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**Ideas on polanyi's markets**

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**ABSTRACT:** What makes a market society one that is more beneficial than a society that is state-regulated? Is the world market truly leading towards these types of changes? Prosperity comes from greater interaction between states and markets. Firms drive needs for global trade, but society within states promotes market changes. Some regulation of markets is desirable, while free markets must have some enforcement mechanism of rules to address inequalities and alleviate some of the side-effects of market transition.

**Key words:** Polanyi, Political Economy, Subsistence Farming, Globalization

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**1. Introduction.** One can ask the question, does democracy reduce income inequality, or does it in fact have the opposite effect, especially with respect to Latin America and Eastern Europe? Is a democratic-oriented society more beneficial than a society that is state-regulated? Polanyi asserts that societies that endorse much of the laissez-faire ideology today, especially endorsed by democracies, are sorely lacking in providing needs for the poor and in assessing the problems of the underprivileged. Who are the ones that actually benefit, such as when more industrialized countries go in and invest in a Third World nation (such as Mexico) to build a manufacturing plant, with most of the profits being funnelled back into the host country? Lenin, for one, emphasized this point about capitalism:

Lenin asserted that finance capital was responsible for imperialism, notably for the struggle for spheres of influence, concessions, extraterritorial rights, and the innumerable forms in which the Western Powers got a stranglehold on backward regions, in order to invest in railways, public utilities, ports, and other permanent establishments on which their heavy industries made profits, as cited by Polanyi (2001, 16).

**2. Problems with Income Inequality.** Such are certain gaping disparities that exist even in today's global economy. The call for state regulation of markets is not unwarranted, as Polanyi would advise even the most stable of markets to have some sort of regulation. However, the Washington consensus favours the opposite view and perceives the inequalities as mere side effects that are necessary in any society that is moving towards a freer, more interconnected world system, for they believe that "the key to transformation is 'getting prices right' and getting the government out of the economy through privatization and liberalization," cited by Polanyi (2001, XIV). The challenge is to find which system is the most effective and perhaps view some alternative means of resolving the debate. The most difficult part of a society moving from one of, for example, subsistence farming into one of diversified industries is the fact that there are many people who will not benefit from these drastic changes. The poorest of the poor and those whose

products will become obsolete with emerging technology will be most affected. What is to be done about these people, economically speaking? Democracy is supposed to bring excitement, opportunity. However, we see that this is not always the case, as the reality sometimes paints a different picture in Budapest, Hungary:

Intense, undisguised begging is certainly a new phenomenon in Budapest. Poverty is not new, but the wide-spread perception of misery is, and inequalities are more striking than earlier. Begging, usually considered an offense by the police, was not possible during the state socialist period: the fiction of full employment and security held so strong in the days of high socialism that the motivators for giving—bad conscience or genuine empathy for displayed poverty—did not exist. While taking note of the striking and colourful crowd of beggars during his visit to Moscow in 1926-27, Walter Benjamin observed that one very seldom sees anyone to give. Begging has lots its strongest foundation, the bad social conscience, which opens purses so much wider than does pity. But social conscience is back and it does open purses, but due to the homogenization of neighbourhoods and to increasing motorization, not the purses of those whose conscience is supposed to be the worst: the wealthiest hardly ever encounter beggars. (Field evidence suggests that this is one reason that this is one reason for choosing to drive instead of using public transport on the part of those who have a choice.), according to Bodnar (1998, 499-500).

The only possible alternative to such a situation, Polanyi would say, is to regulate markets so that the disparity of income is minimized somewhat. Public housing can be provided for the poor, as well as public assistance of various kinds. The system of governance cannot always be accounted for in contributing to many of the problems. Even in a stable system with sound political solutions, there is always going to be one group left out, for in self-regulating markets, "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 surroundings into a wilderness," as Polanyi (2001, 3) states. Those in abject poverty, with the help of the state, can be taught to be aware of these types of changes that formulate. The involvement of the state is critical to helping these underprivileged groups to survive, for if no one claims them, they can wither and die. In times of crisis, such as a famine, a Third World nation, such as Mexico, on the brink of industrialization suffers most if it does rely heavily on subsistence farming, as stated earlier. There is little room for compromise when considering the effects of how the total markets will be affected, since profits will virtually be eliminated for the small farmer and the means to survive will decline even further. The state's efforts can offset the losses, provide for a workshop or two on better farming techniques, and even aid the workers in investing in more sophisticated farming equipment. Unregulated markets, particularly those that operate under capitalism, can lead to unintended consequences, not the least of which is providing for the few and taking away from the many. Tony Waters, in an article on Tanzania, for example, explains that activities such as subsistence farming are outside of the typical market activities and can often lead to exploitation if some effort is not made by the state to address this sector of the

economy, according to Waters (2000, 617). Industrialization also cannot avoid certain realities, which "Pauperism fixed attention on the incomprehensible fact that poverty seemed to go with plenty. Yet this was only the first of the baffling paradoxes with which industrial society was to confront modern man," says Polanyi (2001, 88).

