

Market Liberalism and Social Protection: Hayek, Durkheim and Polanyi in Theoretical Perspective*

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The relationship and interaction between economy and society have occupied the debates in social sciences ever since the Industrial Revolution. The elaboration of classical economics in England (i.e. the heart of the Industrial Revolution) by figures such as Adam Smith and Ricardo was followed by its economic and cultural critique by a variety of social thinkers, the most vocal and politically active of which was Karl Marx. Over the centuries, both the classical economic approach and its various critiques went through great transformations and further elaborations. Especially the critique of classical liberalism diversified significantly, including into its ranks great thinkers such as Durkheim and Polanyi, while both classical liberalism and Marxism were resurrected as neoclassicism/neoliberalism and NeoMarxism. This paper examines the views of the prominent neoclassicist, Friedrich A. Hayek in contrast with the critical views of the eminent sociologist, Emile Durkheim and further demonstrates the divergence and contrast through the work of Karl Polanyi, whose interpretation of the 20th century history posits a dichotomous dynamic of struggle between the Hayekian and Durkheimian propositions.

The implementation of Market Liberalism provokes a societal response from the people because the individuating tendency of neoclassical economics contradicts with human beings' inherent tendency to socialize, associate and organize. The individuating tendency of market liberalism destroys societal bonds and meaning in life, giving rise to a destabilizing and alienating Anomie for the people, since meaning is produced in and through social groups only. People, unable to find meaning in life anymore and fallen into moral and political anomie, attempt to restrict and regulate, if possible, to revert, the expansion of the self-regulating market.

In this paper, I will argue that the economic liberalism is against the nature of human beings (i.e. neoclassical propositions about the nature of man are not right and/or utterly deficient and conditional) and thus provokes a response from the people in favor of reestablishing regulation, morality, collective discipline and meaning in life. I will further argue that the inherent tendency of the human beings to socialize, associate and organize can only be satisfied if economic improvement and industrialism are subordinated to the fundamentally social requirements of man's nature.

Central to Hayek's views and ideas is his conceptualization of the individual, individual's relationship to the society-at-large, the nature of the economy and the interaction between the economy and the economic behavior of the individual. The triangular relationship between the individual, the market

economy and society determines the character of Hayek's argument. Hayek is an individualist in the sense that, for him, the individual is the building block of society.

Hayek, as any serious social thinker, has a particular description of the state of nature and of society. Implicit in Hayek's views is the idea that the individuals existed prior to society in the state of nature. The individual precedes the society both historically and conceptually. In this sense, Hayek follows the idea that the society is composed of individuals engaged in a contractual relationship, an idea which was promoted by the 'founding fathers' of Liberalism such as John Locke and John Stuart Mill. Accordingly, the society can be broken down to its individual particles and examined as such. Moreover, any scientific (i.e. including economic) or philosophical approach to society and life in general has to take the individual as its reference point. Hence, Hayek departs from the individual and arrives at society through the individual.

Once Hayek characterizes human condition only through its individuality, any human entity that exceeds the individual in its scope (family, community, nation, class, etc.) appears as an arbitrary condition brought by a necessity of some sort (i.e. security, teamwork necessary to execute hard tasks, etc.), and as such, can have no justification beyond the end it is meant to achieve. 'Society' as such is a means to material ends, and is unjustifiable without reference to those ends. In sum, social condition is an arbitrary condition, an undesirable bondage brought by necessity, an evil to be overcome as civilization advances in creating self-sufficient individuals.

At a more conceptual level, such individualism correlates with an inductive method that attempts to understand the whole through its particles since the whole is nothing but an aggregate of its constituent parts. But in order to understand fully the logic of Hayekian individualism and market liberalism, one has to examine the characterization of the economy, the market and the portrayal of the individuals' market behavior as rational economic agents.

For Hayek, economic activity, and the market as the sphere of economic activity, are *ahistorical*, *amoral*, *an end in themselves* and *independent of social norms* (although –and ironically enough– economic activity can be impeded by socially imposed restrictions...). Although there is nothing larger in scope in human condition than the individuality of human beings, there exists, outside of human influence, the boundless market as the sphere of economic activity, which functions according to its own ahistorical, amoral, asocial and unalterable laws, and regulates material abundance and scarcity, a fundamental dichotomy that human beings have to consider in order to survive.

Hayek's conceptualization of the economic activity is *ahistorical* in the sense that he does not refer to any historical processes whereby it came into being or have been altered; the same fundamental and eternal rules are assumed to be functioning from the beginning of time. Although he criticizes his colleagues fiercely for "an erroneous transfer to social phenomena of the habits of thought we have developed in dealing with the phenomena of nature,"¹ Hayek himself asserts such ahistoricism, the corollary of which can only be found in the most

'positive' of natural sciences (like astrophysics) where all-encompassing rules do not allow any exceptions or specifications to disturb the purity and unity of theory and practice. Neoclassicism is in this way more positive and materialistic, and more blind to non-economic social phenomena, than Marxism, for example.

