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The Power of Bad Ideas

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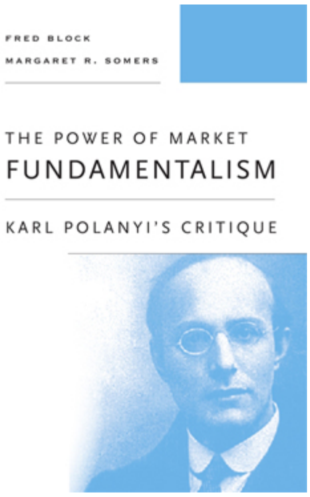
Ford autos assembly line in 1913. Image: Wikimedia Commons.

The Power of Market Fundamentalism: Karl Polanyi's Critique
by Fred Block and Margaret Somers
Harvard University Press, $49.95 (cloth)

Karl Polanyi is far less well known than the big three of economics: Marx, Keynes, and Hayek. But Polanyi's ideas are distinct. Like Marx, he viewed capitalist markets as harmful and a source of social catastrophe. But unlike Marx, he thought they were necessary. Like Keynes, he rejected a zero-sum approach to politics, arguing instead that working-class gains could be achieved alongside business gains. Unlike Keynes, he rejected technocratic politics in which well-trained bureaucrats manage an economy. Instead, Polanyi favored a politics of direct democracy that emphasizes the active political contention and mobilization of all the different segments of society. Finally, he stands in starkest contrast to Hayek. Polanyi challenges the choice between free markets and regulated markets as a false one. Not only are efforts to impose free markets destructive, the assumption that markets can, in principle, be free has never been true, nor could it be.

Yet the free market axiom is now widespread, notwithstanding glaring and recurrent market failures. Once the ideological stomping grounds of the Republican and Tory right, it now forms the rhetorical bedrock of policy paradigms across the Western world. And the neoliberal project to realize this political utopia seems to have advanced since the 2008 crash. In *The Power of Market Fundamentalism* (hereafter *TPMF*) Fred Block and Margaret Somers revive Polanyi to analyze the free market's origins and staying power.



Polanyi's key work, *The Great Transformation* (1944), demonstrates that markets and states are not separate entities, each with its unique and endogenous dynamics. Instead they are inescapably intertwined and mutually constitutive. Markets, in neoclassical economics, are theoretical abstractions that barely reflect reality. From a Polanyian view, what the price mechanism captures so elegantly is not how the market actually works, but rather the *belief* that markets can be autonomous and, if left alone, will obey natural laws of supply and demand that generate positive equilibria, a belief that Block and Somers call *social naturalism*. This approach to economic activity is not unlike the way the biological sciences explain how living organisms know when to heal a wound or the way the laws of physics account for orbiting planets.

Block and Somers's unique contribution is to argue that these public narratives about the economy are key drivers of regulatory policy. Why, for instance, did free market ideals, revived under Reagan and Clinton, weather the storm of the Great Recession, while policies adopted after World War II—policies rooted in people's connectedness and the public good—are long lost? Free market narratives have immense cultural power; the popular rhetoric about the economy plays into centuries-old ways of thinking about the economy and indeed into people's very sense of identity. And this power explains why the free-market policy paradigm is so persistent.

After their thorough and convincing critique it is hard to find much left of the free market to defend. But their argument does not completely satisfy. Why are free market ideas so durable if they are so obviously wrong and destructive? By effectively downplaying business interests and power, and sidelining capitalism altogether, their Polanyian account buries the most important elements of the origins and revival of the free market paradigm.

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Polanyi argues that land, labor, and money are "fictitious commodities" because they are not produced to be bought and sold on the market. The impossibility of treating these fake commodities as real ones shows how assumptions about free markets begin to break down. Like Marx, he thought that when the effort was made to transform labor power into something that is bought and sold on the market, people became degraded, impoverished, and most importantly for the authors, the objects of "cultural catastrophe." Unlike Marx, however, he suggests that labor can't ever be completely commodified, because markets are always socially and politically embedded. Counter-movements inevitably arise to shield people from suffering and protect society. These interventions can take widely divergent political forms—German fascism or the American New Deal, as the case may be.

Block and Somers add to this, arguing that markets are not only embedded socially and politically; markets are also embedded in ideas—what they call *ideational embeddedness*. Social naturalism, the idea that markets are pre-political, autonomous, and ultimately guided by natural laws, is not simply something embraced by Chicago school economists or policymakers. Market fundamentalism taps into our individualism, our independence, our conception of freedom, our sense of self, our very ethos. The authors write, "Its exceptional powers, we believe, are rooted in its promise of a world without politics, a world of almost complete individual freedom where the role of government—so often feared as coercive and threatening to our rights—would be kept to an absolute minimum." This is why the idea of a free market can strike people as intuitive when it is clear it doesn't work according to the theory.

This is not the only unlikely idea to make it to the mainstream. Another powerful justification of market fundamentalism, what Albert Hirschman called "the perversity thesis," has become the guiding ideology of political campaigns to limit government intervention. The thesis holds that the market is "an equilibrium of self-adjustment" and that redistributive social policies to mediate market outcomes actually distort the market mechanism and hurt the people they are intended to help.

