

# The Problem of Poverty and the Political Economy: The Discovery of Society<sup>1</sup>.

Notes on *The Great Transformation* by K. Polanyi

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## *Introduction*

Karl Polanyi (1886 – 1964)<sup>2</sup> published *The Great Transformation* in 1944, the same year in which *The Road to Serfdom*, the controversial book by Friedrich Hayek, was released. Polanyi had disputes with Hayek since the 1920s and 1930s, when he worked as a senior editor of the weekly economic magazine *Der Österreichische Volkswirt*, in which he had to cease to participate in 1933, during the rise of Adolf Hitler, due to his socialist ideals.

Written during his tenure at the Bennington College of Vermont, the book was developed between 1939 and 1940; in Polanyi's words, it was started and finished in England—where he was a lecturer in the Workers Educational Association in Morley College, London, in Canterbury and Bexhill, extensions of the Universities of Oxford and London<sup>3</sup>. The publishing of this book coincided with the escalation of the Cold War between the United States and the Soviet Union, which is why its impact was temporarily overshadowed<sup>4</sup>.

*The Great Transformation* (hereinafter referred to as *TGT* for short) comprises three parts. The first one, «The International System», and the third one, «Transformation in Progress», analyze the circumstances that resulted in the First World War, the Great Depression, the advent and the rise of fascism in Europe, Franklin D. Roosevelt's New Deal and the first five – year plan for the national economy of the Soviet Union<sup>5</sup>.

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<sup>1</sup> I want to thank Clara Sarasa Aznar and Enrique Sánchez Hormigo for their help with the transcription, composition and revision of the text. Also thanks to Juan Rivera Rodríguez, for his careful English translation. Likewise, I would also like to thank Professors Salvador Almenar and Vitantonio Gioia, for all their help and comments during the course of my research about Karl Polanyi.

<sup>2</sup> The biographical aspects of the years prior to the writing of *The Great Transformation* (especially his previous scientific education), as well as his constant political exiles to Vienna, England and later the United States, are especially well chronicled in K. POLANYI-LEVITT (ed.), *The life and work of Karl Polanyi*, Montreal, Black Rose Books, 1990; J. MAUCOURANT, *Descubrir a Polanyi*, Barcelona, Ediciones Bellaterra, 2006, and more recently, G. DALE, *Karl Polanyi. A life on the left*, Columbia University Press, 2010 – the latter of which also delves more deeply into Polanyi's socialist ideas – among other works.

<sup>3</sup> Although written during his stay in England and Vermont, the work was finally published in New York in 1944, and later in London in 1945.

<sup>4</sup> «En Angleterre, Polanyi s'occupa de l'éducation des adultes, tout en réfléchissant sur son objet et la méthode a utiliser [...] L'étude et l'enseignement de l'histoire économique, de celle de l'Angleterre en particulier, qu'il intensifia dès lors, est une autre source essentielle de La Grande Transformation [...] La définition des caractéristiques de la société de marché constitue le point de départ et, en même temps, le but des études comparatives de Polanyi. La critique de la science économique est immédiatement impliquée dans cette démarche». M. CANGIANI, J. MAUCOURANT, *Introduction, in Essais de Karl Polanyi*, Paris, Éditions du Seuil, 2008, pp. 15-16.

<sup>5</sup> According to Fred Block, prestigious sociologist and expert in the works of Karl Polanyi, during his tenure in *Der Österreichische Volkswirt*, Polanyi hazarded the nearness of the 1929 stock market crash, the 1931 Vienna Kreditanstalt failure – which kickstarted the Great Depression – and the rise of fascism. F. BLOCK, *Introduction to The Great Transformation*, Boston, Massachusetts, Beacon Press, p. XX.

The second part of the book, «Rise and Fall of Market Economy», is the focus of this article, and more precisely, chapters 7 to 10, in which the author explores the causes of pauperism in England in the frame of the emergence of market liberalism, especially since the Poor Laws were abolished in 1834, and society's response to protect itself from the damages suffered, especially by the poor strata. According to Polanyi, the pauperism and the birth of the Political Economy are parts of one indivisible whole.

Before delving deep into the ideas presented in the approximately 50 pages of the aforementioned chapters – which he would later develop in a similar way in his 1947 text *Our Obsolete Market Mentality*; he would even later come back to some of their aspects in the last pages of his well – known *Trade and Market in the Early Empires*, published in 1957 –, it is important to analyze, as a starting point, some key concepts that Polanyi coins in the previous chapters of the book. Sociologist Fred Block, in an interesting edition to one of the many editions of *TGT*, suggests three basic concepts that Polanyi proposed: *embeddedness*, *fictitious commodities* and *double movement*.