The *amorality* of Neoclassical analysis derives, once again, from its history- and society-blind positivism outlined above. The science of Economics, if it is to be scientific in the positivist, natural scientist sense of the word, has to avoid being normative and become utterly descriptive while providing predictions for the future outcomes. Laws such as marginal rate of substitution are not grounded on moral principles, religious beliefs or cultural roles, but rather, are devoid of any meaning outside of themselves. Max Weber proved us, through his *Protestant Ethic and the Spirit of Capitalism* that it is possible to ground such otherwise meaningless rules of free market liberalism on a religious-cultural context. Yet neoclassicists like Hayek do not attempt to draw such cultural specificity; they attempt to portray these rules as being universal but not universal in the sense that they are the product of all human societies; rather, such laws exist outside of human influence, like the laws of nature, and exert pressure on all human societies alike as exogenous –and unalterable- variables.

The claim that the laws of economics have no meaning outside of themselves is attached to another claim, namely, that economic action is an end in itself and not a means to anything else. The popular view that the economic action is a means to secure the material conditions necessary for life is not true in the Hayekian worldview. This claim indeed complements the greater claim that *the sphere of economic action is not a branch of social formations but an independent, self-regulating and self-assertive realm outside of the social*. Accordingly, Hayek does not hesitate in idealizing “a system of telecommunications which enables individual producers to watch merely the movement of a few pointers, as an engineer might watch the hands of a few dials, in order to adjust their activities to [momentary] changes...”² This description of the economic action as such life-consuming occupation demonstrates an unpronounced aspect of Hayekian neoclassicism: Expressed in purely economic terms, ‘life and economic action become substitutes.’ An individual economic actor is constantly confronted with the need to attend meaningless economic activity at the expense of his life.

What are the key features of Hayekian neoclassical economics and how do they sustain a society in an utterly individualistic worldview? First, the *market* is the name given to the sphere (i.e. world) of economic action which is not a branch of social formations but an independent, self-regulating and self-assertive realm outside of the social. This leaves us with a worldview which is dualistic in the sense that an utterly individuated human world exists along with a naturally ordained self-regulating market, and in the interaction of these two (human and natural) worlds, the self-regulating market has the upper hand in imposing its will and asserting its laws on human beings. Everything has a numerical value, determined by the ‘marvelous’ price system as Hayek chooses to call it, and all the commodities are traded at their respective numerical values

in the market place. Even in societies where free market liberalism is not instituted, the laws of it function, albeit in an impeded, or more appropriately, in an inefficient way. Secondly, the system of market exchange relies on the cooperation of human beings through the *individual maximization principle*, whereby each and every individual seeks to maximize his gains. Although partially derived from Utilitarianism, the individual maximization principle does not mean the market outcome will produce the most happiness for the most people; it simply means that the market exchanges are carried out in an efficient manner. In a situation where both outcomes are undesirable for the individual, which is rather common in the market place, the individual is given the option to choose the lesser of the two evils. This is an efficient outcome. Thirdly, *a system of preferences* systematizes the pursuit of individual maximization by all individuals, which, if it was not systematized, could be completely anarchic and not conducive for scientific inquiry. These three principles, the *market*, the *individual maximization principle* and a *system of preferences* constitute the three pillars of neoclassical economic theory.

What then is the society? For the neoclassical theory, society is an aggregate of individuals, drawn together to a market through the individual maximization principle. What we call society is indeed the market! “The whole acts as one market, not because any of its members survey the whole field, but because their limited individual fields of vision sufficiently overlap so that through many intermediaries the relevant information is communicated to all.”³ The whole (i.e. society), which has a meaning and is an end in itself for most other social thinkers (for example, Durkheim), does not have these qualities for the neoclassicists. For Hayek, society emerges as a byproduct of market behavior and economic interaction, and beyond this, it has no purpose and appears arbitrary. Hence, the emphasis of liberalism on individual freedoms against the arbitrary power of the social authority (i.e. state) can be understood in terms of the fundamentally liberal belief in the arbitrariness of society. The anarchic scattering of the individuals in the state of nature was only overcome due to the individual maximization principle which has driven these otherwise unwilling individuals into a market, which we call a ‘society’. Once established, this market society is ordained through a system of preferences underlying individual maximization.

Centered around a particularly individualist –and liberal- description of the state of nature and based on the three familiar assumptions mentioned above, Hayek takes off to solve *the problem* as he defines it to be. “It is a problem of the utilization of knowledge not given to anyone in its totality.”⁴ This problem seems particularly perplexing at first, since “the knowledge of the circumstances of which we must make use never exists in concentrated or integrated form, but solely as the dispersed bits of incomplete and frequently contradictory knowledge which all the separate individuals possess.”⁵ Information (i.e. knowledge) that we hope to utilize in solving problems of economic readjustment is not scientific and/or statistical knowledge but “the knowledge of the particular circumstances of time and place.”⁶ And in possessing this knowledge, “practically every individual has some advantage over all others,”

since everyone knows the circumstances around him the best.⁷ In this way he resolves the problem between centralized planning –carried out by the State-based on statistical aggregation of economic variables and a decentralized planning based on the individuals' self-adjustment to economic conditions in the market.