**3. Unregulated Markets vs. State Intervention.** Is the world market truly leading towards these types of changes? Is the Washington consensus striving entirely to industrialize with regard for little else? This seems so, since many Western European democracies are pushing ahead with entrepreneurial spirit and with sparse room for many alternatives. What would happen if the unregulated markets were to continue unchecked? Disaster would not only occur in crises, but the income gap would be widened between the haves and the have-nots. This would not be the only problem, but exploitation would occur by host countries to Third World institutions. Exploitation itself "has been perpetrated so often, so persistently, and with such ruthlessness on the backward peoples of the world by the white man" that it remains such a critical issue even to this day, according to Polanyi (2001, 166). One can actually observe this exploitation if one looks carefully at the way that United States' businesses operate in Mexico. For example, many of the factory workers in Mexico (in the plants set up by US and other multinational corporations a corporations are often –non-unionized, poorly paid, and deprived of the social benefits of economic development... according to Sklair (1992, 99). Mexican organizations can pick and choose how they decide to initiate democratic principles, which makes managing at the micro level harder. The labour unions are few, the pay for workers, especially at minimum wage, is much less, and the environmental regulations set forth by many governments have declined to the point of being major hazards throughout this smaller, more vulnerable nation. The most dangerous aspects here are the fact that the environmental regulations would have fewer boundaries or limits as to how much pollution there is. There must be some kind of authority to check on private corporations in maintaining an ecologically friendly approach. Vicki Birch field contends that Polanyi –demonstrated that capitalist production...had to be insulated from the devastating effects of a self-regulating market; despite being a critic of capitalism, Polanyi was...a pragmatist who believed socialist ideals could be accommodated once the myth of the free market was finally disposed of and the economy re-submerged in social life rather than its obverse under economic liberalism, cites Birch field (2005, 587). All of the nightmares of the antitrust and the extreme pollution that everyone hears about will certainly come true if free markets continue unchecked in other nations in the foreseeable future. However, there is hope, as Birch field and Polanyi stated. Prosperity comes from greater interaction between states and markets. Critics should not be so quick to dismiss the old state-run regimes, as they have valuable lessons to learn, since democracy does not come overnight, and a transition to another form of government brings difficult conditions: But if communism is dead as an ideology and a system of rule, its encumbering legacy continues to haunt the political and social landscape. Since the transition was gentle, the bulk of the old *nomenklatura* remains, attempting at every turn, as Elemer Hankiss puts it, to convert its old politically based privileges into new economic rights. This spectacle has

fostered a diffuse but profound sense of injustice and tempted many to follow the radicals in demanding a settling of accounts with officials and the –collaboratorsll who ran the repressive machinery of the old regime. After a soft transition have come economic and social hardship and a search for those responsible for the crimes of the past and the difficulties of the present, as cited by Rupnik (1996, 367).

**4. Privatization vs. Strong State Models.** Markets are only effective when there is a fine line between businesses being profitable while reminding them of their limitations in profit-maximizing schemes. Some aid must be given to workers while they adjust to market changes, and interest rates also must be adjusted from time to time in order to be fair, especially in the capitalist system, which is notorious for its exploitations, as Polanyi would say. Many experts of the Washington consensus argued that there is no need for government intervention; they rest on the idea that the "invisible hand" will right things when they seem to be inevitably going bad. Development itself, in their view, is "little more than the accumulation of capital and improvements in the efficiency with which resources are allocated," cites Polanyi (2001, XIV). However, the invisible hand only works when a system is in place to evenly balance everything and everyone. Not only are such necessary measures as inflation adjustments needed, but subsidizing the poor and the oppressed and new re-training methods in jobs can prove to help workers in the long run. The state should first be allowed to take the initiative, creating sufficient infrastructure that attracts investment. Having both the state and the market work together on achieving a singular vision allows for –the transformation of societies in which each household has the ability to produce what it needs for basic daily survival and social reproduction into ones where market mechanisms *must* operate for households to meet basic daily survival needs,l cites Waters (2000, 615). The market, then. is obligated to follow through once the state takes the lead early on.