Why are free market ideas so durable if they are so obviously wrong and destructive?

TPMF, importantly, contributes new research that pinpoints the moment in history when these ideas—social naturalism and the perversity thesis—became popularized. In 1795, in a small English town called Speenhamland, squires decreed that the poor would be entitled to welfare depending on the going price of bread and their family size. In 1798, Thomas Malthus reacted hostilely in his *Essay on the Principle of Population*, and argued that poor relief eliminates the scarcity that creates work incentives, thereby creating market disfunction. But this did not immediately translate into legislative change. Many elites worried that abolishing the Poor Law would trigger revolution in the countryside. But in 1834, after push-back from landed elites and clergy and with a new Whig government in power, a Royal Commission Report issued a damning critique of the program, spreading the ideas of Malthus to the population. The Report reframed the agricultural downturn as an "enduring parable of the dangers of government 'interference' with the market." The result was welfare retrenchment, the New Poor Law, which substituted workhouses for relief and laid a foundation for social naturalism that persists today. Markets became embedded in ideas.

But there are two key discrepancies in this episode. First, theory and practice diverged. The same elites that advocated social naturalism and the perversity thesis never actually abandoned control of the market, or even attempted to. As Block and Somers note, "Their motivation was to eliminate only the protective social policies that interfered with poor's full exposure to the labor market." Second, Malthus's ideas about the Poor Laws were unfounded. Block and Somers show that his theory could not have applied to the situation in Speenhamland. There simply was not enough time for the means-tested system of relief to have the noxious effects Malthus believed he was observing. As *TPMF* notes, "The ultimate policy triumph of the New Poor Law diverted attention from the new science's first major policy failure and solidified the electorate's faith in market self-regulation."

Free market ideas are sticky in *TPMF*. It is a story of ideational path dependence that directly links Malthus to neoliberalism's persistence today. Social naturalism endures despite being totally out of sync with reality because it corresponds to how we *think* reality works. But Block and Somers don't account for why this framework was adopted in the first place. Why, for instance, do Malthus's ideas win out even when other, seemingly more realistic ideas, were being circulated among the same group of people in the early 1800s? While social naturalism was in its infancy, the socialist tradition was also taking form. Arguably it offered a more reasonable account of poverty. Robert Owen, himself a factory owner, had submitted his own report to the committee of the House of Commons on the Poor Law in 1817 that offered a cooperative solution to the problem of poverty. Polanyi calls him the "realist." Why, then, do his ideas become the stuff of fringes while Malthus's now sit comfortably in the halls of power?

TPMF offers some hints. The Royal Commission was hardly objective in its study of Speenhamland. In 1834 the reformed Parliament included a large number of factory owners who "were determined to create an available, cheap, and 'free' labor force." Unsurprisingly their report "confirmed what the commission had set out to document." Yet this points to something else, potentially much deeper, beyond ideational embeddedness. It points to classes, interests, conflict, and above all else power. But *TPMF* says too little in regards to these issues.

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Given the heavy weight culture carries in debates on political economy in American sociology, it is not surprising that Block and Somers overpitch the causal force of narratives in the analysis. But the load burdens. Because they focus exclusively on culture and ideas, capitalism—our system of private property relations, which produces antagonistic interests by pitting the survival needs of different groups against each other on the market—is barely mentioned in *TPMF*. Following Polanyi himself, at the least the Polanyi of *The Great Transformation*, they instead rely on the "market society." But market society does not work as a substitute for capitalism; as they show, modern political economies are more complex than simple free markets. Their concept is only concerned with exchange. But this is far too limited. How economic activity is linked to domination and exploitation is left unclear. And while *TPMF* convincingly demonstrats that the economy and politics are mutually constitutive, it doesn't give any insight into the relationship between economic power and political power.

These omissions are apparent in their analysis of welfare cuts in the 1990s. Block and Somers suggest that Clinton's retrenchment, the Personal Responsibility and Work Opportunity Reconciliation Act of 1996, was triggered by Charles Murray and Gertrude Himmelfarb's popular books reviving Malthus's perversity thesis. They write, "Ideational change was the engine of new welfare legislation that dramatically restricted the access of the poor to assistance." It was this "ideational re-embedding" that made welfare reform a goal in the first place; responsibility does not lie with an ascendant movement of business and the right intent on subjecting more workers to the whip of the labor market. That business elites might have a class incentive to cut welfare falls from view. Instead, retrenchment was primarily the result of voters changing their frame of thinking about the economy. But how did this shift in American attitudes toward welfare occur? If opinions were even partially shaped by Nixon's wedge issues, a ramped up public relations effort by business organizations, and the anti-welfare rhetoric of Reagonomics, then popular opinion begins to look more like a proximate cause than the main one.

Block and Somers give us ideational embedding but little else. Surely ideas can be causes. But a fuller picture would also show why some people are committed to and organize for certain ones. Ideational embedding alone offers no real explanation for why certain political circumstances favor some and not others (class interests) and why some groups enjoy the dominance of cultural trends that are consistent with their objectives while others do not (power).