About the first one, *embeddedness*, Polanyi considered that, against the tradition in which the economy consists in a system of interwoven markets in which the mechanism of prices creates an automatism that permits its correct functioning, before the 19<sup>th</sup> century, the economic activity was always embedded in society. The economy wasn't autonomous, instead it was subordinate to politics, religion and social relationships. In this sense, the split between classical economists like Malthus and Ricardo – although that wasn't the case of Adam Smith – with the previous thinkers consisted in the affirmation that societies were subordinate to the market logic: «It means no less than the running of society as an adjunct to the market. Instead of economy be embedded in social relations, social relations are embedded in the economic system»<sup>6</sup>.

For him, a disembedded market economy is something that cannot exist, since for that to happen human beings and the natural environment had to be turned into mere commodities and the peoples would resist. This analysis of the disembedding attempt leads us to the second concept, the *fictitious commodities*. These are false commodities, like land, labor and money. For moral reasons, as well as the necessary intervention of the state, the three aforementioned elements cannot be considered commodities, which explains the impossibility of disembedding the economy, at the risk of treating human beings as mere goods. Together with the economic decisions, in society it will always be necessary to consider an array of political decisions about its organization.

The third concept, built upon the impossibility of disembedding, is that of the *double movement*. According to Polanyi, two opposite movements coexist in market societies: the *laissez – faire* and, at the same time, a protective counter – movement in which social agents participate in various times trying to protect their interests – both the workers, who are against the decrease of their real salaries, and the entrepreneurs, who wish to protect themselves against the uncertainty and the fluctuations of economic activity that *laissez faire*, being a system without any kind of restrictions, could allow.

In this sense, Polanyi criticizes the supporters of market liberalism who always blame the failures of the market system on temptation, or «collectivist conspiracy», which always attempts to create barriers to its free functioning. Against them, he maintains that the erecting of barriers was always a spontaneous response of different social groups. Without this working of the *double movement* mechanism, it is impossible to understand how legislation, institutions and society as a whole responded to the situation generated

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<sup>6</sup> K. POLANYI, *The Great Transformation*, Boston, Massachusetts, Beacon Press, 2001 [1944], p. XXIV.

by the new industrial society that appeared in the 19<sup>th</sup> century, which led to an unprecedented pauperism and degradation of human beings. Esta es la interpretación que Polanyi dio para la “brutal” ruptura que el desarrollo de la sociedad industrial provocó de forma “inesperada”. As we will see later on, the positive or harmful effects of this change were criticized for their bias in Polanyi’s version. These criticisms, of which we will talk about after the analysis of the Speenhamland experience, as well as those formulated against the theoretically spontaneous “double movement” of society, are contained within G. Dale, K. Polanyi, Cambridge, Polity Press, 2010, cap. 2. The Great Transformation.

### *The problem of poverty*

In *TGT*, Polanyi maintains that the pauperism phenomenon appeared in England in the first half of the 16<sup>th</sup> century, with the figure of the indigent unbound to the fiefdom, which was considered a social threat: «Their gradual transformation into a class of free laborers was the combined result of the fierce persecution of vagrancy and the foresting of economic industry which was powerfully helped by a continuous expansion of foreign trade»<sup>7</sup>.

However, in the 17<sup>th</sup> century there was a minor mention of the problem. What in the previous century was a threat in a society that wasn’t semi – feudal, but semi – commercial, had now become only a burden for the public funds. From this moment on, different philosophical perspectives commence to turn up in England itself, perspectives which went from humane attempts based in self – help or institutional help to the most radical condemnation of it, for considering the sustaining of the poor resulted in a social wrong for society as a whole.

One example of this condemnation is a well – known essay by Daniel Defoe, *Giving Alms, No Charity, and Employing the Poor a Grievance to the Nation*, published in 1704, a year after he spent three days in the pillory for writing another pamphlet in which he criticized the Tories for exterminating dissidents. In the first of them, the English writer maintained that, if the poor were subsidized, they wouldn’t work for a salary, and in the case that they were given jobs in public institutions, this would help increase unemployment in private manufactures. Only misery and hunger would be a helpful stimulus for work<sup>8</sup>.