**5. Alternatives to Capitalistic Models.** This is perhaps the beginning of some alternative solutions that are available. Today, we realize more and more what the social ills of capitalism can do to those who struggle the most. Privatization of all industries can make things more difficult for legitimizing businesses, and mere privatization of everything leaves less responsibility for any one organization in addressing these –social illsll of society. Capitalism may benefit many, but who is going to help those who are left out if there is no public assistance? The early forms of capitalism show that especially without a labor market it "failed disastrously. The laws governing such an order (the landlord and the allowance system) had asserted themselves and manifested their radical antagonism to the principle of paternalism," cites Polanyi (2001, 84). Also, in this increasingly technological world that we live in with fast-moving markets and jobs that seemingly change overnight, there have to be some safety mechanisms in order to prepare people for these changes. In the rush to impose democratic incentives, the lesson of gradual transition remains steadfast, especially post-Communism to formulating a democratic structure, here exemplified in Eastern Europe:

There are other, more pragmatic considerations that one might add to these. After a negotiated revolution, it would have been awkward to suddenly turn against the very same roundtable partners who allowed the nonviolent transition to occur. While the moral imperative to oust collaborators or the

*nomenklatura* is understandable, it could also undermine economic efficiency. Getting rid of the old economic officials, high-level administrators, and judges may be desirable, but who is to replace them? Dissidents? There were not many of them, and while they were surely virtuous, they are not necessarily qualified to manage the economy or modernize the state apparatus. For liberals, however, the most objectionable idea is that decommunization can provide society with a kind of collective catharsis. Communism's legacy in the structures and mentality of the society was decades in the making. The debate about the weight of this legacy thus leads to a pessimistic vision that extends beyond the reach of moral injunctions: the totalitarian experience soils the victim as much as it does the torturer, cites Rupnik (1996, 367-68).

England was able to withstand change during the Tudor and Stuart dynasties because of certain adjustments that were made by the state: England withstood without grave damage the calamity of the enclosures only because the Tudors and the early Stuarts used the power of the Crown to slow down the process of economic improvement until it became socially bearable employing the power of the central government to relieve the victims of the transformation, and attempting to canalize the process of change so as to make its course less devastating, says Polanyi (2001, 40).

Job retraining programs are an excellent form of public assistance to help those in need and those people who are left "in the dust," with seemingly no one to anchor their problems. When people are eliminated from their jobs because of downsizing, for example, one of the biggest tragedies that comes out of this is the fact that workers can sometimes only temporarily obtain severance pay, but overall many of them lose their retirement benefits. This is one of the most difficult realities that we face today, and so in capitalism's right to maximize profits, it often loses its ability to help others when it resorts to these actions in getting rid of existing jobs that are deemed unnecessary to continue or obsolete because of emerging technology in replacing workers. One can consider another special example in one of many of capitalism's faults. In California some time ago, machines were invented to pick tomatoes to cut the time of having to painstakingly go through the fields and hire people to hand-pick them. However, the efficiency of this technology allowed many workers to be displaced because of the time saved and the smaller number of laborers that were required to operate the machinery. The time may have been well spent in utility of costs, but the many union workers in California saw the machines as a threat to their employment. The workers lobbied successfully to get the machines banned so that many people that relied on picking these tomatoes were allowed to continue without being forced out of the markets. Also, if one takes a closer look, one realizes that if there were no unionization of workers in the state, these laborers would never be allowed to have their jobs. Many of them are poor, uneducated, and little equipped to transfer quickly to other sectors, and many of them come from Mexico and must provide for their families back in their home countries. The problem is that mechanized picking had been a response to the growing strength of labor and the organization of the United Farm Workers...Mechanized picking had been available...for some time, but they only introduced machines into the...fields when...faced with unionization and new labor legislation,||

says Burawoy (1979, 240). A more constructive approach would have been to follow the advice of Trist and his peers on combining the best of both worlds, such as he suggested in mining operations: Trist et al...claim that mechanization of mining, which involves the fragmentation of work and the break-up of the self-regulating, self-selecting work group, leads to higher...stress,...absenteeism, and lower...productivity than a system which involves the mutual adaptation of men and machines in the retention of the relatively autonomous work group of the single-place tradition...Whereas management naturally chose... mechanization to appropriate control...Trist and company suggest that the transition to a -composite work organization in which miners collectively decide how and when to use machines would be more effective

...As in the Western Electric studies, little attention is directed to changes in the environment during the period of observation. Their claim is... general...that machines should not be designed or used to fragment work or appropriate control but rather...to consolidate the responsible autonomy of the primary work group, according to Burawoy (1979, 241).