Since economic activity in the modern age is so complex and diversified, Hayek's proposal to decentralize economic activity seems feasible in that, decentralization would delegate authority to the man on the spot in economic life. But instead of advocating the delegation of authority to local and regional groups in organizing economic activity, Hayek asserts that "competition...means decentralized planning."⁸ His assertion points out to the liberal belief that there is a pattern (i.e. plan) that emerges through unregulated and unrestrained individual action.

Two possibilities for criticism emerge in this context: First, one can successfully claim that not a pattern but anarchy would emerge from unrestrained pursuit of individual desires because individual desires are not complementary but conflictual. Second, one can claim that there are social/collective interests, which cannot be satisfied through unrestrained pursuit of individual desires.

What does Hayek's utopia imply for human development and what character would the individuals develop and maintain while participating in such a deregulated/decentralized market?

"It does not matter for him why at the particular moment more screws of one size than of another are wanted, why paper bags are more readily available than canvas bags, why... All that is significant for him is how much more or less difficult to procure they have become compared to other things with which he is also concerned, and the causes which alter their relative importance are of no interest to him."⁹

As it is directly revealed in the above quote, individuals in such a free market are unquestioning and uninterested as to the causes of economic processes. A human being is not only reduced to an individualized economic agent, but to an agent whose mere function is to readjust his position quantitatively in accordance with the fluctuations of the economic environment. "In any small change he will have to consider only these quantitative indices,"¹⁰ and as such we are advised to establish a rational economic order, "a system where the knowledge of the relevant facts is dispersed among many people, prices can act to coordinate the separate actions of different people in the same way as subjective values help the individual to coordinate parts of his plan."¹¹ Neoclassicism prescribes an unquestioning individual, unquestioning and utterly individuated, and hence powerless against any concentration of power, be it financial tycoons or the state. This individual is further alienated from life by being reduced to an economic agent whose sole occupation in life is a quantitative adjustment, a response to the question: How much?

In this context, Hayek celebrates and marvels at the price system "as one of the greatest triumphs of the human mind,"¹² without which the Mankind would "have developed some other, altogether different, type of civilization, something

like the state of the termite ants...”¹³ The indispensability of the price system for any rational calculation is coupled with the claim that without the price system we could not preserve a society based on such extensive division of labor like our industrial society.¹⁴

What problem does the price system solve and why should we establish a rational economic order with mechanized individuals as its particles? Assuming that the “economic problems arise always and only in consequence of change,”¹⁵ and that “the economic problem of society is one of rapid adaptation to changes in the particular circumstances of time and place”¹⁶ as such, Hayek asserts that the great contribution of the pure logic of choice is that it has demonstrated that even a single mind (i.e. an individual) could solve this kind problem only by constructing and constantly using rates of equivalence, i.e., by attaching to each kind of scarce resource a numerical index which cannot be derived from any property possessed by that particular thing.¹⁷ Hayek suggests the neoclassical market economy and the price system as a means to cope with the complexity of modern economy in that he believes only the price system and an individuated, decentralized economic organization to be flexible and dynamic enough to cope with the challenge of rapid adaptation.

Finally, Hayek gives a definition of the civilization from a neoclassical standpoint, which may appropriately provide a direction for a ‘neoclassical utopia:’

*“It is a profoundly erroneous truism, repeated by all copy-books and by eminent people when they are making speeches, that we should cultivate the habit of thinking what we are doing. The precise opposite is the case. Civilization advances by extending the number of important operations which we can perform without thinking about them.”*¹⁸

In defending his definition against accusations of not providing any meaning in life while promoting unquestioning human behavior, Hayek asserts that “we make constant use of formulas, symbols and rules that we do not understand...” The meaninglessness of neoclassical portrayal of economic action is, then, not unnoticed by its ideologues like Hayek, but such meaninglessness is accepted as an unalterable feature of modern society and not something necessarily ‘evil.’ Although aware of the meaningless routine and mechanization of human behavior that his proposals suggest, Hayek further attempts to justify his position by saying that “we have developed these practices [rules whose meaning we do not understand] and institutions by building upon habits and institutions which have proved successful in their own sphere...” But is this anything more than legitimizing an undesirable feature of modern life? Hayek is indeed legitimizing the economic tendency that favors habit over creativity and diversity. This, indeed, contradicts with his original position in which he suggested individualism and decentralization of economic activity as a means to insure that habit and standardized human behavior do not take over the sphere of individual activity.

