

ECONOMIC CRISIS AND POLANYI'S DOUBLE MOVEMENT

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Abstract: As experts discuss the causes and results of the 2008 financial crisis and ensuing Great Recession, economists of various strands, led mainly by Keynesians, are slowly beginning to question the supposed wisdom of unfettered markets. Since Keynesian-liberal disputes revolve around the symptoms of the crisis, rather than the historical and structural features of market economies, we consider a fresh approach about Polanyi's ideas on market, and his concept of double movement in regards to the effects of neo-liberalism on societies, as a timely intervention to these debates.

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Introduction

While liberals like Hayek and Polanyi had views on the superiority of the market economy and other alternatives were fundamentally different, since the beginning of the 2008 crisis, the main disputes in recession-torn economies and societies regarding possible solutions have revolved, not around a Polanyi-style ontological critique of the market economy, but around epistemological arguments that involve Liberals and Keynesians. This dispute entailed two distinct points. On the one hand, there was the liberal notion of sustaining investor confidence through austerity and downsizing the state role in economic decision-making. This stems from the liberal idea, the main proponents of which are based on Reinhardt and Rogoff, (2010) that the reason for the crisis was unnecessary government involvement in the economy. On the other hand, Keynesians argued that the reason for the crisis was the fundamentalist belief in the wisdom of unfettered markets in allocating resources, and consecutive "bubbles" that were largely engendered by financial profligacy. Therefore, according to Krugman (2009) any method that aims to return the economy to sustainable growth should be centered on increasing both regulation and stimulus by the government. This paper will theoretically clarify the above-mentioned idea that the Keynesian regulatory alternative is more amenable in controlling the excesses of market economies. However, the final part of this paper will rest on the argument that the relative success of Keynesians is limited, since like the Liberals, Keynesians do not understand the inseparability of economic policy from the actual social relations of production. On the agenda for a stable future economic model, there needs serious consideration of Polanyi's ideas and Marxian alternatives. Thus, the first part is an exposition of the differences between Liberals and their Keynesian counterparts. Here, we will contend that, while the Liberals did not see any inherent problems with the capitalist system, Keynesians pointed to the irrational nature of free and unregulated financial markets as the main culprit in the global financial crisis

The 2008 Global Crisis Liberal-Keynesian Dispute

As explained before, the reasons for and possible solutions to the deepening global crisis since the collapse of the U.S. sub-prime mortgage market have been greatly discussed among major neo-liberal and Keynesian economists. Before examining their detailed explanatory models, one can see that, although Hayek's followers are still assertive in their arguments, Polanyi-style or radical alternatives regarding existing market relationships have been largely overlooked in the last five years. In the juxtaposition below, we endeavor to outline the rival thoughts within the evolving crisis in both political and economic arenas.

Current neo-classical economists, in line with the mentality of Hayek's methodological individualism, tend to have a blind spot regarding any inherent structural problems within capitalist social relationships. They emphasize, instead, the exogenous shocks or human-made mistakes as the probable causes of the crisis. Capitalist markets accurately reflect the behavior of the self-interested rational individual, and combined with the 'all things being equal' assumptions of perfect competition, the power of price signals, and the recurring equilibrium of demand and supply, no internal crisis

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tendency can coexist with the market economy. Thus, one questions how neo-liberals would define the emergence of the 2008 financial crisis. Mostly, an excessive government intervention in the housing market is stressed, along with CRA and affordable housing policies that forced the government-subsidized Fannie Mae and Freddie Mac to underwrite huge amounts of sub-prime mortgages, which in turn fed the housing bubble in the U.S. Wallison (2009) argued that those government subsidies lowered mortgage lending standards and resulted in increasing numbers of delinquencies. As expected, those defaults diminished the assets of the population, and paved the way for a recession. On a different note, Alan Greenspan blamed the emergence of the crisis on the formation of what he called 'irrational exuberance' among banks and investors pertaining to house and related asset prices, which spurred excessive risk-taking on the part of market players. Lang and Jagtiani (2010) considered the problem to be linked to the failing risk management strategies of banks and financial institutions, relying on untested risk models that failed to correctly predict the housing downturn. At worst, in mainstream economics, these repeated bust and boom cycles were interpreted as a common occurrence in the system, a version of business cycle. Some argued that these cycles were ultimately of use, since they cleansed the market of unproductive capital and idle capacity. Thus, neo-liberal economists defined the causes of the crisis as symptoms of capitalist-social relationships. For example, any acceptance of the Hayekian assumption, i.e., that market prices usually provide consumers with the best possible information, is clearly contradicted by the banks' failing in risk management strategies. Without any inherent fault in the operation of markets, one could question how this phenomenon of 'irrational exuberance' could ride roughshod over people's common sense. Methodological individualism and bankers' sophisticated mathematical formulae did not provide sound risk management models, as these equations were incapable of questioning either the basic assumptions of their theory or the historical underpinnings of the rise and dominance of financial capital.

