

## Karl Polanyi's Criticism to Economics and Origin of His Poor-Relief Ideas

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Karl Polanyi, a 20th century's anthropologist and economic historian, criticised economics based on liberalism and utilitarianism, because he saw human groups as a social band rather than the sum of individuals. He also regarded socialism as a new world that threatens capitalism. Although his theory never became mainstream nor did his ideal world come to fruition, his originality had a profound impact on his contemporaries and influenced his followers.<sup>1</sup>

Polanyi's ideas denied the orthodox economic theory, which insists that the "self-regulating market" decides on price and quantity in any case. His theory stressed the cultural factors and the social role shared by participants on a market, with influences from Aristotle, Marx, Robert Owen, Otto Bauer, and Max Weber (Dale 2010, 2016; Polanyi-Levitt 2014; Stanfield 1986).

However, it is unclear on what basis Polanyi intensified his criticism of economics, except to censure liberalism. In other words, although references appear in his works, Polanyi's understanding of them is unapparent.<sup>2</sup> Therefore, this study investigates Polanyi's attitude towards utilitarianism and Jeremy Bentham, focusing on the poor-relief idea and on disclosing the genealogy of a social organisation for poverty inclusion.

### Utilitarianism and Bentham

The idea of utilitarianism in this study is that it concerns the maximisation of the happiness or welfare of social members and targets three factors: welfarism, consequentialism, and sum-ranking.<sup>3</sup> Welfarism uses welfare and satisfaction based upon pleasure and pain to judge whether the action or institution are good or bad, thus forming norms without considering justice and freedom. Consequentialism makes a value judgment as a result of an action, as distinct from a process without considering motive. Additionally, sum-ranking expresses an entire society by a just sum of individuals, thus differing from the idea that considers a bond among humans as "social." Utilitarianism, constituted mainly by the connection of welfarism to sum-ranking, presupposes cardinal

numbers, permitting comparison and addition of utility among individuals. Simultaneously, sum-ranking connotes egalitarianism in two ways: the factors constituting a society tend to omit the personality and ignore the diversity of individuals.

Polanyi's idea conflicted with those of utilitarianism, especially about sum-ranking, because he sheds light on personality and character, and positively stresses the personal roles given by groups or the community. In addition, the social cultural function as status, not exemplified in price and quantity, becomes his predicable. Therefore, his idea does not embrace consequentialism.<sup>4</sup>

Bentham's psychological hedonism, defining human nature as motivation based on the principle of pleasure and pain, reveals a common denominator with Polanyi in relation to the assumed selfishness of humanity.<sup>5</sup> On the other hand, they differ regarding unselfish actions. Bentham considers that unselfish and altruistic actions result from the idea of the empathic human who increases his/her own pleasure by others' pleasure. The empathic human, however, is also selfish regarding committing to the value of the others' pleasure to increase specific utility (Schofield 2009). Conversely, in Polanyi's discussion, there is avoidance of starvation instead of empathy as a factor of unselfish action. Humans form the non-market economy because a creation of a group can convert starvation from an individual matter to a collective one.

### Connection of Utilitarianism to Economic Liberalism

Polanyi criticised the connection of utilitarianism to economic liberalism, helping organise a market that deals with "commodity fiction," which trades human, nature, and purchasing power as labour, land, and money. Fictitious commodities cannot and ought not to be commercialized. The 19<sup>th</sup> century witnessed the history of "double movement,"<sup>6</sup> which means the appearances of extensions of economic liberalism and a social protection regulating market simultaneously. The core of his censure against economics and the market mechanism indicates a necessity to embed economy into a society. Legislation protecting nature and humans appeared to disturb the commercialization of land and labour. Additionally, national central banks preserved purchasing power and productive organisations (firms) interrupted the perfect commercialization of money.

Polanyi's criticism of economic liberalism began with the discussion of the Poor

Law supported indirectly by Edmund Burke, Thomas Malthus, and Bentham. Especially, the analysed connection applies the liberty of contract to the land, with a firm commitment to individual liberty, and accepts overall individual sacrifice by neglecting basic human rights resulting from laissez-faire. The former created a land market despite immobility. The latter created an effective labour market by requiring nature (poverty) and sanction (starvation) under the name of rationalism with formal egalitarianism ignoring qualitative issues based on human diversity.

The core of the Benthamite liberty, that is property of land, first encourages the commercialization of land to acquire the liquidity which destroys feudalism. The ruin of feudalism leads to the unbundling of strong connections between land and the human factor. Although the commercialization of land proceeded to adapt crops for a rapidly increasing population in the late 19<sup>th</sup> century, as a result, labour and the poor facing poverty. Poverty is brought by land owners' for sale produce and a mobility of both labour and harvest (Polanyi 1944, ch. 15).