Emile Durkheim begins his criticism of neoclassicism precisely at this point by asserting that both the classical economic and socialist theory do no more than raise a *de facto* state of affairs which is unhealthy, to the level of a *de jure*

state of affairs.¹⁹ For Durkheim, it is true that the economic life has a meaningless and alienating character at the present day, but it is impossible for it to preserve this.²⁰

Durkheim approaches socio-economic phenomena from a deductive and holistic point of view in that he perceives all the issues he considers (the nature and the role of the economy, morality, religion, individual and his rights and duties, etc.) as branches of a grand social phenomenon. As such, the departure point of Durkheimian analysis is always the society and its structure as a whole and his arrival points are his conclusions on the various branches and dimensions of the same social phenomenon. If the departure point and the building block of Hayekian neoclassicism is a thoroughly individualist portrayal of the individual and the idea of a contractual society, for the holistic approach of Durkheim, the departure point and the building block, from which everything else is deduced, is an embedded and organic society and a thoroughly socialized individual.

Contrary to the idea of an arbitrary and contractual society as the liberal neoclassicists would have it, Durkheim posits an organic society that existed *a priori*. Individuals do not accept and then adhere to a social contract; they are born into established and embedded societies. A force that is metaphorically comparable only to the irresistible gravitational force of Newtonian physics, keeps and immerses the individuals within the social whole, pulls and re-integrates the ones that somehow fell apart. Man has an inherent tendency to socialize, associate and organize. This is his fundamental drive, which keeps him in society. Thus, in any social scientific analysis, the individual is to be deduced from the social whole that he belongs to.

In this context, *economy is a branch of social structure*; it is a social function like the governmental, religious, military and scientific functions. This claim runs counter to the Hayek's idea that the market, which is the sphere of economic activity, is independent, self-regulating and has its own natural, unalterable laws, which it then imposes on the social sphere. In Durkheim's framework, the social and the economic worlds are integrated and the social sphere contains and determines the bounds of the economic activity.

Recognizing the enormous and self-assertive expansion of the economic function in our age, Durkheim suggests that:

“For two centuries economic life has taken on an expansion it never knew before. From being a secondary function despised and left to inferior classes, it passed on to one of first rank. We see the military, governmental and religious functions falling back more and more in face of it.”²¹

This remark unfolds a second dimension of Durkheim's portrayal of economic activity, namely, its dependence on history. As such, the nature of the economic function is not only socially determined but also historically specified, which is completely against Hayek's claim that the laws and bounds of economic activity are *ahistoric*, transcending time and space.

Thirdly, Durkheim asserts “that economic functions are not an end in themselves but only a means to an end.”²² This is also contrary to Hayek's claim that the economic activity is an end in itself, implying that the economic

activity is a substitute for all other aspects of life itself. All three aspects derive from the fact that Durkheim perceives the economic activity to be but a dimension of social formations and hence an integral part of the whole, and not outside of it, whereas Hayek recognizes two different and separate worlds –social and the economic- which nonetheless interact in a way that subordinates the social world to the laws of the economic one. Hence, Durkheim rejects the first of Hayek’s three neoclassical assumptions, namely, the existence of an all encompassing and independent *market*, which is coterminous with the society.

Secondly, Durkheim replaces the *individual maximization* assumption, the other important assumption of neoclassicism, with something which we may appropriately call the *individual socialization assumption*. Durkheim claims that man’s inherent tendency is not to maximize profits, but rather, to socialize, associate and organize:

“That is why, when individuals who share the same interests come together, their purpose is...just to associate, for the sole pleasure of mixing together with their fellows and of no longer feeling lost in the midst of adversaries, as well as for the pleasure of communing together...”²³

Once the inherent tendency, fundamental drive of human beings is determined as one of socializing and organizing, most of the Durkheim’s other claims and conclusions follow almost naturally. His claim about the inherent tendency of human beings is as fundamental to Durkheim’s theory as the inherent tendency to “barter, truck and exchange” is fundamental to Adam Smith’s. Hence, it has to be kept in mind as the guiding star throughout his argument.

Socializing tendency of the individuals brings about another important theme of Durkheimian analysis, namely, the concept of the “whole”, which usually refers to the society but also to a more enlarged and transcendent entity such as the nature and the God. “For it is not possible for men to live together and have constant dealings without getting a sense of this whole, which they create by close association; they cannot but adhere to this whole...”²⁴ This whole undoubtedly includes the society and the social substance (i.e. relationships) but it goes beyond that as well, since “the gods are not other than collective forces personified and hypothesized in material form. Ultimately, it is the society that is worshipped by the believers...”²⁵ Although religion is a manifestation of the sense of the whole, it is not the only one. Morality is a more general state of awareness that springs from this sense of the whole: “This adherence to some thing that goes beyond the individual, and to the interests of the group he belongs to, is the every source of moral activity.”²⁶ Morality, then, is a symptom of having a strong sense of the whole (i.e. originating from the strength of the social bonds), which in turn, implies and reinforces the level of socialization and association within the society.

Morality, being such a symptom of health, occupies a crucial position in Durkheimian thought. Morals vary according to the agents who practice them based on their position in the division of labor.²⁷ Hence there are as many forms of morals as there are different callings and thus, different morals apply to

entirely different groups of individuals.²⁸ Although morals have occupational bases and a collective character which determines their nature to a great extent, morals themselves also influence these variables through the regulating power they exert over the social functions they cover. While using a materialist approach in recognizing the occupational bases of morals, Durkheim nonetheless does not resort to a materialist reductionism since he also acknowledges the regulatory influence of morals over their bases.