Polanyi maintained that, even though Defoe’s essay soon sank into oblivion, he was actually raising one of the fundamental issues of the new Political Economy. The Industrial Revolution had not arrived yet, but he anticipated the perplexities to come: giving alms was not doing charity, because by suppressing the sting of hunger, production is hindered, and shortage is simply created. Employing the poor is to harm the nation. In fact, in his famous book *The Life and Adventures of Robinson Crusoe*, in which he

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<sup>7</sup> *Ivi*, p. 109.

<sup>8</sup> Salvador Almenar considers that Defoe’s point of view reflects the idea that «England’s wealth is largely dependent on the vitality of wool textile manufactures and on domestic and foreign trade directly or indirectly related to the wool industry. This productive and commercial potential justifies the thesis that ‘in England there’s more work than hands that can carry it on [...] nobody is poor due to lack of work.’ Therefore, the welfare system that established the mandatory settling of those in need in their own parishes tended to destroy both the already established industrial centers and the connected commercial networks. Parochial assistance, therefore, ‘ruins families and increases the number of poor people’» (S. ALMENAR, *Ahorro, laboriosidad y prudencia. Economía política de las primeras cajas de ahorros (1704-1835)*, in «Papeles de Economía Española», 97, 2003, pp. 30-31).

explores this idea, he anticipates one of the arguments that Joseph Townsend would later put to so much use, by putting these words in the mouth of the novel's main character: «But I did not then know what I afterwards learned, that hunger will tame a lion»<sup>9</sup>.

However, on the opposite direction and with a completely humane spirit, four decades before the scathing attack that Defoe wrote in his pamphlet, according to Polanyi, it was the Quakers, like Lawson in 1660, the first ones to recognize that voluntary unemployment must have been the result of bad work planning and proposed a self – help system based on labor exchanges in the modern sense of a public employment agency as a solution<sup>10</sup>.

The promulgation of the *Settlement Act* of 1662 restricted the mobility of the workers by drawing the limits of the parishes they were affiliated to, causing massive unemployment and leaving Lawson's labor exchanges proposal without object. John Bellers, also a Quaker, proposed as a solution the creation of Colleges of Industry, places in which the unemployed could be hired with benefits. It wasn't about labor exchanges now, but about product exchange: the workers, who would be organized in communities of about 300 people, and wouldn't need an employer because they would trade their products directly.

Payment would consist in subsistence rations and a complementary payment depending on the results. Bellers' optimism made him think that his System not only proclaimed the working class' self – sufficiency, but could also generate profits that would be used to help others in need. Like Polanyi states, Bellers' former idea, more developed, would inspire many projects two centuries later, like Owen's villages of cooperation, Fourier's *phalanstères*, Louis Blanc's Ateliers Nationaux or Proudhon's Banque du Peuple, during the 1848 revolution, among others<sup>11</sup>.

According to Polanyi, it was all about ending poverty and, at the same time, giving the poor some usefulness. It shouldn't come as a surprise that, in that same line of thought, philosopher J. Bentham was involved in similar projects, not from the perspective of humanitarianism, but from the perspective of social engineering: he planned to massively employ the homeless, designing Houses of Industry, which were workshops that would be used by poor people subsidized under the authority of a central board, even conceiving a National Charity Company: «Bentham's plan amounted to no less than the levelling out of the business cycle through the commercialization of unemployment on a gigantic scale»<sup>12</sup>.

Bellers' plans were reproduced in 1819 by Welsh philanthropist and entrepreneur Robert Owen, who developed an ambitious project of villages of cooperation on the lands of an old factory owned by his father – in – law in New Lanark, Scotland. Though inspired by Bellers' Colleges of Industry, Owen's villages of cooperation had other different features, such as the size, since Owen's villages involved 1,200 people and a greater

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<sup>9</sup> D. DEFOE, *The Life and Strange Surprising Adventures of Robinson Crusoe*, London, William Taylor, 1619, p. 115. Defoe thought that the Devil himself participated in the history of the world: he would be responsible for the Crusades and close to the powers of Catholic Europe. Defoe thought that the Devil himself participated in the history of the world: he would be responsible for the Crusades and close to the powers of Catholic Europe. D. DEFOE, *The Political History of the Devil*, 1726; W. LEE, *Daniel Defoe: His Life and Recently Discovered Writings: Extending from 1716 to 1729*, New York, Burt Franklin, 1969.

<sup>10</sup> K. POLANYI, *op. cit.*, p. 110.