Utilitarian rationality leads to a conflict in wage determination in addition to the appearance of the labour and factory laws, regulating the economic system as a double movement. Namely, wage equilibrium follows utilitarianism rationalism in market mechanisms. On the other hand, labour naturally insists on better deals by strikes based on rationality. Therefore, wage determination always causes conflict because of this rationality. As such, utilitarian consequences can conform only to a fictional world, because Polanyi perceives the rationality of labour as provoking social disruption in a similar way to the capitalist one. Moreover, both capitalism and labour are pestered with partner rationalism. As a result, the connection of utilitarianism to economic liberalism brought neglect of basic human rights on the land market and loss of individual liberty on the labour market.

### An Evaluation of Bentham

Polanyi evaluates Bentham's visionary foresight as a social reformer's, while Polanyi attacks the Benthamite unrealistic economic theory, showing that utilitarianism was unfitting of the actual labour situation (Polanyi 1944, 188-189; 1940s, 7).<sup>7</sup> Because Bentham is one of the most important thinkers affecting the Poor Law's discussion, along with Burke, Malthus, and Ricardo, Polanyi turned his attention to Bentham's creation of

social organisations, such as the Panopticon and the Industry House, to deal with an influx of poor people. These plans solve social problems such as the poor overflowing the town.

Although the Panopticon was originally nothing more than a prison in which a keeper can guard prisoners efficiently, the residence of the poor changed it to a kill-two-birds-with-one-stone solution for a social problem, with combining a bailout for the poor with a social surplus by providing work. Polanyi also discussed Bentham's two aims for the Panopticon prison: "compulsion and economic efficiency" (Schofield 2009), and he analysed the latter.

Polanyi considers Bentham's aim for the Panopticon as the commercialization of unemployment, while paying attention to Bentham's four divisions of unemployment: out-of-place hands, periodical unemployment, technologically unemployed, and casual unemployment. The out-of-place hands, called frictional unemployment, are the people who lost their jobs recently. However, a seasonal worker brings periodical unemployment, which differs from the business cycle. The technologically unemployed are workers who were rendered unnecessary by machinery. The casual unemployment means fired workers because of a temporary depression. This type is directly affected by the economic business cycle and decreases with the return of prosperous conditions. Polanyi considered Bentham's target as casual unemployment; that is, "Bentham's plan amounted to no less than the levelling out of the business cycle through the commercialization of unemployment on a gigantic scale" (Polanyi 1944, 112-113). Therefore, Polanyi evaluates Bentham's Panopticon plan as a pragmatic social thought dealing with the unemployed, who were confronting miserable situations where they could not acquire bread and butter.<sup>8</sup> The only way to shift status from poverty was to work as labour.

Plainly, Polanyi comprehends that the Panopticon project has a function for good industrial output, a smoothing effect on the business cycle, and a function as salvage. He also evaluates Bentham highly with regard to the new aim of industry development by the connection of commerce with poor relief. Polanyi positively grasps Bentham's distinction between poverty and misery in addition to the possibility of avoiding economic danger by the creation of a social organisation.

The role of social organisation in smoothing the business cycle leads to Polanyi's monetary policy, which abandons the gold standard and establishes the central bank to protect the productive organisations from upheaval by issuing paper money. According to Polanyi, national purchasing power must diminish during depression due to deflation. As a result, sales of a firm cannot help decreasing. However, under depression, the firm cannot easily change wages because of the time lag between general prices and wages caused by the downward rigidity of wages and the nominal wages (Polanyi 1944, 201-202). Price decreases oppress businesses, since the relative increase of costs reduces the company's profits when sales decline because of the higher cost of production caused by the higher cost of labour.

Polanyi obviously employs an artless theory of price change depending on the quantity theory of money, in which the balance of quantities of goods and money decides the price. If that is the case, in his view, deflation might be solved by the ample circulation of money, because it derives from a relative excess of goods. Subsequently, the central bank would be able to salvage firms from the business cycle through the dissolution of deflation achieved by an additional issue of paper money.

Polanyi identifies Bentham as the first significant economist who realised the relation between price change and enterprise activity and assumes it: "Bentham was the first to recognize that inflation and deflation were interventions with the right of property: the former a tax on, the latter an interference with business. Ever since then labor and money unemployment and inflation have been politically in the same category" (Polanyi 1944, 234). Polanyi also believes that the central banks could become a buffer between market and productive organisations by issuing paper money to prevent an economic crisis. For Polanyi, Bentham is an associate who shares the idea of embedded economy because the indication that labour and money were historically in the political realm shows the idiosyncrasy of "19<sup>th</sup> century civilisation" of trading human and purchasing power in a market.