In the aftermath of the crisis, when the U.S. and other major economies displayed signs of distress and entered a recessionary cycle, neo-liberals advised that there should be no government intervention in the form of stimulus. From the University of Chicago, Fama (2009) claimed that any government stimulus to reignite the engines of the economy would fail because any amount allocated to a stimulus, would create an equal amount of government debt and deficit, which in turn would decrease the total savings rate of the economy, and thus deprive the private sector of the necessary funds for investment. This crowding out of investment nullified the effects of government stimulus (Fama, 2009). Regarding another symptom of the crisis, i.e., the increasing unemployment rate, neo-liberal Casey Mulligan argued that government intervention in the economy through social welfare policies and unemployment insurance can constitute a dissuasive power for their recipients. By motivating people to evade job-seeking, such government efforts for stimulus can cause misallocation of resources, which can reduce the total output and cripple efficient use of capacity in various sectors. In short, Mulligan argued that government involvement has no role but to prolong a recession (Mulligan & Philipson, 2000). In addition, conservative economists blamed the U.S. President Obama's interventionism with new healthcare initiatives for engendering an aura of negativity and uncertainty around the future of private sector investments, and this also delayed recovery. Although they were silent on the issue of bailing out investment banks, they were vocal in warning about the inflationary results of government quantitative easing policies, in that huge increases in the supply of money would return to the economy as credit or asset inflation.

In line with these warnings, the IMF-related economists, Reinhart and Rogoff (2010) published a controversial study that established the 90% threshold for the ratio of public debt to GDP, and claimed that any excessive debt would result in slow growth numbers. They further argued that in order to return to a sustainable growth pattern and repair investor confidence, respective governments needed to reduce their deficits by imposing austerity policies. The emphasis on eliminating social spending, rather than on raising tax revenue was due to the negative effects of higher taxes on business and investor perceptions. However, the last five years of this process has failed to indicate any surge in inflation or unloading of U.S. treasury bonds by investors. In terms of unemployment numbers, even with government bailout and stimulus a return to pre-crisis levels has not eventuated. As for austerity policies, most governments like the U.S. and British have attempted to balance their bank and corporate bailouts with reduction in social spending, and this, in most cases, diminished the

effectiveness of the stimulus. Thus, as a general assessment, one may say that neo-liberal arguments largely fail to explain reasons or suggest sound remedies for that which ails the capitalist economy. Therefore, this study reviews the Keynesians response to the crisis, and examines their understanding of the nature of the crisis.

Keynesians' View

Although they did not want to fundamentally alter the nature of the market economy, Keynesian economists raised objections to certain assumptions of the 'let people do as they choose' approach. First, they disputed the self-correcting equilibrium of demand and supply forces when faced with the anarchic features of markets and the role of human psychological expectations associated with the trajectory of markets. These uncertainties usually feed unemployment and unused capacities, since investors have no ability to correctly predict the perfect amount of investment that an economy needs at any specific time or in any specific place (Stiglitz, 2011). Beyond a particular threshold, lack of investment and the resulting unemployment create recessions due to lack of demand; a situation that can only return to full employment goal and sustainable growth through monetary and fiscal intervention by an external source, namely the State (Keynes, 2006). Furthermore, since the days of Keynes, his intellectual followers have had no confidence in the credit and financial markets, since Keynes himself depicted them as casino-style institutions. Thus, the followers proposed close regulation of financial markets and investment banks. These points regarding the macro-economic situation and the Keynesians acceptance of basic promises such as the role of supply and demand, and priority of capital indicate that the Keynesians failed to identify any inherent problem in the capitalist mode of production. In addition, they failed to see any associated faults with the market economy that could have been corrected through sound management of aggregate demand, coupled with prudent financial regulation.

