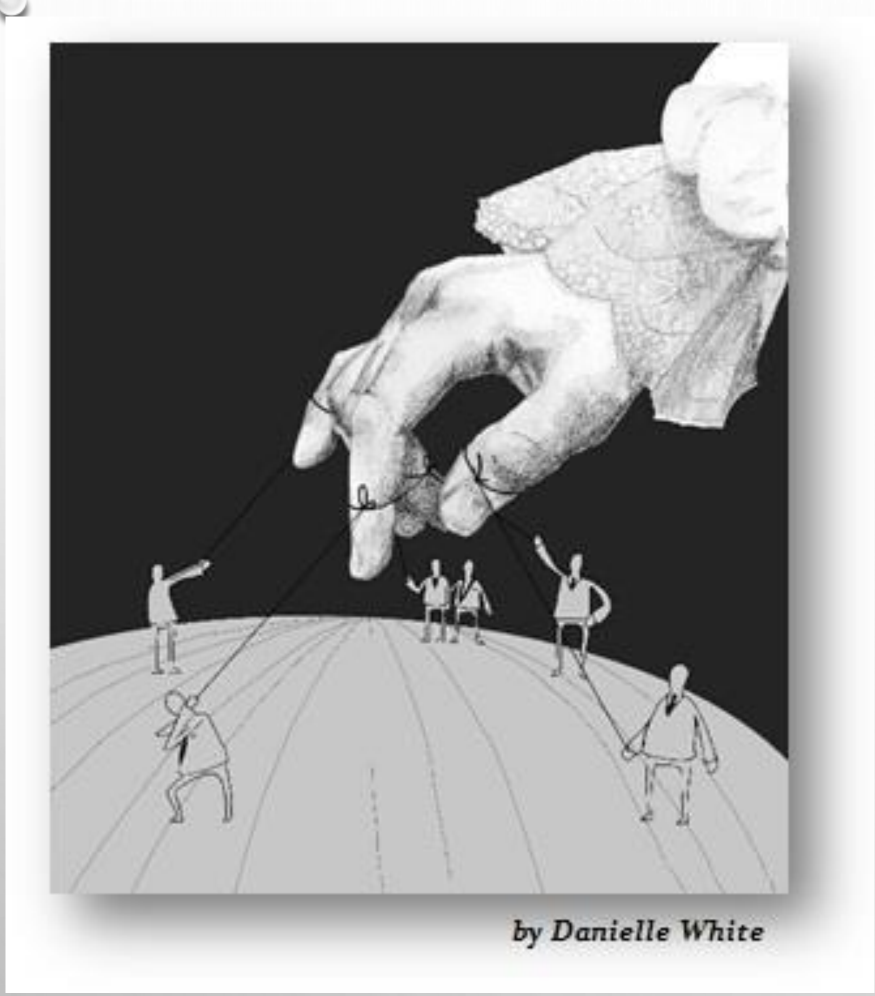
DOUBLE MOVEMENT

- Recession, Business Cycle, Keynes
- Most nations abandoned the gold standard as the basis of their monetary systems at some point in the 20th century, although many hold substantial gold reserves.
- A gold standard means that the money supply would be determined by the gold supply and hence monetary policy could no longer be used to stabilize the economy
- After the World War II, a system similar to a gold standard and sometimes described as a "gold exchange standard" was established by the Bretton Woods Agreements.
- All currencies pegged to the dollar thereby had a fixed value in terms of gold
- Why did the supposedly self-adjusting mechanism of the gold standard fail?
- "Central banking and the management of the monetary system were needed to keep manufactures and other productive enterprises safe from the harm involved in the commodity fiction as applied to money."



DOUBLE MOVEMENT

- Industrial Revolution and Luddites
- Luddites were 19th-century English textile workers (or self-employed weavers who feared the end of their trade) who protested against newly developed labour-economizing technologies
- The British Army clashed with the Luddites on several occasions.
- Parliament subsequently made "machine breaking" (i.e. industrial sabotage) a capital crime with the Frame Breaking Act



DOUBLE MOVEMENT

- "New Deal started to build a moat around labor and land, wider than any ever known in Europe."
- *As long as [man] is true to his task of creating more abundant freedom for all, he need not fear that either power or planning will turn against him and destroy the freedom he is building by their instrumentality. This is the meaning of freedom in a complex society; it gives us all the certainty that we need"* -- Polanyi

DOUBLE MOVEMENT

"Trading classes had no organ to sense the dangers involved in

- *the exploitation of the physical strength of the worker*
- *the destruction of family life*
- *the devastation of neighborhoods*
- *the denudation of forest*
- *the pollution of rivers*
- *the deterioration of craft standards*
- *the disruption of folkways,*
- *and the general degradation of existence including house and arts,*
- *as well as the innumerable forms of private and public life that do not affect profits"*

MODERN DOUBLE MOVEMENT