Regulation is another important theme, closely connected with *morality*, in that both morality and regulation originate from *socialization*, which is the inherent tendency of human beings according to Durkheim. “If nothing abnormal occurs to disturb the natural course of things, all this [adherence to a greater whole and moral activity there from] is bound to come about... It is a good thing for the society when the *moral activity thus released becomes socialized, that is, regulated.*”²⁹ Durkheim equates socialization and regulation, and further predicts the emergence of such regulation (and morality as a regulatory mechanism) as the product of a natural process, a prediction consistent with his assertion about the ‘socializing, organizing’ tendency of human beings.

In an attempt to dismantle the classical economic and liberal prejudice against regulation of all kind, he asserts that “the discipline laid down by an individual and imposed by him in military fashion on other individuals who in point of fact are not concerned in wanting them, is confused by us with a *collective discipline* to which the members of a group are committed.”³⁰ He suggests that “it is a strangely superficial notion –this view of the classical economists-, to whom all collective discipline is a kind of rather tyrannous militarization.”³¹

Collective discipline, then, is the natural source of both emergent morality and of a justifiable regulation. Collective discipline “rests on a state of public opinion and has its roots in morals.”³² Collective discipline is necessary and natural because collectivity ensures peace, under which joys of life may be better experienced; whereas, individualism leads to anarchy and pain, along with a sensation of hostility and competition, which classical economic theory deems necessary for economic development and improvement.³³ If a collective discipline and the morality and regulation that flows from it, are so crucial and necessary for the existence and maintenance of the society-as-a-whole, how could such collective discipline be best established, instituted and empowered? Durkheim’s practical proposal to establish a democratic corporative state composed of professional associations appears as his response to the social need at forming and reinforcing such collective discipline.

Durkheim focuses on the historical conditions under which the guilds emerged and developed, evolved and disappeared, because the guild as an occupational-economic organization, also provided an intimate family-like feeling while producing a *meaning* in life and a peculiar morality among its members, features and formations Durkheim deems absolutely necessary for strengthening social bonds. The social formation which preceded the guilds as a source of meaning and morality was the family.

*“As long as industry was exclusively agricultural, it had its natural framework in the family... the life of the husbandman did not draw him away from his home. The family was at the same time a professional group. When did the guild first appear? With the crafts. This was in fact because the crafts could no longer keep their exclusively domestic character.”*³⁴

In this sense the emergence and continued existence of the guild, in its medieval form, was closely bound up with the whole structure of towns with craftsmanship.³⁵ But as the large-scale industry came in, given its nature, it could not fit into the cadres of a town and hence were the medieval-craftsman based town-scale guilds obsolete there from.³⁶ At that point in time, national public guilds had to emerge in accordance with the new –industrial- economic base, but they did not.³⁷ State is not suited for this function because, although guilds should be national, they should also be autonomous from the national political authority (i.e. the State) in order to retain their social function.³⁸

Durkheim suggests a new guild system which is national and uniform in its accessibility, but complex and diverse its inner structure and deliberative mechanisms such as regional-occupational parliaments.³⁹ The scope and complexity of such national occupational corporate bodies would prevent the inertness and habit that inhibits critical thinking, saving these new national industrial guilds from being a prisoner of the tradition like their predecessors.⁴⁰ “This whole framework should be attached to the central organ, that is, to the State.”⁴¹ In an attempt to reconcile his emphasis on social authority and the freedom of the individual, Durkheim asserts that the State is the primary protector of individual liberties:

*“We might say that in the State we have the prime mover. It is the State that has rescued the child from patriarchal domination and from family tyranny; it is the State that has freed the citizen from feudal groups and later from communal groups...”*⁴²

In discussing the best form of the State appropriate for these objectives to be fulfilled, Durkheim

suggests that “a democracy may appear as the political system by which the society can achieve a *consciousness of itself in its purest form*. The more that *deliberation and reflection* and a *critical spirit* play a considerable part in the course of public affairs, the more democratic the nation.”⁴³ In his advocacy of a deliberative and reflective democracy, Durkheim expects the emergence of a new morality appropriate for the new economic/material conditions. People will contribute the most to this new emergent morality in a democracy through critical thinking and public discussion. Synthesized in such a democratic manner by the people, this new popular democratic morality may then be endorsed and further planted in social life by a strong democratic state, since democracy is not necessarily a society in which powers of the State are weak. “A State may be democratic and still have a strong organization.”⁴⁴ Provided that the national morality is democratically synthesized through popular deliberation, the strong endorsement and even enforcement of such morality by the State seems justifiable.