<sup>11</sup> «Between John Bellers, the Quaker, and Daniel Defoe, the enthusiast of business, between saint and cynic, somewhere around the turn of the seventeenth century, the issues were raised to which more than two centuries of work and thought, hope and suffering were to provide the laborious solutions» (*ivi*, p. 111).

<sup>12</sup> *Ivi*, pp. 112-113.

farming area, and other types of questions such as the humane treatment of lower – aged workers (work, feeding and children’s education were all activities carried out jointly) were given a greater importance. It is known that New Lanark had a big number of visitors, especially between 1815 and 1825, who wanted to check first hand Owen’s altruistic experience, and that Owen himself traveled ceaselessly to several European countries to convince governments and philanthropists to generalize his experience, without success<sup>13</sup>.

In fact, and after running into serious trouble with Scottish church members because of the secular education that was being provided in his villages, he decided to carry out his project in North America, where the New Harmony factory, built in the likeness of New Lanark, was a complete failure. However, as will be discussed later, Polanyi, in *TGT*, confers a key role to Robert Owen for being the first one to become aware of the change that the Industrial Revolution was bringing forth: «He grasped the fact that what appeared primarily as an economic problem was essentially a social one»<sup>14</sup>.

### *Joseph Townsend*

One of the most important points highlighted in *TGT* is that, when Adam Smith wrote his famous *Wealth of Nations* in 1776, helping the poor wasn’t yet a general problem, and yet, only ten years after, when Joseph Townsend published *Dissertation on the Poor Laws*, helping the poor had become a general problem that pitted philosophers, economists and politicians against each other. Polanyi suggests that the dividing line and the «atmosphere change» happened around 1780.

For Smith, wealth was only one aspect of the community’s life. The improvement, stagnation or downfall of a nation depended on its wealth, which in turn depended on work of its inhabitants and those with whom the state had a series of duties to carry out<sup>15</sup>. Smith always thought that economic activity must be embedded within a political framework of stability and security, and he never believed that such a thing as an automatic economic mechanism that would lead to economic balance which in turn would better society would exist.

However, and despite its generalized spread later on, the idea of the existence of an “invisible hand” which magically turned exclusively individual egoism into maximum social benefit, was not in his mind. Influenced by the tradition of the Scottish sociological school of «common sense», and as a defender of the sympathy principle, he believed in the tendency of human beings towards sociability:

Smith proposed the line of a greater confidence in the self – governing capacity of individuals: ‘Every man is, no doubt, by nature, first and principally recommended to his own care; and as he is fitter to take care of himself than of any other person, it is fit and right that it should be so’. However, the free pursuit of personal interest comes up against two limits: one external to the individual (the administration of justice, one of the fundamental functions that Smith attributes to the state) and one internal to him, ‘sympathy’ for his fellow human beings. The simultaneous recourse to these two elements shows how Smith, faithful in this to Aristotelian tradition of

<sup>13</sup> I. DONNACHIE, *Robert Owen Social Visionary*, Edinburgh, Tuckwell Press, 2000, pp. 133-155, 178-201.

<sup>14</sup> K. POLANYI, *op. cit.*, p. 134.

<sup>15</sup> A. SMITH, *An Inquiry into the Nature and Causes of the Wealth of Nations*, Oxford, Oxford University Press, 5<sup>th</sup> Book.

hostility to extreme positions, had a positive but not idealised vision of man<sup>16</sup>.

Ten years after the publication of *Wealth of Nations*, Townsend, in the aforementioned *Dissertation*, was inspired by the setting of Robinson Crusoe's island, in the Pacific Ocean, near the coast of Chile. The story is well known: Juan Fernández visited the island and left some goats to feed upon in future travels. Since they reproduced at a high speed, they became the primary source of food for the English privateers who visited the island and interfered with the Spanish trade. Spanish authorities then brought dogs upon the island so that they would breed and end up devouring the goats. According to Townsend, it was then when a sort of balance was established: «The weakest of both species were among the first to pay debt of nature; the most active and vigorous preserved their lives». To which he added: «It is the quantity of food which regulates the number of the human species»<sup>17</sup>. And so, Townsend claimed:

Hunger will tame the fiercest animals, it will teach decency and civility, obedience and subjection, to the most perverse. In general it is only hunger which can spur and goad them [the poor] on to labour; ye our laws have said they shall never hunger.. The laws, it must be confessed, have likewise said, they shall be compelled to work. But then legal constraint is attended with much trouble, violence and noise; creates ill will, and never can be productive of good and acceptable service: whereas hunger is not only peaceable, silent, unremitting pressure, but, as the most natural motive to industry and labour, it calls forth the most powerful exertions; and, when satisfied by the free bounty of another, lays lasting and sure foundations for goodwill and gratitude<sup>18</sup>.

