

# The Problem of Democracy in the Market Society.

Hayek and  
Polanyi on  
Politics, Economy  
and Freedom

**A Great Transformation?**

**Global Perspectives on  
Contemporary Capitalisms**

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# Goals

- To present the antagonism between Hayek and Polanyi concerning the “problem of democracy” in a “market society”
- To understand the consequences of this antagonism for politics, economy and morals (freedom)
- To explain the relationship between the problem of democracy and the *institutional separation of the economy from society*

# The Problem of Democracy (1)

## by F.A. Hayek

- “A limited democracy might indeed be the best protector of individual freedom [...], but an unlimited democracy is probably worse than any other form of unlimited government “ (Hayek, 1978)
- “the market place [...] is indispensable for individual freedom, while [democracy] is not...” (Hayek, 1978)

# The Problem of Democracy (2)

## by F.A.Hayek

Modern democracies are “unlimited” democracies according to Hayek: these are characterized by...

- every issue can be changed by majority rule
- leitmotiv: social justice; re-distribution measures “disturb” the market
  - unlimited democracy is totalitarian
  - democracy should be subjected to *market-conformity*
  - neoliberal state: “Planning for competition”
  - re-education/pacification of the individual

# The Problem of Democracy by K. Polanyi

- “Our thesis is that the idea of a self-adjusting market implied a stark Utopia. Such an institution could not exist for any length of time without annihilating the human and natural substance of society [...]. Inevitably, society took measures to protect itself, but whatever measures it took impaired the self-regulation of the market, disorganized industrial life, and thus endangered society in yet another way.” (Polanyi, 1944)
- Problem of democracy is *real* and *inherent* to the market economy; countermovement is no solution, it causes indirectly crisis, chaos, fascism, right-wing populism
  - countermovement vs. democratic socialism
  - democracy-conformity of the economy

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# The Institutional Separation of the Economy from Society (1)

- “The fascist attack on popular democracy merely revived the issue of political interventionism which haunted the history of market economy, since that issue was hardly more than another name for the separation of the economic from the political sphere.” (Polanyi, 1944)
- “A self-regulating market demands nothing less than the institutional separation of society into an economic and a political sphere. Such a dichotomy is, in effect, merely the restatement, from the point of view of society as a whole, of the existence of a self-regulating market.” (Polanyi, 1944)
- “Now the institutional separation of the political and economic spheres had never been complete...” (Polanyi, 1944)

# The Institutional Separation of the Economy from the Society (2)

The institutional separation between ec. and soc. implies

- development of own economic principles and motivations
  - demand/supply-rationality
  - principle of competition
  - motive of gain
  - fear of subsistence
- these principles and motives are said to be natural/ scientific, while other moral-political principles (social justice, solidarity, human rights) are “utopic”
  - Primacy of the market economy
  - Emergence of the market society