As is to be expected, prominent Keynesian economists differed greatly from the neo-liberal school, either in their diagnosis of what caused the Great Recession or in the possible remedies for the main problems of the current economy. Krugman (2009) from Princeton University was among notable experts who argued that the reason behind the 2008 crisis was that the large majority of people firmly believed in the idea of efficient market hypothesis and assumptions about the actions of rational investors in the market place. This efficient market thesis largely caused people and experts to overlook the underlying fundamentals of economic activity and paved the way to a housing bubble (Krugman, 2009). Krugman further argued that by issuing derivatives and other products, unregulated financial players, such as investment banks and hedge funds, perpetuated the expanding bubble. The sources needed for the bubble economy came from the rising East Asian markets, who channeled their excess savings into the U.S. market, and this was coupled by the U.S. Federal Reserve's low interest rate policy of 1% from the days of the 2001 recession. With the 'burst' in the housing price bubble, the weaknesses of underlying assets were revealed, along with the resulting reduction of total property market value, to the tune of US\$13 billion, opened the way to huge indebtedness and the collapse of property demand. The effect of this was job losses of up to US\$6 million with rise in unemployment deepening the recessionary tendencies in the actual economy.

Krugman (2013) argued that the simplest way for the government to fix the problem was to lower interest rates in order to spur demand and investment growth, but in the process the U.S. economy was faced with the problem of zero-bound interest rates, which meant that any reduction in interest rates would have no bearing upon the true economy. At that point, comprehensive efforts for stimulus and government social spending were needed in areas of unemployment, food stamps, and other entitlement benefits. This was contrary to neo-liberal solutions. Krugman stressed that neither the inflationary expectations of pro-austerity economists nor the crowding out of private investment by government debt were realized, because the U.S. economy had little capacity to expand, in the wake of a huge housing crash. He claimed that although conservatives and neo-liberals argued that the stimulus did not work well, as the U.S. economy was still in low growth pattern and could not reduce unemployment meaningfully, that the stimulus itself was not the problem, but rather its size; and that in comparison with the results of strict austerity measures within the Eurozone, Obama's fiscal expansion was a success (Krugman, 2013). Krugman and others of like mind warned that since insufficient fiscal expansion could not fully stabilize the situation, any return to an austerity agenda

would further cripple a lackluster recovery. Ultimately, in evaluating the current state of the American economy, Krugman shared Larry Summers' views on secular stagnation by virtue of these four indicators: a) that excess savings has no positive role in the liquidity trap; b) that growth patterns since 1985 display features of evolving bubbles in different sectors and achieve near full employment or low unemployment; c) that increasingly stagnant population growth rates hardly spur new capital investment; and as a result d) under a future with a liquidity trap, any amount of fiscal expansion or debt financing would have positive implications because persistent low inflation restricts alternatives (Krugman, 2013).

Other prominent Keynesians, such as Stiglitz (2011), shared most of Krugman's arguments pertaining to stimulus and fiscal expansion against the drive to austerity. Stiglitz (2011), with the support of Piketty's concepts on capital and inequalities, pointed out that the benefits of the last 5 years of economic growth in the U.S. was not shared equally and most sacrifice being demanded of the lower income groups. Stiglitz's argument rested on the proposition that an unregulated private sector and trickle-down theories of neo-liberal orthodoxy promised the extension of wealth, even to the margins of society, but statistics on income and capital concentration at the top of the societal pyramid inferred something different. Stiglitz suggested that government fiscal efforts should aim to decrease the persistent inequality and divert resources to new energy, infrastructure, public health, and education investments, to produce a more stable platform for growth in the U.S. economy. He also conceded that the power of neo-liberals and the banking sector over the country's politics prevented any radical overhauling of the economic mentality (Stiglitz, 2011).

Finally, one might claim that Keynesian formulas for both, possible causes of the crisis and prospective solutions, were much more humane and logical compared to neo-liberals' total neglect of the human factor. Nevertheless, Keynesians still suffered from what Marx called 'commodity fetishism', since they believed that the lack of demand could be corrected by monetary and fiscal stimulus in a capitalist economy. Most viewed the problem as a lack of demand and corollary lack of investment, a situation which actually produced the current vicious circle. Hence, Keynesians had no qualms with the inherent structural features of the capitalist mode of production; reasoning that providing the state 'comes to the rescue', the 'good old days' will return. However, Summers, Krugman, and Martin Wolf increasingly seemed hopeless in the face of the failing economy, to regain its momentum after years of government bailouts and quantitative easing policies, the most visible factor was that this recent experience was entirely different from that of the 1930s 'New Deal' years. A theory that excluded analysis of historical change and assumed that 'capital' was an entity in its own right that was not reconciled with the actual situation.