Thus, Townsend unraveled the inexorable laws of nature that governed human destiny, left aside the government activity and considered that the major incentive to provoke work discipline was none other than hunger. In a trade – based society clearly divided between owners and free workers, the example of the goats and the dogs of Defoe's tale explained which one was now the balance mechanism which perpetuated social differences as well as leaving the disowned and the homeless to their own devices. Human nature would be of use to feed arguments to the new economists, who searched for laws and regulations which possessed certainty about the workings of society:

Thus it came to pass that economists presently relinquished Adam Smith's humanistic foundations, and incorporated those of Townsend. Malthus's population law and the law of diminishing returns as handled by Ricardo made the fertility of man and soil constitutive elements of the new realm the existence of which had been uncovered, Economic society had emerged as distinct from the political state<sup>19</sup>.

As we have seen, Polanyi considered that the change in atmosphere in relation to the importance of poverty happened around 1780, right in the time frame between the publication of Smith's and Townsend's books, when the importance of poverty became

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<sup>16</sup> A. RONCAGLIA, *The Wealth of Ideas, a History of Economic Thought*, Cambridge, Cambridge University Press, 2005, pp. 124-125. About the reasons against the neoliberal usage of the invisible hand mechanism in Adam Smith, see ID., *Il mito della mano invisibile*, Roma-Bari, Laterza, 2005.

<sup>17</sup> K. POLANYI, *op. cit.*, p. 118. According to Polanyi, Malthus and Darwin got their inspiration to this source: Malthus learned it from Condorcet, and Darwin from Malthus.

<sup>18</sup> *Ibidem*.

<sup>19</sup> *Ivi*, p. 120.

apparent, the stage was ready for the 19<sup>th</sup> century. The influence of the naturalist conception of a deterministic nature noted by Townsend would be especially important for the later developments of classical economy<sup>20</sup>.

In 1780, London suffered the people's anti – catholic fury with the Gordon Riots. The French Revolution, which started a few years later, had the sympathy of different popular sectors, and, as demonstrated by G. Spini, in this period, different books that criticized the society of the era were published, such as those of Robert Wallace, William Ogilvie, Thomas Spence, Tom Paine and Charles Hall. Some, like Wallace, a Presbyterian pastor of the Scottish Church, considering the riches that nature offered weren't properly exploited, championed the abolishment of private property.

Wallace was one of the first to note that maybe in the future the population would grow at a faster pace than that of the economic development, and so he became one of Malthus' inspirations. Anyway, he didn't propose a class struggle, he instead trusted in the protagonism of certain rich benefactors. «A select society of rich Europeans of honest hearts and extensive views [...] may become enamored of such state; they may form a design to give it a beginning and to try and experiment»<sup>21</sup>.

Ogilvie, on his part, in the era of a new wave of enclosures, and based upon the ideas of John Locke, proposed a new agrarian reform that substituted the exploitation of field workers for the small arable private property. His proposal was of a moderate nature, which didn't avoid an important debate in which very notable thinkers like Godwin and democrat radicals like Spence and Paine took part. The latter was in favor of the French Revolution, criticizing harshly the anti – revolutionary arguments stated by Edward Burke in his 1790 book *Reflections on the Revolution in France*.

Paine, who had participated in the North American revolution and had returned to England in 1787 claimed in his *Rights of Man* (1791) some sort of welfare state for his country, which included an assistance program to the unprotected class, which would be financed by suppressing superfluous public spending and imposing a progressive tax on big agrarian properties and successions, eliminating at the same time the more oppressive indirect taxes<sup>22</sup>.

However, the enemy Malthus would later battle in his *Essay on the Principle of Population* (1798) was the philosopher William Godwin, who some people would classify as the forerunner of anarchism. A year before England suspended the *habeas corpus* laws and dictated the prosecution of the democratic societies, Godwin had published a controversial essay as a reply to Burke's *Reflections*, entitled *Enquiry Concerning Political Justice* (1793). In it, he held institutions like the state, private property, religion and marriage responsible for the social failure. Against the tyranny of the state, and based on the natural goodness of man and the unlimited faith in human capacity of reasoning and perfectibility, he proposed a social organization based on the free association of individuals in small groups of a collectivist nature<sup>23</sup>.

