

THE GREAT TRANSFORMATION PART 5: POLANYI ON MARXIAN ANALYSIS

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The Great Transformation is an examination of the origin of the theory of self-regulating markets and its errors. Polanyi's argument is that when a society is threatened by violent intrusions, such as the sudden introduction of markets as the dominant new organizing principle, it fights back. As discussed in Part 4, beginning in the 1840s or so there was a general feeling among the upper classes that the self-regulating markets were so destructive that social control had to be imposed to reduce the damage and prevent further harm. There was no theory, and no plan, just case-by-case legislative action. Factory and agrarian workers and other members of the lower classes could not vote, so that impetus came from other classes.

Polanyi says that for the society to survive, it was necessary for laborers and the impoverished to come into existence as a class with the right to make demands and expect to see them answered. Under the Speenhamland system and the Poor Laws in effect in the early 1800s, this was difficult, perhaps in part because of the split between those on relief and those with miserable poorly-paying work. When those laws were

repealed and the poor put on the street where they served as the army of unemployed to keep wages at very low levels, it became possible for them to identify as a class. This sounds a bit like Marxian analysis. And, in fact, Marx agreed with the economic liberals of that day that the natural level of wages was the subsistence level. This is from the [Paris Manuscripts](#):

The lowest and the only necessary wage rate is that providing for the subsistence of the worker for the duration of his work and as much more as is necessary for him to support a family and for the race of labourers not to die out. The ordinary wage, according to [Adam] Smith, is the lowest compatible with common humanity, that is, with cattle-like existence.

The reference to Smith is to Chapter VIII of [The Wealth of Nations](#). Smith's analysis of the wages of labor is much more complicated than this quote from Marx shows. He says that wages depend on a number of factors including whether a nation is declining or thriving. He says that in England in the 1770s wages were above mere subsistence, and the lives of workmen were improving. That helps explain the reaction to the intrusion of the free market in labor brought on in the early years of the Industrial Revolution. The sudden change from a reasonably pleasant life to a much more miserable existence contributed to the social demand for restraining the self-regulating market. Smith seems to approve of the higher wages workmen were receiving:

Is this improvement in the circumstances of the lower ranks of the people to be regarded as an advantage, or as an inconveniency, to the society? The answer seems at first abundantly plain. Servants, labourers, and workmen of different kinds, make up the far greater part of every great political society. But what improves the circumstances of

the greater part, can never be regarded as any inconveniency to the whole. No society can surely be flourishing and happy, of which the far greater part of the members are poor and miserable. It is but equity, besides, that they who feed, clothe, and lodge the whole body of the people, should have such a share of the produce of their own labour as to be themselves tolerably well fed, clothed, and lodged.

The laissez-faire cheerleaders of the 1800s and their neoliberal counterparts don't agree, and perhaps Marx' pessimism is more realistic than Smith's approbation.

In Chapter 13, Polanyi gives two reasons for his disagreement with Marxian analysis. First, Marx teaches that classes are the basic elements of society. Polanyi says that far more often classes arise to suit the form society has taken. When a society is stable, class interests can be used to understand the evolution of the society. When society undergoes structural changes, the class structure may fracture. A class that has become functionless may disintegrate and be replaced by other classes or not at all. These structural changes may be environmental, the result of war, technological advance, or the rise of a new enemy. In such cases, class theory doesn't predict the outcome.

Secondly, there is the equally mistaken doctrine of the essentially economic nature of class interests. Though human society is naturally conditioned by economic factors, the motives of human individuals are only exceptionally determined by the needs of material want-satisfaction. That nineteenth-century society was organized on the assumption that such a motivation could be made universal was a peculiarity of the age. ... Purely economic matters such as affect want-satisfaction are incomparably less relevant to class

behavior than questions of social recognition. Want-satisfaction may be, of course, the result of such recognition, especially as its outward sign or prize. But the interests of a class most directly refer to standing and rank, to status and security, that is, they are primarily not economic but social. P. 160.

Of course, the assertion that human behavior is motivated solely by material want-satisfaction wasn't just a peculiarity of the 19th Century, it's the dominant idea of neoliberal economics. The idea that human beings are solely devoted to getting stuff at the best price is central to their models, and to their understanding of their ill-defined markets. It is just as false today as it was in Marx' time. I googled the term "experiment pay compared to other people", and got a bunch of papers and articles saying that pay isn't the important thing. Other factors, including comparative pay levels, and the intrinsic rewards of the tasks are more important. [Here's one](#). Beyond that, we know humans have needs that go far beyond material goods. Just take a look at Maslow's [hierarchy of needs](#). Material goods satisfy the needs for safety and security, but stuff by itself isn't going to get you much in the way of love and belonging, esteem or self-actualization.

One of the goals of neoliberalism is to re-imagine human beings as the utility maximizers of their theories. [Here's a paper](#) that flatly says that money isn't the important issue even for the most sociopathic set, CEOs. Giving them huge bonuses for increasing stock prices doesn't produce higher stock prices. Even the John Galts of the Corporate Jungle aren't good little neoliberals.