

# Karl Polanyi vs. Friedrich Hayek:

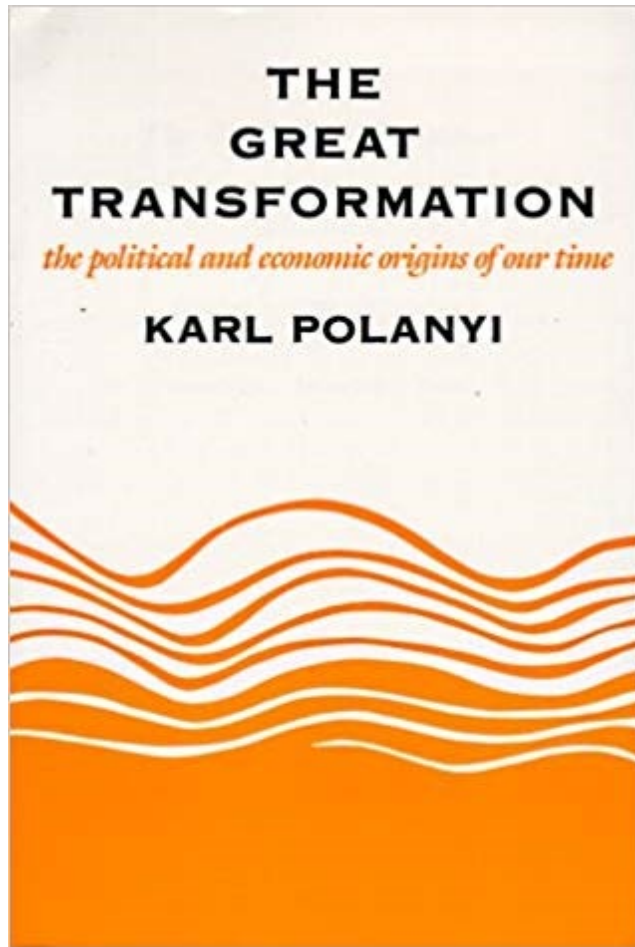
***Post-World War II debates: What role should governments play in markets?***



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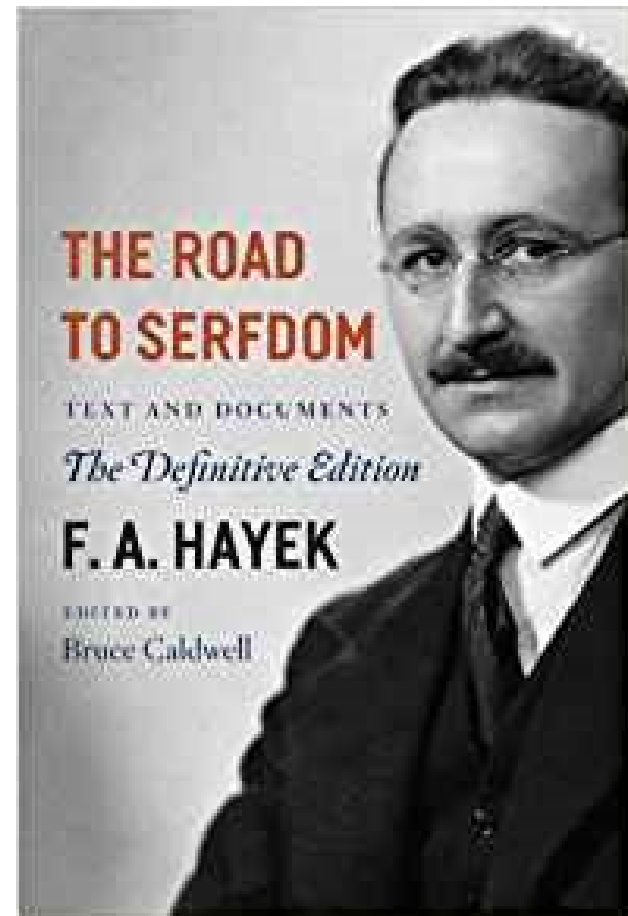


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Polanyi, Karl. *The Great Transformation: The Political and Economic Origins of Our Time*. Beacon Press, 1980. © Beacon Press. All rights reserved. This content is excluded from our Creative Commons license. For more information, see <https://ocw.mit.edu/help/faq-fair-use/>.