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This is not just a matter of emphasis on cultural processes rather than economic interests. It points to a crucial difference between *TPMF* and accounts of the rise of neoliberalism that emphasize class antagonisms. A different view, which the authors reject, is that the revival of market policies was the project of a politically resurgent and active corporate community. Therefore, when they discuss why the Clinton and the Democratic Party embraced the perversity thesis and cut welfare, there is no mention of the ties that bind the Party to organized business or any indication that the labor movement had been severely marginalized as one of its core constituencies. Instead they say that the Democratic politicos promoted free market ideas because of their "electoral potency," which suggests that American policymaking and politics are pluralistic and actually reflect the collective will of the citizenry.

This choice to remove capitalism from the story is intentional. In other work Block has rejected the concept as too property-centered. For Block, capitalism is a blinder, hindering the ability to see other social formations that can emerge within a system in which the so-called means of productions are privately owned. In an essay published in *Policital Power and Social Theory* (2012), he writes that one of the weaknesses in using the concept is that it "leads us to imagine that there is immense power behind that existing set of arrangements rather than understanding those arrangements as the contingent product of a particular historical moment." His alternative de-emphasizes the primacy of economics and the accumulation process and highlights the contingency of politics. In doing so it gives the authors a justification for looking to alternatives within capitalism as more desirable than those beyond it.

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Block and Somers conclude by offering something of a Polanyian blueprint for the future. Their vision of "durably subordinating the economy to social life," what Polanyi calls "radical democracy," comprises three distinct ideas. First, the scope of public issues decided by democratic institutions should be expanded. Today decisions with huge public consequence are made privately (a factory's CO_2 emissions or a person's choice to drive a gas guzzler, for instance). How markets work, just like the election of political leaders, can also be decided democratically. But a vision needs to animate this expansion of democracy.

Second, Block and Somers argue that a Polanyian philosophy of the public good "would first and foremost dethrone the privileged power of economic ideology and would instead establish the importance for public policy of social, cultural, and historical knowledge." Here the focus is on "social provisioning" as a "means by which people cooperate to sustain the kinds of institutions, allocations, and social practices that support collective livelihood." In moral terms, Polanyi wants us to accept that "the reality of society" is "the interdependence of persons and institutions," not the free market, and that we are not merely obligated to protect ourselves but also to protect the greater social whole.

Third, they offer some historical comparisons for what a Polanyian alternative might look like in practice. Drawing on Polanyi's reflections on municipal socialism in Vienna, they propose an arrangement that would benefit both labor and business, with Sweden's "social democratic breakthrough" in the 1930s as a kind of model to emulate. In social democracy, capitalist markets would survive and businesses would continue to earn profits, but firms would willingly accept regulatory restraints, taxation, and the steady expansion of social welfare institutions. Polanyi's vision is not Marxist—capitalism remains the only game for Block and Somers, and while in their account markets are subject to some controls, they are not fully submerged in democratic processes.

They suggest that such an alternative was almost attained in America after the New Deal, writing, "By World War II and through the following decades . . . American business made its peace with the expanded role of federal government," and social democratic policies produced steady economic growth and security. But it is not clear that this is true. The "golden era" was not a result of business and labor happily finding a common cause, and labor historians have never embraced the idea of the labor-capital accord. Most agree that businesses begrudgingly accepted regulations, higher levels of taxation, and a welfare state *because* there were strong and mobilized unions and community organizations that had the support of at least a portion of the Democratic Party.

But consider at face value the notion that social democracy makes business and labor interests compatible. If the arrangement was mutually beneficial, why is social democracy now in retreat? The authors suggest that without the articulation of "a new governance philosophy and a new conception of human freedom," social democrats have had no compelling vision to counter market fundamentalism. This suggests that market fundamentalism is not just inaccurate but wholly irrational, reemerging because the vox populi shifted despite being at odds with the economic interests of *both* business and labor. If this is the case, then who or what is the driver? Is it the economists who kept market fundamentalism alive, like a cancer in remission, during Keynesianism's halcyon years? Bringing capitalism back in shows that business might not have been so happy with the welfare state after all.

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TPMF is a thorough critique of free market ideas, but discarding capitalism makes its depiction of markets themselves unclear. Unlike the peasant's village market, modern capitalist markets are characterized by production for exchange and profit, markets for labor, private ownership of the assets of production, a reliance on bank-credit money. But like conflict, interests, or power, Block and Somers never directly address these features. Instead they discuss markets only as economists understand them—i.e., according to the theory of markets that they seek to overturn.

By ignoring their constituent parts, they spare capitalist markets a full critique. In the opening chapter, *TPMF* argues that "markets are necessary" even if "they are also fundamentally threatening." Block and Somers never explicitly say, but one can't help but think that part of their own reasoning for why capitalist markets are necessary is the price mechanism. Markets are hyper-intelligent information processors. In other words, they think that capitalist markets are, if regulated, mutually beneficial and pragmatic institutions because they map widgets to wants. If not, what else about capitalist markets could be necessary? But as Block and Somers themselves show, you can't partially agree with market fundamentalism. Its claim depends, full force, on the idea that markets can in fact exist as autonomous and pre-political entities. You can take it or leave it.