As Keynesian experts attempted to understand the cause of this lack of aggregate demand, economists such as Jones and Roberts (2014) argued that the lack of demand was explained by the insufficient income of large sectors of population, a byproduct of capital's relentless drive to increase its profitability. These authors suggested that the reason behind the Great Recession was the falling rate of profits since the late 1970s, and the actions by capital to increase its profitability rate (Jones, 2013). Jones argued that the financializing of the economy, especially, as well as the growing share of rent over the actual surplus value, though increasing overall corporate profits, had displayed a secular tendency of stagnant surplus value in production with a decreasing share of wages from total production. An actual attempt to surpass these inherent structural problems paved the way for the current malaise in lack of demand and investment. Jones (2013) and Roberts (2014) showed that the actual rate of surplus value production, which climaxed around the mid-1960s, trended downwards, and then began to recover up until 1997, followed by a slight increase up to 2006. The rate of net surplus value in production began to decline thereafter and bottomed out around the time of the Great Recession. Thus, they warned political economists to separate additional profits from financial and rentier activities in order to understand what is going on in the underlying economy (Roberts, 2014). Despite all efforts for stimulus and quantitative easing since 2009, corporate investment remains sluggish and has not returned to pre-recession levels. At this point, it would be incorrect to consider that the rising share of fictitious capital affecting the overall corporate profitability and the broadening chasm between it and true productivity played no role in the Great Recession. However, in the final analysis, financializing and inflation of fictitious capital on claims more than likely had a preemptive

reason, namely, the structural problem of a capitalist economy, which endeavored to recover a decreasing rate of surplus with ever more creation of fictitious capital.

On the issue of inequality and whether it was the chief cause of the recession, Roberts (2014) described the true problem of the crisis as not that of how uniformly the total value of capital production was shared, but rather how ownership of the means of production influenced that share throughout history. Since most rich individuals have tremendous political clout in decision-making, simply calling for a reduction of inequality, as Keynesians do, overlooks the social relationships that engender inequality. Any reduction in inequality requires a class analysis, and strengthening of working classes, through political struggle. Furthermore, although this Great Recession coincided with huge inequality, by itself, it did not explain the emergence of the capitalist crisis, since the erratic tendencies of capitalism are also evident in less inequitable societies, such as Germany and Japan (Roberts, 2014).

Polanyi's Ideas on Market and Society

Karl Polanyi and Friedrich Hayek were born in the Austrian Hungarian Empire, and their most influential respective works, 'The Great Transformation' relating to the political and economic origins of our time and 'Road to Serfdom' were both published in 1944, while World War II raged. Despite this, they presented to the world completely different views on economic order and state-market-society relations. Indeed, Polanyi's book provides one of the most important critiques of the liberal economic system, supported by Hayek and many other scholars. In general terms, as mentioned earlier, liberal Hayek opposed state intervention in the market and claimed that such intervention leads to loss of individual freedom, which from Hayek's perspective ultimately leads to tyranny. For Hayek and other Liberals, all forms of protectionism are an oversight, and the market can (and does) resolve emerging problems.

In response to the Hayekian interpretation of unfettered markets as embodiments of freedom, Polanyi, in his research on the social consequences of this rising power of market economy in all walks of human life, stressed that subordination of three crucial elements—land, labor, and money—to the commoditization frenzy of markets, leads to terrifying outcomes for human societies. He claimed that land, labor, and money were produced and used strictly because of their natural-use values, and unlike other human-made commodities, their marketization, as ordinary goods, endangers the social fabric and gradually undermines the well-being of human societies. Over-accumulation and consumption of land inevitably brings about environmental damage and pollution, while uncertainties involving labor markets and the presence of a large reserve of labor, i.e., the unemployed, cause sub-standard working conditions, and constant market neglect of the needs of human psychology, resulting in social dislocation. In addition, the use of money in speculative activities and sudden volatility in its supply and demand within market economies can create an abrupt collapse of companies or economic crises of the sort causing significant fallout in the human social fabric. Since Polanyi believed that a healthy society could not bear these crisis-prone tendencies, humans would collectively introduce measures to cope with the vagaries of market economies.