Karl Polanyi



Hayek, F.A. *The Road to Serfdom: Text and Documents-The Definitive Edition*. University of Chicago Press, 2003. © University of Chicago Press. All rights reserved. This content is excluded from our Creative Commons license. For more information, see <https://ocw.mit.edu/help/faq-fair-use/>.

Friedrich Hayek

# Karl Polanyi



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1886-1964 economic historian born in Vienna but grew up in Budapest; distinguished intellectual family; father railway entrepreneur; “Great Transformation” considered classic by social scientists

Polanyi -

- Does Polanyi agree with Smith's argument that there is a natural human tendency to "truck, barter, and exchange"?

# Ways of organizing economic life

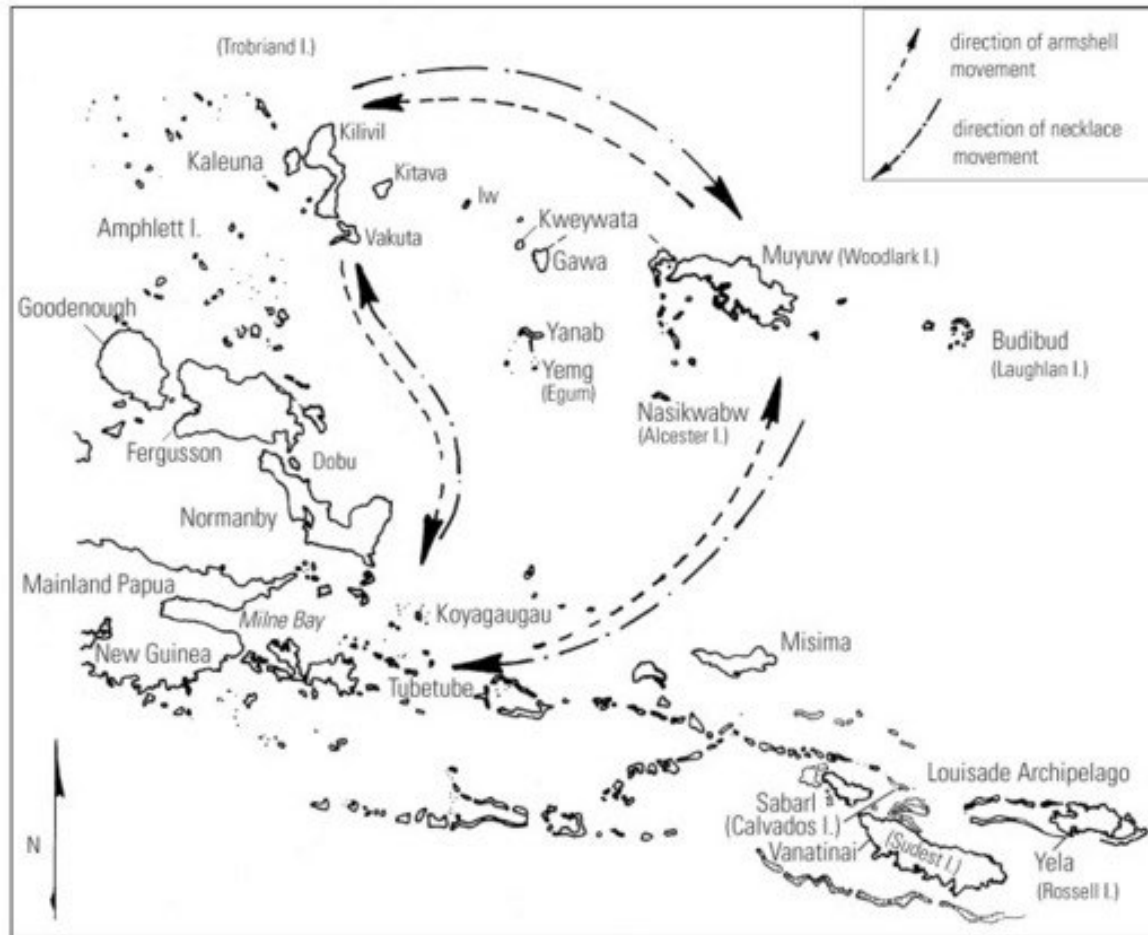
## pre-19<sup>th</sup> century

-reciprocity –

-redistribution -

-householding

# Map of Trobriand Islands, Papua New Guinea and Kula exchange



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# Kula objects





# First Nations Pacific Northwest of US and Canada; Klallam group potlatch



# Kwakwaka'wakw Potlatch – Alert Bay, British Columbia, 1983



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# Polanyi –

- Shift to idea of self-regulating market entails a shift from market practices being embedded in society to society being embedded in market

# Polanyi (on markets)

- Historically (i.e. pre-capitalism), people did not depend on markets for needs of everyday life
- long-distance and local markets were instead often kept separate by local regulations (due to fears of social destabilization if traders brought in goods more cheaply and undermined local producers but then left market after locals became dependent on them)
- As a result, Polanyi argues “global” markets did NOT evolve from “local” ones as Smith suggests; instead they were brought in by govt. interventions like mercantilist charter companies

Polanyi argues that treating land, labor and money as commodities has socially destructive consequences – why?

