THE GREAT TRANSFORMATION PART 4: REACTION AND COUNTER-REACTION TO SELF-REGULATING MARKETS

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The standard history of the industrial revolution in England says that it was accompanied by environmental messes in cities, miserable lives for those with jobs, and even worse misery for those without. One of the victims of that misery was Charles Dickens who worked in one of those factories for several months at the age of 12, while his father was imprisoned for debt. That experience informed much of the social commentary in his novels The damage was not limited to the lives of the poor, but extended to all sorts of problems affecting much of society. There was plenty of agitation for legislation to rein in the excesses of the self-regulating market, and gradually legislation was enacted.

Polanyi gives a list prepared by Herbert Spencer, most widely knows as the father of Social Darwinism, “a social theory that applies the law of the survival of the fittest to society; humanitarian impulses had to be resisted as nothing should be allowed to interfere with nature’s laws, including the social struggle for existence.”, as Wikipedia explains it. The list ranges from restrictions on hiring of boys under the age of 12 to vaccinations to laws requiring the inspection of gas works and requiring vaccinations. Spencer and other liberals decried these laws as betrayal of liberal principles, or as the deleterious actions of the enemies of liberalism, the collectivists.

> This is the myth of the anti-liberal conspiracy which in one form or another is common to all liberal interpretations of the events of the 1870s and 1880s. Commonly the rise of nationalism and of socialism is credited with having been the chief agent in that shifting of the scene; manufacturers' associations and monopolists, agrarian interests and trade unions are the villains of the piece. Thus in its most spiritualized form the liberal doctrine hypostasizes the working of some dialectical law in modern society stultifying the endeavors of enlightened reason, while in its crudest version it reduces itself to an attack on political democracy, as the alleged mainspring of interventionism.
> P. 150-1

Polanyi explains these and all of the myriad regulations passed by Parliament in the wake of the industrial revolution as the natural response of a healthy society to the intrusions of the self-regulating market. There was no conspiracy, and there isn't even a theory justifying these challenges to the self-regulating market, merely a pragmatic case-by-case examination of a specific problem and a more or less reasonable response to that problem.

That won't do, of course. There were two lines of attack by the liberal economists who pushed the theories of laissez-faire. The first one, just emerging when Polanyi wrote, was that the Industrial Revolution was steady evolution of the economy that steadily benefited the poor.

Polanyi explains their argument that by normal measures of population growth and wage income, things were getting better for everyone, including the nascent working class, throughout the industrial revolution. As a result, there was no need for the kinds of interventions that the Parliament imposed.

The controversy continues to today. Here's a brief recent summary by Clark Nardinelli. The data cited by Nardinelli supports the claims of commenter Ian Turner on the previous post in this series, suggesting that despite the theory that subsistence wages were good and useful, manufacturing and other interests were unable to push wages to that level. Today the dispute among economic historians over standards of living, as Nardinelli explains it, isn't as simple as wages and population growth. The concept of standard of living now includes many non-cash items, like living conditions, wars, taxes, famines, working conditions, social ties, social status, and much more. We have a good example of this discussion in the wake of the recent speech by Paul Theroux on poverty in Mississippi, as this by Dave Dayen. Oddly, this discussion mirrors Polanyi as well.

Polanyi explains that the real damage done to the workers was through a cultural catastrophe:

> The economic process may, naturally, supply the vehicle of the destruction, and almost invariably economic inferiority will make the weaker yield, but the immediate cause of his undoing is not for that reason economic; it lies in the lethal injury to the institutions in which his social existence is embodied. The result is loss of self-respect and standards, whether the unit is a people or a class, whether the process springs from so-called culture conflict or from a change in the position of a class within the confines of a society. P. 164-5.

At one level, this is an argument about measuring standard of living, as in the Nardinelli article. Polanyi however uses it to support his idea that when a society is threatened, it seeks to protect itself.

The second main thrust of the liberal argument is that laissez-faire was never fully implemented, and therefore it hasn't had the chance to improve the lives of everyone everywhere.

> … Its spectacular failure in one field did not destroy its authority in all. Indeed, its partial eclipse may have even strengthened its hold since it enabled its defenders to argue that the incomplete application of its principles was the reason for every and any difficulty laid to its charge.
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> This, indeed, is the last remaining argument of economic liberalism today. Its apologists are repeating in endless variations that but for the policies advocated by its critics, liberalism would have delivered the goods; that not the competitive system and the self-regulating market, but interference with that system and interventions with that market are responsible for our ills. P. 149-50.

We hear that argument all the time, regardless of the subject, from conservative economists and conservatives generally. Some things never change.

One of the things that doesn't change is that people accept the general idea of capitalism so firmly that only changes around the edges are allowed in polite discourse, and all regulation effectively requires the consent of the people who benefit from things as they are. This was true in the 1830s, the 1860s and the 1930s (to a somewhat lesser extent) and today. Thus, in the wake of the Great Crash, it was obvious that something was badly wrong with the financial sector. Any benefit it might provide to society was swamped by the misery inflicted by the Great Crash. And yet, when Congress and the Obama Administration considered changes to the regulatory structure, the financial sector was on all sides of the table, and essentially won. Dodd-Frank is weak, and it gets weaker as bad regulators like Mary Jo White listen to the financiers and ignore social demands.

That’s why Bernie Sanders, the Portuguese Leftists, and Jeremy Corbyn are so scary to the oligopoly. These politicians don’t think twice about throwing out broken regulatory and other systems and replacing them with social controls over capitalism.