As the markets gradually began to penetrate every sphere of life, Polanyi gave examples from history that supported these ideas of self-protection initiatives for societies. In one chapter, he deals with the Speenhamland Laws, which were introduced in the late 18th century to create a scale of measure for rural poverty and somehow prevent rural destitution from worsening. He argued that these kind of laws inherently refuted the logic of self-regulating markets in the early industrial revolution (Polanyi, 1944). Since then, other laws to protect agriculture and prevent the overuse of land resources of Europe, have aimed to establish protection mechanisms around human society, without which market externalities could easily cripple a society's ability to feed itself through agriculture. Between 1870 and the inter-war era, measures such as minimum wage laws, New Deal policies, increasing unionization, coupled with capital controls, and rising protectionism over industry, signified what Polanyi called double movement; a reaction to the ravages of the capitalist economy. In identifying these historical tendencies, Polanyi not only proved that free markets were disparate to the natural inclination of human societies, but also that their operation and penetration into all fields of life required an external force, namely, states or giant companies' with monopolistic controls. He further

hinted at the relation of alienation under conditions of commodity fetishism, which would ossify the human cooperation required to realize human freedom in the societal sense.

Although initially published more than seventy years ago, 'The Great Transformation' is still relevant and presents important arguments in understanding the current structure and functioning of political economy. Polanyi started his analysis by describing the emergence of the modern economic system and stressed the role of the Industrial Revolution in its formation. The economic transformation witnessed in England formed the center of Polanyi's analysis. By focusing on economic history, he explained the evolution of capitalism and the major dilemmas that originated from this system.

From Polanyi's perspective, state-market-society interactions must be reconciled, and the state should protect society against the market by mediating the effects of the economy. In England, for example, the Speenhamland Laws were introduced to protect labor, with the state protecting different groups for various reasons. Hence, as Polanyi viewed it, the general purpose of the state was protection of society from market effects. These arguments generated many supporters in many countries. Indeed, in parallel with Polanyi's argument, during the 20th century, in different parts of the world, states did take several measures to protect their societies against the markets' devastating effects. Such measures, by states, entailed political mobilization of the working class and the existence of a strong economy in which people could present their demands. Therefore, Polanyi, in presenting one of the most important critiques of liberalism, supported democratic politics, where various segments of a society could express their wishes. In this respect, separation of politics and economics was regarded unnatural and perceived as an artificial situation to deter states from interfering with the economy.

Polanyi opposed a market economy that functioned in a self-regulating system. In a market economy, production and distribution of goods, as well as prices of economic commodities, are determined within a self-regulating mechanism. For Polanyi, a market economy based on a self-regulating mechanism was not a natural phenomenon that emerged automatically; if the state did not interfere in the market economy and take protective measures, society would eventually be destroyed. In Polanyi's words (Polanyi, 1944, p. 3-4):

[T]he idea of the self-adjusting market implied a stark utopia. Such an institution could not exist of any length of time without annihilating the human and natural substance of the society; it would have physically destroyed man and transformed its surroundings into a wilderness. 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. It was this dilemma which forced the development of the market system into a definite groove and finally disrupted the social organization based upon it.

'Double movement' was the term used by Polanyi to describe the tension that arises as a result of state-economy-society interactions. At one end of this movement there is economic liberalism, which supports establishment of a self-regulating market where 'letting people do as they choose' or 'laissez-faire' is the main principle. At the other end, however, lies social protection, arguing for applications of various protective measures against the effects of the market economy. While economic liberalism relies mainly on support from the trading classes, social protection is supported by those whose economic and social statuses are negatively affected by the market economy. In other words, the beginning of economic liberalism caused the formation of a countermovement of protectionism (Polanyi, 1944, p. 132 & 200).

Double Movement: Neo- Liberalism in the World Economy

Even in our current era, where the world economy has reached an unprecedented level of interconnectedness, the double movement most likely continues. On one hand, people negatively affected by the globalizing world economy call on the state to intervene, for application of protective measures and sustainment of welfare systems. On the other hand, economic liberalism has many supporters, especially powerful ones, such as those in the richest segments of societies and multinational corporations, and these prefer to carry out their operations in a border-free world economy. Since 'The Great Transformation' was published in 1944, states have taken measures in line with social protection. In Western Europe in particular, states have empowered welfare systems for the

purpose of protecting the poorest segments of their societies and to halt the expansion of socialism in the post-World War II era.