Finally, the social aspirations of Durkheim's approach crystallize once again in his definition of the civilization, whereby he declares "civilization" and "socialization" as being synonymous.⁴⁵ Bearing in mind that for Durkheim the inherent tendency of human beings is to socialize, associate and organize, we can conclude that the level of civilization is directly proportional to the satisfaction of this most fundamental human drive. And as men are more highly and more profoundly socialized, their close association strengthens the sense of a social whole, which in turn strengthens possibilities of collective discipline while producing morality and meaning in life. A democratic corporative State with its mechanisms of public deliberation and critical reflection, as well as its constituent national guilds, will enable and ensure that the people can freely socialize –and thus advance civilization- and produce meaning in life.

Karl Polanyi's *The Great Transformation* is a vivid demonstration of a confrontation between Hayekian and Durkheimian propositions in the 19th and early 20th centuries. According to Polanyi, "the origins of cataclysm [of the Modern Age, and of the 20th century in particular] lay in the utopian endeavor of economic liberalism to set up a self-regulating market system."⁴⁶

He claims from the beginning onwards that neoclassicism is a utopian attempt, because there is no society in the world that would accept the basic assumptions of neoclassicism and subordinate itself completely to its mechanism. The neoclassical assumptions and the free market liberalism are threatening the social fabric and natural substance of the peoples, and such threat is eventually –or immediately- countered by a current of anti-liberalism. Hence, neoclassicists will never be able to find a society that is willing enough to implement all the prescriptions and suggestions of neoclassical economic theory. This in turn, enables the classical economists and their neoclassical contemporaries to come back into public discussion over and over again, claiming that if the neoclassical ideas were fully enforced, we would not have such and such problems.

First, the Great Transformation that took place during and after the Industrial Revolution "implies a change in the *motive of action* on the part of members of the society; for the motive of **subsistence** that of **gain** must be substituted. All transactions turned into money transactions... and all incomes must derive from the sale of something or the other..."⁴⁷ The change in the motive of action from motive of subsistence to that of gain implies that economic action became relatively independent of its ends, and became an end in itself. Because while in a subsistence economy the links between economic action and its purpose are apparent and relatively visible, in an economy based on the motive of gain, the real (social and natural) character of the economic action may easily be veiled.

Second, the expansion of the market logic through machine production in a commercial society involves a *transformation of the natural and human substance of society into commodities*.⁴⁸ Three categories of economically valuable social categories that were commodified like never before were the land, labor and money. Although not produced for sale in the market, these three categories are also subjected to the laws of the self-regulating market exchange. "But labor, land and money are obviously not commodities. To

include them in the market mechanism means to subordinate the substance of society itself to the laws of the market.⁴⁹ Recognizing their non-commodity origins, Polanyi calls these three the “Fictitious Commodities,” one of the many fictions that neoclassicism has to rely on in order to survive and operate without major disruptions.⁵⁰

But apparent from his discussion of the fundamental change in the motive of action and the emergence of fictitious commodities is the fact that the market economy is historically specific. An economy directed by market prices and nothing but the market prices is what Polanyi identifies as a market economy⁵¹ and “previously to our time no economy has ever existed that, even in principle, was controlled by the markets... gain and profit made on exchange never before played an important part in human economy.”⁵² In this context, Adam Smith’s assertion that man has a propensity to barter, truck and exchange was never true of the past and was very much true [indeed, the essence] of the Modern Age.⁵³

In his discussion about the historically significant motives of action for the mankind, Polanyi rejects the “bartering savage paradigm” of sociologists such as Herbert Spencer⁵⁴ and asserts that motives and concepts such as *reciprocity* and *redistribution* moderated the economic action of non-market societies in a structural logic of *symmetry* and *centricity*, respectively.⁵⁵

As in other major concepts of neoclassical-Durkheimian confrontation, Polanyi sides with Durkheim in claiming that a “man’s economy, as a rule, is submerged in his social relationships.”⁵⁶ Recognizing the economic function as a branch of the social phenomena as such, Polanyi suggests further that, in accordance with human nature, economic action is not an end in itself but a means to other ends:

*“He [the man] does not act so as to safeguard his individual interest in the possession of material goods; he acts so as to safeguard his social claims, his social assets. He values material goods only in so far as they serve this end.”*⁵⁷

In the big debate between Hayek and Durkheim over the inherent tendency of human beings, it suffices for Polanyi to assert that “human passions, good or bad, are merely directed toward noneconomic ends,”⁵⁸ which simply is a rejection of the neoclassical portrayal of man as a “Homo Economicus”.

However, the most important and utterly unique contribution of Polanyi to the debate between neoclassicists and the Durkheimian position is his conceptualization of the “double movement” as a mechanism of struggle between the movements aimed at establishing a self-regulating market and the society’s rejection (counter-movement) of the classical and neoclassical economic project:

*“...the market expanded continuously, but this movement was met by a countermovement checking the expansion in definite directions. Vital though such a countermovement was for the protection of society, in the last analysis it was incompatible with the self-regulation of the market, and thus the market itself.”*⁵⁹

One can interpret this societal reaction to the expansion of the market as a manifestation of human beings’ tendency to socialize and organize against

movements that threaten the existence of the whole in its social and natural substance.