Polanyi saw the role of the central bank, which shares the method and the aim of Bentham's Panopticon project of poor relief, as salvaging of a firm: the social organisation and control of the business cycle. As regards the recognition of the social problem and its solution, Polanyi's evaluation of Bentham is not completely negative. As often as not, Polanyi considers Bentham benevolently and values the direction and framework of his theory, although he disagrees with the methodology of utilitarianism.

## A Factor of Socialism and Equalitarianism

The positive evaluation to Bentham becomes clearer by referring Owen's social organisation that is New Lanark, which Polanyi liked. Polanyi conflates the Panopticon and the New Lanark into one group with focus on their socialistic factor, where they share the misunderstood facts about the appearance of surplus and the increasing number of the poor.<sup>9</sup> Polanyi's ideal way to overcome the limits of the 19<sup>th</sup> century civilization depending upon the self-regulating market is the socialism inherited from Owen. Considering the failure of New Lanark's pioneering practical idea, Polanyi assumes that the ideal social form can blend humans, nature, and purchasing power in another system, different from the self-regulating market. Bentham's idea also reflects the social management of the poor in another system also different from the self-regulating market. In brief, the socialist factor for Polanyi turns fictitious commodities (labour, land, and money) back to normal without the market where price and quantity of goods are decided, that is, human, nature, and purchasing power. Bentham's idea also contains Polanyi's socialistic factor which permits the poor to obtain humanity again.

Subsequently, Polanyi focuses on the imputation of surplus created in social organisations and the human rights to differentiate between utilitarian and atheism as to separate Bentham's socialism from Owen's. In Bentham's project, stockholders obtain surplus because their group organised by imitating the Bank of England manages the organisation. On the other hand, in Owen's plan, the surplus is attributed to the worker by labour notes. Moreover, Polanyi explains the difference between the attitudes towards natural human equality. Bentham is not egalitarian but laissez-faire in the view of Polanyi's, despite the above discussion; that is, the sum-ranking idea of utilitarianism seems egalitarian. Bentham's equality means counting each person without showing partiality irrespective of birth as to capture the social whole, except special intentions for policy. Polanyi's equality does not admit that labour structurally tending to fall into distress is equally counted with the capitalist and the landowner. When considering the social institution, a uniform treatment of people having different backgrounds is just as unequal and is the same as an invasion of human rights. In short, Polanyi's equality is built mainly upon justice and rightness, and obviously opposes the unrestricted self-regulating market, which ignores human variety.

## Conclusion

In summary, Polanyi has two evaluations (pro and con) towards Bentham. The Panopticon project shares the problem of consciousness with Polanyi's double movement in labour. The crucial matter is the treatment of the poor, who have been dropped from the labour market based upon economic liberalism; in other words, the issue is how to compensate market imperfection with society. To avoid depression creating unemployment, Polanyi encourages the creation of social organisations of labour in analogy with money. Depending upon the factor of socialism, which Polanyi inherits from Bentham, Polanyi draws socialism as an ideal world where human welfare is respected.

Bentham's utilitarian equality is just inequality according to Polanyi's understanding. The equality relates to how to grasp freedom, but Polanyi envisages an ideal where society embeds the economy, while denying classical liberalism and overcoming laissez-faire.

## Footnotes

<sup>1</sup> For instance, Polanyi's discussion influenced environmental economics and national welfare. He connects W. Kapp (Berger 2008), since his economic model did not include an ecological system (Hayden 2015). Considering utilitarianism and Polanyi, the discussion about life ethics shows the general versatility of his idea (Levidow 2001).

<sup>2</sup> The anti-utilitarianism movement after the 1980s in France focused on Mauss and Lévi-Strauss instead of Polanyi (Caillé 2008).

<sup>3</sup> The three factors are based on Sen and Williams (1982).

<sup>4</sup> For instance, it becomes a system of diplomatic security. Moreover, in the later years, Polanyi also denied welfarism when he was interested in the relationship between freedom, justice, and economy. He sought a system guaranteeing freedom and justice in the economy instead of welfarism (Polanyi 1977, 2014).

<sup>5</sup> Although Polanyi advocates the non-market system as economy, such as reciprocity and redistribution, does not deny human self-interest (Kasai forthcoming).

<sup>6</sup> Polanyi had already formed the reflection of double movement since his 30s, stimulated by Marx theory (Dale 2014).

<sup>7</sup> Polanyi referred directly to Bentham's four works, *Pauper Management*, *Principles of Civil Code*, *Observation on the Poor Bill*, and *Manual of Political Economy*.

<sup>8</sup> On the wage guaranteeing human life in Polanyi's view, see Seccareccia (2015).

<sup>9</sup> On the relationship between them, Polanyi was aware of Bentham's funding for Owen's project (Polanyi 1944, 190).

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