From the early 1980s onwards, with popularity of the Washington Consensus on the rise, the trend towards social protection was reversed. In this new era, economic liberalism gained support, and social protection measures has begun to gradually diminish. According to the policies introduced by the consensus, “the role of the state in the economy should be drastically reduced and the economy should be opened to the outside world” and “governments should deregulate and privatize the economy” (Gilpin, 2001, p. 315). Indeed, this was the prescription given by the International Monetary Fund (IMF) to less developed countries (LDCs) and any country on the lookout for international funds.

In the post-World War II era, the IMF and the World Bank (WB) became the main pioneering institutions of the new liberal world economy. With failure in the foundation of an International Trade Organization, a new formula was developed and the General Agreement on Tariffs and Trade (GATT) came into effect in 1948. In its first years, GATT did not overly concern itself with the worries of LDCs, and was viewed as ‘a rich man’s club’ by the latter. This perception of GATT meant that during the 1950s most of its members happened to be developed countries with LDCs taking little, if any, part in its negotiations. One of the main purposes of the IMF, WB, and GATT was liberalization of the world economy by abolishing any barriers on the path to international trade. In the 1960s, LDCs were able to form a strong opposition to the international trade system proposed by these international financial institutions and they formed Group Seventy-Seven (G-77; Spero & Hart, 1997, p. 216, 221–222). The G-77 argued that while free international trade may certainly provide some absolute gains to LDCs, they would gain nothing in relative terms compared to that gained by developed countries (Gilpin, 1987, p. 276). By the end of the 1970s, although LDCs’ continued calls for a fairer international trade order, their influence decreased (Spero & Hart, 1997, p. 230), and by the 1980s the Washington Consensus had become the dominant paradigm in international trade. The GATT remained the primary tool of promoting liberal international trade until 1995, when it was incorporated within the World Trade Organization (WTO). With emergence of the WTO, the pressure for liberalization of international trade reached an unprecedented level. As an international organization, the WTO shares the GATT’s goal of reducing trade barriers, but instead of being based on an agreement, its authority and responsibilities are broader than that of the GATT. However, one questions whether we live in a borderless world where goods, capital, and people move freely. Possibly, today’s world is not as ‘global’ as the pro-liberal institutions suggest. Polanyi’s writings more than seventy years ago remain relevant when describing the international political economy:

[S]ince the 1870s an emotional change was noticeable though there was no corresponding break in the dominant ideas. The world continued to believe in internationalism and interdependence, while acting on the impulses of nationalism and self-sufficiency. Liberal nationalism was developing into national liberalism, with its market leanings towards protectionism and imperialism abroad, monopolistic conservatism at home. (Polanyi, 1944, p. 198)

In the contemporary world economy, it is no secret that Liberal trade policies are promoted by developed countries and that these mostly work to the Liberal’s advantage. It is also no secret that they use the various international financial institutions such as the IMF and WB to impose these policies on the LDCs, although they themselves do not adhere to these. When differences among countries are taken into account, the forcing of LDCs to follow the same set of policies may clearly suppress development. However, this has been the IMF’s long-term policy towards LDCs. Forcing states to follow policies that do not fit with their economic and social structures may hamper these countries’ development efforts by simply causing their existing problems to become more entrenched. Contrary to the promises of the Washington Consensus, in the era when these policies were most widely imposed on LDCs, Pritchett (1996) argued, “[f]ar from narrowing, the gap between the incomes of the rich and poor countries has grown markedly and is likely to widen further” (p. 40). Despite a shift taking place with social protection progressing to economic liberalism in many parts of the world, the double movement endures in our current era and the works of Polanyi continue to provide great assistance to society in understanding the tension between economic liberalism and social protection.

Societal Responses to Neo-Liberalism

From Polanyi's perspective, contrary to an artificial and unhistorical self-regulating market, protectionism was a natural phenomenon, arising out of the need to protect society from the effects of the market. The demands for social protection, according to Polanyi, were not peculiar to specific classes but arose from various segments of society. On class interests, Polanyi proceeded further and argued that they do not provide satisfactory explanations in explaining long-term social processes. Polanyi considered the class interest approach contained many fallacies and the interests of a class was "primarily not economic but social". Since the social interests of different segments of a society are negatively affected by the market, people from different segments combine their power to meet threats caused by the market. Placing excessive emphasis on economic interests leads to neglect of social interests, as 'social exploitations' like 'cultural degeneration' caused by market forces usually take place in parallel with 'economic exploitation' (Polanyi, 1944, p. 152–157).

