

# THE GREAT TRANSFORMATION PART 3: NEOLIBERALISM BEFORE IT GOT ITS NEW NAME

Previous posts in this series:

The Great Transformation: Mainstream Economics  
and an Introduction to a New Series

The Great Transformation Part 1: The Market

The Great Transformation Part 2: More on Markets

The text for this post is Chapter 12 of The  
Great Transformation, which begins:

Economic liberalism was the organizing principle of society engaged in creating a market system. Born as a mere penchant for nonbureaucratic methods, it evolved into a veritable faith in man's secular salvation through a self-regulating market. Such fanaticism was the result of the sudden aggravation of the task it found itself committed to: the magnitude of the sufferings that had to be inflicted on innocent persons as well as the vast scope of the interlocking changes involved in the establishment of the new order. The liberal creed assumed its evangelical fervor only in response to the needs of a fully deployed market economy. P. 141

In Chapters 7-9, Polanyi gives a description of the grim state of the working people of England prior to 1832. Forcing people to change from peasants into reliable industrial workers was brutal, but at least most people were able to eat thanks to the Speenhamland system of poor relief. The economic liberals of the day argued against these laws, on the grounds that the best

way to force people to become good little robots was starvation. Polanyi discusses at length Joseph Townsend's 1786 *Dissertation on the Poor Laws*, which reads like the comments of your average jackass Republican congressional or hack economist at the Cato Institute:

But in this day it often happens that the industrious firmer [I think this is the equivalent of a small businessman] is oprest with poverty. He rises early, and it is late before he can retire to his rest; he works hard and fares hard; yet with all his labour and his care he can scarce provide subsistence for his numerous family. He would feed them better, but the prodigal must first be fed. He would purchase warmer cloathing for them, but the children of the prostitute must first be cloathed. The little which remains after the profligate have been cloathed and fed, is all that he can give to those, who in nature have the first claims upon a father.

The only way to insure that this terrible event does not occur is to starve the beneficiaries of the Poor Laws.

In general it is only hunger which can spur and goad [the poor] on to labour; yet our laws have said, they shall never hunger. The laws, it must be confessed, have likewise said that they shall be compelled to work. But then legal constraint is attended with too much trouble, violence, and noise; creates ill will, and never can be productive of good and acceptable service: whereas hunger is not only a peaceable, silent, unremitted pressure, but, as the most natural motive to industry and labour, it calls forth the most powerful exertions; and, when satisfied by the free bounty of another, lays a lasting and sure foundation for good will and

gratitude.

...

... The wisest legislator will never be able to devise a more equitable, a more effectual, or in any respect a more suitable punishment, than hunger is for a disobedient servant. Hunger will tame the fiercest animals, it will teach decency and civility, obedience and subjection, to the most brutish, the most obstinate, and the most perverse.

Hunger was a tool to make the poor work for survival for the benefit of the more delicate members of society, like the English Country Squire or the capitalists behind the cotton mills. This theory was taken up by the utilitarian Jeremy Bentham.

Bentham believed that poverty was part of plenty. "In the highest stage of social prosperity," he said, "the great mass of the citizens will most probably possess few other resources than their daily labour, and consequently will always be near to indigence..." Hence he recommended that "a regular contribution should be established for the wants of indigence," though thereby "in theory want is decreased and thus industry hit," as he regretfully added, since from the utilitarian point of view the task of the government was to increase want in order to make the physical sanction of hunger effective. P. 122-3.

These views were much appreciated by the voters, which at that time included none of those poor people, only people of property, owners of manufacturing, merchants and country squires, along with the aristocracy. When these believers triumphed in the elections of 1832, they abolished the entire structure of poor laws, and loosed the miseries of the self-regulating market on those people who depended for their lives on their ability to sell their labor.

But this free market in labor is just one leg of the liberal economic project. The other two legs, the fiercely enforced gold standard, and the absolute commitment to free international trade, had to be forced into existence at the same time, or, as Polanyi explains, the entire project would collapse. And so it came to pass. England bound itself to the gold standard, and used its military to enforce free trade, especially in grain. That meant the end of England's ability to feed itself, and meant that international fluctuations in the price of gold influenced the starvation wages paid to workers.

The upheaval of these massive social changes was immense, and was thoroughly justified by the liberal economists of the day, including the Englishman William Stanley Jevons, writing in the 1870s, who based his theories on Bentham's calculus of pain and pleasure. Those theories are still the driving force of mainstream economists. It's an article of faith that free trade is just the best, that a sound currency is just the best, that the self-regulating market is just the best, all things on which today's neoliberal economists would agree.

But those same myths affect even today's "liberal" economists. They too supported NAFTA, especially Paul Krugman, on grounds that would be familiar to Bentham. Krugman was sure NAFTA would bring benefits to the US. Here's William Greider writing in *The Nation* on free trade deals:

\_ Like Krugman, governing elites dismissed critics and simply stated that free trade will be good for America because US energies and endless creativity are sure to prevail, as they always have in the past. Opponents like organized labor were typically ridiculed as backward Luddites, promoting what Krugman called "disguised protectionism."

Compare that with Polanyi's description of the

economists of the 1840s on trade:

... the English nation would face the prospects of continuous industrial dislocations in the firm belief in its superior inventive and productive ability. However, it was believed that if only the grain of all the world could flow freely to Britain, then her factories would be able to undersell all the world. P. 144.

England slashed its agriculture sector, and when the First World War started, it was importing 80% of its wheat and 40% of its meat. After German U-boats started their campaign against merchant vessels, the government forced land into grain production, enabling the country to survive with the help of rationing. In the wake of the war, the elites tried to reinstate the pre-war golden age, by reestablishing free trade, the gold standard and self-regulating markets. The Great Depression followed hard on the heels of the crash of financial markets. Regulations piled up on those self-regulating markets. Nations left the gold standard, But free trade was untouchable. At the start of WWII, England was importing "... more than 50% of its meat, 70% of its cheese and sugar, nearly 80% of fruits and about 70% of cereals and fats", and Germany again tried to destroy shipping. The war ended in May, 1945, but rationing was not suspended until 1954.

NAFTA didn't bring benefits either to US or Mexican workers, but it was great for stockholders of multinational corporations.

Both Polanyi and John Maynard Keynes predicted the end of this kind of liberalism in economic thinking. Both have been proven wrong. We just fight the same old battles under new names. This time it's neoliberalism. In each case, the result is the enrichment of the rich.