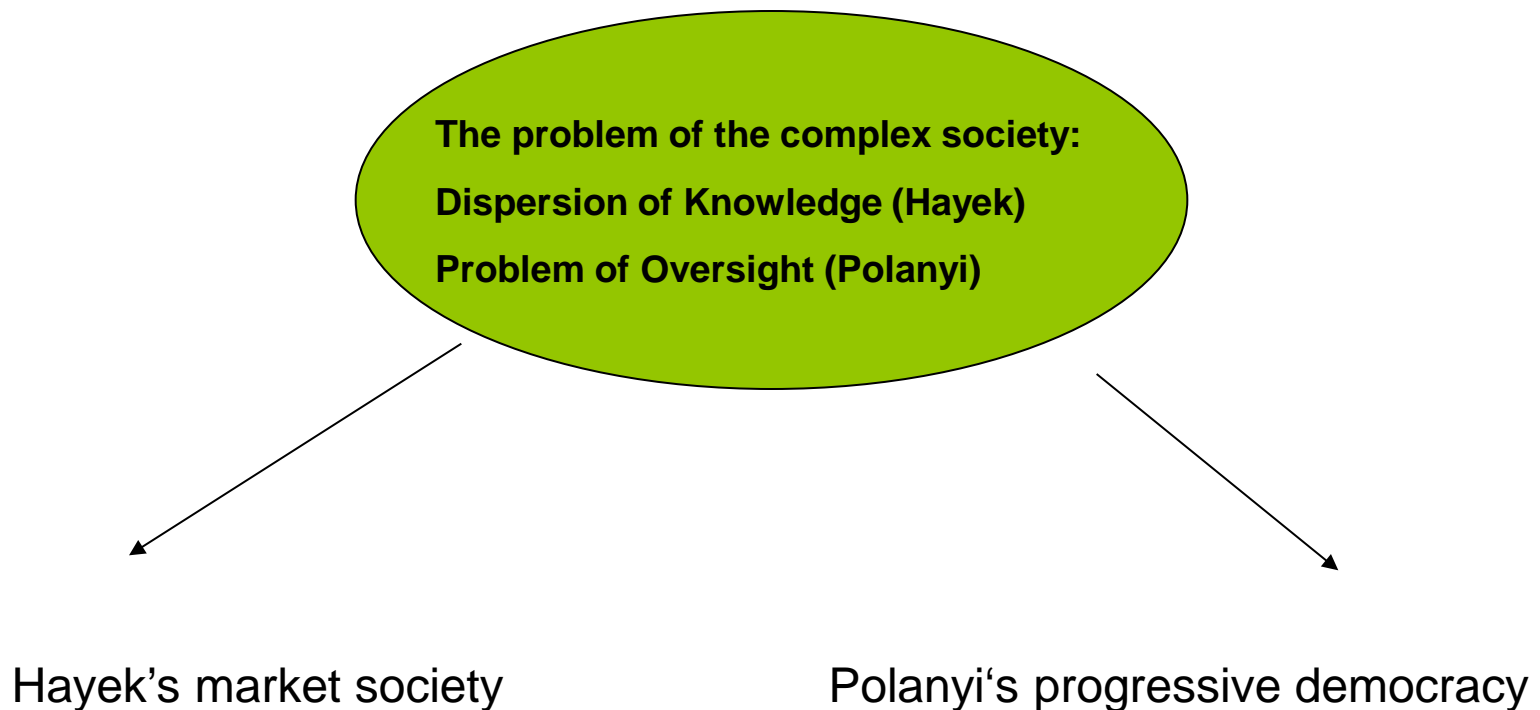
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# The Market Society

- Market society emerges first as *non-intentional consequence* of the institutional separation
  - Separation can never be completely realized, for economy and politics are both fundamental spheres of human activity
  - two alternatives: the economy is integrated in society or society in the economy
  - Polanyi: a market economy leads to a market society (a society embedded in the market/market mentality)
- Neoliberalism (Hayek): market society is *political goal*



# Bifurcation Hayek-Polanyi



# Polanyi's and Hayek's common ground

- ideas have real consequences; false ideas endanger society
- the fact of “complexity” (problem of overview, dispersion of knowledge) sets the limit to political projects
- rejection of state socialism (inefficiency, totalitarianism)
- seek of a decentralised institution – compatible with human freedom
  - Hayek: market
  - Polanyi: democracy

# Polanyi's rejection of market society

Market prices are no solution to the organisational problem of the complex society

- set a *moral problem*: freedom without responsibility
- do not solve the *political problem*: democratic values (freedom, social justice, human rights) cannot be realized – countermovement, crisis, chaos, totalitarianism (fascism, right-wing populism)
- do not solve the *economic problem*...material basis is not efficiently organized according to the democratic goals of society

# The missing oversight sets a problem to freedom

- Prices as *reification* of human relationships – “invisible line” among human beings at this side and at the other side of the market
- Human beings face prices, act according to them, but have no understanding of either the *causes* or of the real *consequences* of these prices
- Responsibility for direct consequences, but not for indirect, global consequences...
  - what about the workers in Bangladesh?
- Freedom/social responsibility are an illusion

# Polanyi vs Hayek

- Polanyi tries to increase *oversight* by creating institutions that allow more social responsibility
- Hayek tries to solve the *problem* of oversight by introducing the market as a 'discovery procedure'
- For Hayek: 'the other side of the market' is not a sphere of personal responsibility - irrelevant
- For Polanyi: the consequences on "the other side of the market" set the central moral-political problem
  - Intensification of democracy: replacement of price-building markets by democratic decision making in some main spheres

# Intensification of democracy in economic process

- Non-market price-building process for main spheres of society: democratic agreements among consumer associations, producers organisation, trade unions, political community (functional democracy)
- democratic discussion of budget plans
- market regulations
- regional markets
- international cooperation (not competition)
- use of producer/consumer cooperatives

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# Polanyi's Alternative

- a *democratic* society with embedded markets
- institutions which aim at 'making society an increasing plastic medium of the conscious and immediate relationship of persons'
  - Freedom based on responsibility – away from a society in which citizens *do not* have any control over the economy and its consequences
  - Reduction of 'reification' of human relationships: prices, market laws, the state, etc. *as much as possible*



# Thanks!

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