In an era of globalization, what is the ultimate solution to prosperity throughout the world? Capitalism certainly has gaping holes, but Polanyi believes that there can be a healthy combination of the two opposite trends of this Washington consensus and of state-regulated markets. There are certain parameters within which states can be enforced, and of how markets function; it is through individual actors or societal forces, not through institutions. Corporate institutions especially are how business is conducted daily throughout the world but societal forces shape these decisions. Firms drive needs for global trade, but society within states promotes market changes. A state will keep functioning even if it has no money because a state itself creates policies and can borrow if they have problems; the government is not a corporate entity but runs a country. States promote more open trade amongst nations because firms wish to establish business relationships in other countries, but only because societal forces encourage or discourage these. Firms technically run the markets, but ultimately people, through the governments, are there to set the guidelines and enforce the rules on how business is conducted. People are the ones, Polanyi asserts, who determine, through such reforms as Social Security and the National Labor Relations Act, that "society would decide through democratic means to protect individuals and nature from certain economic dangers," cites Polanyi (2001, XXXVI).

One of the prevailing trends today is deregulation of international trade through lowering of tariffs, fewer export taxes, and other forms of reducing protectionism. Polanyi strongly asserts that institutionalizing capitalism is the worst alternative but expanding society's role in it is the key to finding the balance between extremes of capitalism and state-dominated markets. Favoring a complete change would not help in the search for equality, especially in Eastern Europe after Communism's demise:

The euphoria that accompanied the fall of communism has given way to disappointment, social anomie, and the emergence of new dangers. The unity of the great mass rallies for democracy has shattered, and wide-ranging economic hardship has overshadowed political gain for most citizens. Instead of civil societies, one sees a splintered landscape teeming with corporatism's and resurgent communal

loyalties, cites Rupnik (1996, 365).

For stability and balance in a society, one must set forth a system of finding markets that balance each other and enforce a standard set of international laws based on an international societal consensus. There can be required mechanisms, in that by lowering trade, these countries agree to do these things to make sure that certain social ills do not come about. Exploitation is less of a problem if there is a political system willing to enforce certain rules, like establishing environmental regulations or that there must be a standard for minimum wage based on various economic indicators, for example. This would at least alleviate some of the disparities if one calls for international cooperation and standards on markets. Of course, one cannot resolve all of these societal social ills, but at least having standards and an enforcement mechanism is a good start. Roosevelt's New Deal reforms helped to address a set of mechanisms in that they "meant that the U.S. economy continued to be organized around markets and market activity," but also that "a new set of regulatory mechanisms now made it possible to buffer both human beings and nature from the pressures of market forces," according to Polanyi (2001, XXXV-XXXVI).

**6. Conclusions.** A free-market society, then, is not necessarily better than one that is heavily state-influenced. Economies with many restrictions do not always provide for efficient ones either. Laissez-faire economics tends to leave some of the underprivileged with less to work with, and industrialization is not always the answer. In fact, one realizes that democracy and modernization do not make everything equal in all societies:

Whatever their theoretical and political differences, both Samuel P. Huntington and Guillermo O'Donnell claim that there is a level beyond which further development actually *decreases* the probability that democracy will survive. Huntington argues that both democracies and dictatorships become unstable when a country undergoes modernization, which occurs at some intermediate level of development. O'Donnell, in turn, claims that democracies tend to die when a country exhausts –the easy stage of import substitution,|| again at some intermediate level. Our finding, however, is that there is *no* income level at which democracies become more fragile than they were when they were poorer. Only in the Southern Cone countries of Latin America have authoritarian regimes arisen at the intermediate levels of development. Four out of the nine transitions to authoritarianism above \$3,000 (\$6,000 is considered stable in a nation) transpired in Argentina. Adding Chile and Uruguay, we see that the instances in which democracy fell at medium levels of development are to a large extent peculiar to the Southern Cone, according to Przeworski et al. (2001, 169).

Exploitation of industry in the Third World can indeed result from a host country investing heavily with less need to worry about restrictions, creating more problems and more disparities. Some regulation of markets is desirable, while free markets must have some enforcement mechanism of rules to address inequalities and alleviate some of the side effects of market transition. Polanyi was certain that

collaboration between "governments would produce a set of agreements to facilitate high levels of international trade, but societies would have multiple means to buffer themselves from the pressure of the global economy," cites Polanyi (2001, XXXVI). Globalization continues to reduce barriers, but deregulation with respect to following set policies uniformly throughout the world can help to benefit people of all incomes more equally. Dispersing institutionalization of capitalism and promoting societal factors can come with market reforms in addressing a healthy balance, and so striking the even scale is perhaps most effective.

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