Why does he call them “**fictitious commodities**”?

# Polanyi -

Where self-regulating market societies emerge:

A “**double movement**” emerges in response

(i.e. along with the expansion of market society there is an expansion of efforts of society to protect itself from destructive tendencies of seeing land, labor and money as commodities)

## Can you have a “free market” society?

Polanyi argues that the idea of a self-regulating market is a myth and that “laissez faire was planned”

What does he mean by this?

# Friedrich von Hayek



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- Hayek – 1899-1992, Austrian economist from distinguished intellectual family, primary proponent of free market, ideas championed by Ronald Reagan and Margaret Thatcher
- founder of Mt. Pelerin society, a free market think tank with Milton Friedman



“From the awareness of the limitations of individual knowledge and from the fact that no person or small group of persons can know all that is known to somebody, individualism also derives its main practical conclusion: its demand for a strict limitation of all coercive or exclusive power.”

Hayek, F.A. "Individualism: True and False." Chapter 1 in *Individualism and Economic Order*. University of Chicago Press, 1996. © University of Chicago Press. All rights reserved. This content is excluded from our Creative Commons license. For more information, see <https://ocw.mit.edu/help/faq-fair-use/>.

Von Hayek, *Individualism: True or False*, Pg. 16

# What Choices Are There?

”Man in a complex society can have no choice but between adjusting himself to what to him must seem the blind forces of the social process [i.e. the market] and obeying the orders of a superior.

So long as he knows only the hard discipline of the market, he may well think the direction by some other intelligent human brain preferable [i.e. centralized government]; but, when he tries it, he soon discovers that the former still leaves him at least some choice, while the latter leaves him none, and that it is better to have a choice between several unpleasant alternatives than being coerced into one.”

Hayek, F.A. "Individualism: True and False." Chapter 1 in *Individualism and Economic Order*. University of Chicago Press, 1996. © University of Chicago Press. All rights reserved. This content is excluded from our Creative Commons license. For more information, see <https://ocw.mit.edu/help/faq-fair-use/>.

Von Hayek, *Individualism: True or False*, Pg. 24

# On Addressing Economic Inequality

“...we can leave each individual to find his own level.”

[Individualism]...”also denies government the right to limit what the able or fortunate may achieve. It is equally opposed to any rigid limitation of the position individuals may achieve, whether this power is used to perpetuate inequality or to create equality.” ...

“From the point of view of individualism there would not appear to exist even any justification for making all individuals start on the same level by preventing them from profiting by advantages which they have in no way earned, such as being born to parents who are more intelligent or conscientious than the average.”

Hayek, F.A. "Individualism: True and False." Chapter 1 in *Individualism and Economic Order*. University of Chicago Press, 1996. © University of Chicago Press. All rights reserved. This content is excluded from our Creative Commons license. For more information, see <https://ocw.mit.edu/help/faq-fair-use/>.

Von Hayek, *Individualism: True or False*, Pgs. 16 & 30

## Summary of Hayek:

- sees capitalism as the system that best allows individuals freedom
- Worries about tendency for governments to become authoritarian out of ostensible desire to do good
- -argues for limited role for governments with emphasis on creating legal framework for interactions and protecting property
- Argues for treating individuals equally by law but against policies to foster greater equality
- That if individuals become unequal ok for them to use their position even if in ways that foster greater inequality

# Ayn Rand – author of the *Fountainhead* and *Atlas Shrugged*, a popularizer of libertarian ideas and inspiration for Tea Party



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Critics of Hayek ask:

Does the Cold War view of a stark choice between “free trade” and totalitarianism hold up historically? (i.e. govt. regulation in Nordic countries compatible with vibrant democracy and markets, while China “capitalist” while also authoritarian)

- Can unfettered “free market” policies undermine democracy in other ways as Piketty argues?

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21A.461 What is Capitalism?  
Fall 2021

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