On the formation of states, Polanyi emphasized the role of the working class, who according to him played an important role. The French Revolution helped the bourgeoisie in their war against feudalism and also helped the working class to gain class consciousness and assert its demands at the political level. As a result, the European working class won protection of various forms against the market economy's negative effects (Polanyi, 1944, p. 174–176).

Treating factors of production, labor, land, and capital as commodities, endangers society. In arguing that no segment of society is immune to the negative effects of market economy, Polanyi explained that just as the working class and various other segments needed protection against the effects of a self-regulating market, so too did capital-owning wealthy business people. To attempt to secure this kind of protection, according to Polanyi, mechanisms such as central banks were introduced. Although protectionist movements for labor, land, and capital were viewed in different ways and on different scales, overall they were caused by "impaired self-regulation of the market" which in turn led to "political intervention" (Polanyi, 1944, p. 174–176, 203, & 206).

Indeed, civilization as a whole is under threat from the self-regulating market. The goal of increasing material welfare places society in peril. Any method of intervention "must obstruct the mechanism of the self-regulating market" (Polanyi, 1944, p. 219, & 231). For Polanyi, the market system loomed so threateningly that he considered it lay at the root of the emergence of Fascism in many countries in the twentieth century and crisis in the market system led to the appearance of such regimes. Recognizing the danger emanating from the market system, newly-emerging fascist and socialist regimes discarded the principles of laissez-faire (Polanyi, 1944, p. 242). Currently, societal reactions against this neo-liberalism and unfettered market hegemony exist in the manner of Polanyi's double movement in Greece and Spain. With political parties, Syriza and Podemos, in Greece and Spain, respectively, garnering their political support on a platform questioning the wisdom of the neoliberals' austerity methods in the aftermath of the Great Recession, flaws have begun to appear in the foundations of the free market idea, although the medium-term results of these parties' challenges remain to be seen. In the United Kingdom (UK) and France, the respective extreme right platforms of the UKIP and Le Pen's National Front could be considered challenges to the economic hardships associated with unfettered markets. As evidence indicates, most developments since the beginning of the neo-liberal age and the ramifications of Washington consensus increased the alignment of both, state and society structures, to the dictates of the markets. An inevitable societal response in vulnerable sections of the population was to increasingly seek ways to counter these market encroachments in their lives. Whereas liberals had no qualms with the existent socio-economic relationships, Keynesians complained about the unfettered nature of free markets while their solutions failed to offer sound solutions. The period between 2008 and 2015 involved volatility rather than genuine recovery. Another important aspect of this period was the growing effectiveness of the far-right groups in organizing reactions to order and manipulate legitimate grievances in the xenophobic frameworks.

Conclusion

Throughout this article, the theme of the discussion has been the principal problem at the heart of the dispute between Liberals and their adversaries, including Polanyi. The issues have centered on the ability, or lack thereof, of the market economy to self-correct (the so-called 'invisible hand'), and the question of whether genuine alternatives exist in the production and distribution mechanisms of the

markets. While Liberals currently believe in the efficiency and naturalness of the market, Karl Polanyi wrote an ontological critique of the markets, in which he argued that their development was a result of human intervention, and that complete submission of human potential to the dictates of commodity exchange would bring alienation and social destruction in its wake. In the aftermath of the Great Recession, this debate has returned with considerable interest in the field of political economy.

In the wake of the 2008 Great Recession, the main experts of the political economy tended to confine the controversy to the Liberal-Keynesian framework rather than engage in any Polanyi style ontological and historical critique of the dominant relationships, as was expected. However, this framework, while revealing the insufficiency of markets in controlling the excesses of financial players, failed to provide a true long-term stabilizer for the future of capitalism. Hence, Keynesian solutions are inadequate in creating a crisis-free system, mostly because they fail to consider the capitalist mode of production as being structurally embedded in the social relations of respective societies, i.e., they fail to consider the futility of separating economics from politics. Without an ontological and historical critique of the present system, similar to that undertaken by Marx and Polanyi in earlier times, no definite answers to the crisis-prone nature of market economy can be concluded. Thus, there is an international need for a radical alternative as a potential solution, although the feasibility of such an alternative greatly depends on the deliberation and conscious intervention of human societies in our history

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