In the Durkheimian terminology, rapid economic improvement and change in the material surroundings without a complementary societal and moral formation gives rise to Anomie. Anomie is a general alienation from the processes of life following from a general lack of the sense of the whole and an individualization which in turn incapacitates individuals from producing meaning in life, since meaning production is essentially social. Society as a Whole breaks down into its Particles (individuals) that are incapable of making sense of their existence and are disconnected from the other particles with whom they could associate and socialize. All the individuals float in a space increasingly devoid of social and natural substance, clashing with each other and clueless about meaning of life. Yet the inherent tendency of human beings' to socialize, associate and organize induces these anarchic aggregation of individuals to come together once again, in an attempt to resist the self-regulating market forces, which break down the societal bonds (social and natural substance) so necessary for the existence of Mankind. Therefore, the expansion of the market forces is the reason for the eventual demise of the free market in so far as it destroys the social and natural substance of society and thus provokes a counter-movement from the people who demand the re-establishment of their society with its collective discipline, morality and other mechanisms of meaning production. Hence, the self-regulating market is indeed self-destructing in the sense that it gives rise to a social response which eventually regulates and disciplines social and economic activity; and all this is natural.

"The conflict between the market and the elementary requirements of an organized social life provided the century with its dynamics and produced the typical strains and stresses which ultimately destroyed that society."⁶⁰ Polanyi's characterization of the double movement as such follows from and seeks to explain the violent trajectory of history after the Industrial Revolution and especially in the 20th century. According to Polanyi, a century of classical economic implementation led to the First and the Second World Wars in particular. For Polanyi, more important than irregularities of production (hectic fluctuations and periods of over- and underproduction) was the people's hostility to the socio-economic individualism that free market liberalism imposed on and expected from them. It is not surprising, then, that in this context of expanding and imposing market individualism, people resorted to radical ideologies that are utterly societal in their suppression of the individual (Fascism in Germany, Communism around the world) or, in more democratic contexts, they implemented comprehensive programs of social regulation and planning of economy (New Deal in the U.S.), complemented with great measures of economic redistribution (Welfare States around the world).

Polanyi's interpretation of the Modern Age is indeed founded on a dualistic struggle between the movement to establish a Hayekian neoclassical self-regulating free market and the society's negative response to this attempt. If all the tenants of self-regulating market liberalism are profoundly against human nature and the demands of the society, whose project is the establishment of a

market as such? Here the Marxist shades in Polanyi's interpretation manifest themselves in his elaboration of the double movement in terms of class relations:

“Let us return to what we have called the double movement. It can be personified as the action of two organizing principles in society, each of them setting itself specific institutional aims, having the support of definite social forces and using its own distinctive methods. The one was the principle of economic liberalism, aiming at the establishment of a self-regulating market, relying on the support of the trading classes, and using largely laissez-faire and free trade as its methods; the other was the principle of social protection aiming at the conservation of man and nature as well as productive organization, relying on the varying support of those most immediately affected by the deleterious action of the market—primarily, but not exclusively, the working and the landed classes—and using protective legislation, restrictive associations, and other instruments of intervention as methods.”⁶¹

This vivid struggle is the dynamic driving the history of the Mankind since the Industrial Revolution.

On the other hand, Polanyi does not put the entire blame of classical economic implementation. In my opinion, both Durkheim and Polanyi recognize that historically an ‘evil’ form of economic organizational framework emergent not so much intentionally but rather as a consequence of the unprecedented and radical breakthrough of the Industrial Revolution. Both Durkheim and Polanyi, but especially Durkheim, asserted that the great magnitude of change in the material environment was not met with the social readjustment of the same magnitude appropriate for the new conditions. This discrepancy between economic improvement driven by technological innovation and the pre-industrial social formations (morality, etc.) gave rise to an unprecedented Anomie, which explains the insanity with which people adhered to Fascism and Communism after a century of economic liberalism.

In conclusion, Polanyi's account of the Great Transformation posits the dynamic of the Modern Age as a struggle between economic liberalism and social protection. After reviewing a fundamental text of neoclassical economic theory (i.e. Hayek) and of social protection (i.e. Durkheim), we can now better see the radically divergent opinions of Hayek and Durkheim over major issues including the inherent tendency of human beings, the nature of social condition (contractual or organic-embedded), the place given (or not given) to the market, individual maximization, system of preferences, morality, religion, collective discipline, meaninglessness, meaning and meaning-production in their theories.

In my opinion, the contrasting of the two divergent theories, along with the Polanyi's interpretation of the 20th century history, demonstrates clearly that the economic liberalism is against human beings' nature (i.e. neoclassical propositions about the nature of man are not right and/or utterly deficient and conditional) and thus provokes a response from the people in favor of reestablishing regulation, morality, collective discipline and meaning in life. The inherent tendency of the human beings to socialize, associate and organize can only be satisfied if economic improvement and industrialism are

subordinated to the fundamentally social requirements of man's nature.⁶² As Durkheim suggested, this redistribution of the relative roles of the social and economic functions can only come about of its own impetus, by the pressure of facts and experience,⁶³ that is, by the natural trajectory of the peoples' agency in collectivity.

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¹ Friedrich Alexander von Hayek, "The Use of Knowledge in Society" published in *The American Economic Review*, v.25 (4), September 1945. p.520

² Ibid, p.527.

³ Ibid, p.526.

⁴ Ibid, p.520.

⁵ Ibid, p.519.

⁶ Ibid, p.521.

⁷ Ibid, p.521.

⁸ Ibid, p.521.

⁹ Ibid, p.525

¹⁰ Ibid, p.525.

¹¹ Ibid, p.526.

¹² Ibid, p.527.

¹³ Ibid, p.528.

¹⁴ Ibid, p. 528-9.

¹⁵ Ibid, p. 523.

¹⁶ Ibid, p. 524.

¹⁷ Ibid, p. 525.

¹⁸ Ibid, p. 528.

¹⁹ Emile Durkheim, *Professional Ethics and Civic Morals*, Routledge Sociology Classics, New York 2001. p.10.

²⁰ Ibid, p.10.

²¹ Ibid, p.11.

²² Ibid, p.16.

²³ Ibid, p.25.

²⁴ Ibid, p.24.

²⁵ Ibid, p.161.

²⁶ Ibid, p.24.

²⁷ Ibid, p.4.

²⁸ Ibid, p.5.

²⁹ Ibid, p.24.

³⁰ Ibid, p.28.

³¹ Ibid, p.29.

³² Ibid, p.28.

³³ Ibid, p.24.

³⁴ Ibid, p.26.

³⁵ Ibid, p.35.

³⁶ Ibid, p.35.

³⁷ Ibid, p.36.

³⁸ Ibid, p.36.

³⁹ Ibid, p.37-38.

⁴⁰ Ibid, p.38.

⁴¹ Ibid, p.39.

⁴² Ibid, p.64.

⁴³ Ibid, p.89.

⁴⁴ Ibid, p.88.

⁴⁵ Ibid, p.24-25: "...we might say that the more highly and the more profoundly men are socialized, that is to say, civilized—for the two are synonymous—the more those joys are prized."

⁴⁶ Karl Polanyi, *The Great Transformation: The Political and Economic Origins of Our Time*, Beacon Press, Boston 2001. p.31.

⁴⁷ Ibid, p.43-44, and also p.72.

⁴⁸ Ibid, p.44.

⁴⁹ Ibid, p.75.

⁵⁰ Ibid, p.71-80, the chapter titled "The Self-Regulating Market and the Fictitious Commodities."

⁵¹ Ibid, p.45.

⁵² Ibid, p.71.

⁵³ Ibid, p.45.

⁵⁴ Ibid, p.46.

⁵⁵ Ibid, p.49-ff for reciprocity and redistribution, p.51-ff for symmetry and centrality along with the first two.

⁵⁶ Ibid, p.48.

⁵⁷ Ibid, p.48.

⁵⁸ Ibid, p.49.

⁵⁹ Ibid, p.136.

⁶⁰ Ibid, p.257.

⁶¹ Ibid, p.138-139.

⁶² Ibid, p.257.

⁶³ Durkheim, p.41.

Özet

Bu çalışmada, F.A. Hayek'in eserlerinde ifadesini bulan neoklasik teorinin temel önermelerinin incelemesi ve eleştirisi yapılmaktadır. Özellikle neoklasik düşünürlerin bireye, açık pazarın rolüne, bireylerin tercih sistemine ve bu sistemin mantığına dair tanımlarıyla beraber neoklasik teorinin 'alışkanlığı' 'yaratıcılığa' tercih eden yanı, ve Hayek'in medeniyete ve insanın açık pazar içindeki rolüne dair tanımlamaları üzerinde yoğunlaşmaktadır. Emile Durkheim'in tümdengelimci ve bütüncül bakış açısından yola çıkarak ahlak, din ve diğer sosyal fenomenlere yaptığı vurgunun yanısıra, toplum bütünü, özgürlüklerin kaynağı olarak görmesinde de ortaya çıkan toplum bütünü öne çıkaran ve tercih eden görüşü, yazar tarafından, Hayek'in neoklasik bireyciliğiyle karşılaştırılarak tercih edilmektedir. Karl Polanyi'nin 20. yüzyılı açık pazarın güçleri ile açık pazarı sınırlamak isteyen toplumsal tepki arasında bir çekişme alanı olarak ele alan yorumu, Hayek'in ve Durkheim'in önermeleri arasındaki dinamik mücadelenin test edilmesinde kullanılmaktadır. Bütünü itibarıyla bu çalışma liberal görüşün kontrakta dayalı toplum teorisinin (J. Locke ve J.S. Mill'den gelen) cemaati/toplumunu öne alanların köklü toplu teorisiyle arasındaki tartışmanın, ekonomi de dahil olmak üzere, insani ve medeniyete dair boyutlarını sergilemektedir.