### *Speenhamland*

<sup>20</sup> «In pushing back worker improvement expectations to an insignificant plane of election, Townsend reinforces the exclusive protagonism attributed to fear of hunger and insubordination as a direct driver of diligence and prevision. In this way, his *Dissertation* has been interpreted as a dramatic shift towards Adam Smith's optimistic formulation, which would later be expanded and distributed in Malthus' work.» (S. ALMENAR, *op. cit.*, p. 32).

<sup>21</sup> G. SPINI, *Le origini del socialismo. Da Utopia alla bandiera rossa*, Torino, Giulio Einaudi, 1992, p. 265.

<sup>22</sup> *Ivi*, p. 269.

<sup>23</sup> *Ivi*, pp. 270-271.

Around the same dates, France and England were at war. The aforementioned critical books were limited to the political sphere without a special consideration on the poor laws. However, they caused great fear among the richer classes of England. Polanyi demonstrates how it's precisely in this moment and in the sphere of treatment of poor laws when the definite retaliation of the landowners came about under the guise of Speenhamland, temporarily preventing the creation of a work market (this is one example of the counter – movement phenomenon which, according to Polanyi, is characteristic of the evolution of societies).

To understand this phenomenon, we need to go back over some data: Labor organization in England from the 16<sup>th</sup> century on was conditioned by the poor laws dictated between 1532 and 1662 and the 1563 Statute of Artificers; these two formed a Labor code. The Statute rested upon the principles of labor organization, an apprenticeship of seven years and the annual revision of the salaries by public officials. Begging was severely punished, and parochial assistance was financed by local taxes. This law, which was clearly patronizing, was completed by the 1662 Settlement Act, which severely restricted the mobility of the workers who couldn't search for work outside the area of their parishes.

The Settlement Act was partially abolished in 1795, reestablishing the physical mobility of the workers, which was in line with the advances of the Industrial Revolution and the employers' search for new manpower for their new factories. However, in that same year and in the opposite direction, a group of Berkshire magistrates, in a time of great deficit and coinciding with a new wave of enclosures, reunited in the Pelican Inn in Speenhamland, decided that conceding complementary subsidies was necessary, according to a limit based on the price of bread. Besides, it was necessary to ensure that the poor received a minimum income regardless of their revenue.

The measures that these magistrates adopted in Speenhamland in the 6<sup>th</sup> of May, 1795, weren't official, but in fact became law throughout the whole country. Polanyi points out that, in England, land and money were mobilized before manpower, and writes the following paradox:

This final step was taken only when market economy was set to start, (in 1834), and when the absence of a market for labor was proving a greater evil even to the common people themselves than the calamities that were to accompany its introduction. In the end the free labor market, in spite of the inhuman methods employing in creating it, proved financially beneficial to all concerned<sup>24</sup>.

But the paradox was only apparent: Speenhamland, «the right to live» was actually a trap. With the new system, a man could receive subsidies despite having a job, as long as his income was lower than the established limit. The subsidy came from taxes. Because of this, the employer paid ridiculous salaries, and no worker was interested in satisfying their boss because their income didn't depend on the wage, and productivity decreased to a historical minimum. Likewise, home assistance was generalized, as was the introduction of a salary complement for having a wife and children, where everything increased or decreased according to the price of bread. This measure was initially well received among the people and in humanitarian organizations. On the long run, though, the results were disastrous.

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<sup>24</sup> K. POLANYI, *op. cit.*, p. 81.



The Speenhamland episode revealed to the people of the leading country of the century the true nature of the social adventure on which they were embarking. Neither the rulers nor the ruled ever forgot the lessons of that fool's paradise; if the Reform Bill of 1832 and the Poor Law Amendment of 1834 were commonly regarded as the starting point of modern capitalism, it was because they put an end to the rule of the benevolent landlord and his allowance system. The attempt to create a capitalistic order without a labor market had failed disastrously<sup>25</sup>.

The 1834 Poor Law Amendment ended the Speenhamland venture. The market traps didn't immediately appear, although, as Polanyi points out, in the decade following its adoption, between 1834 and 1844 –which can be considered a transitional stage– an implacable act of social reform was produced, which led to the reestablishment of the workhouses, in which people had to work in exchange for food and shelter. From 1844 on, a true labour market started to grow, in which the consequences were even more implacable: the workers—the reserve army described by K. Marx and F. Engels—were helpless in the new industrial society. Polanyi believes that there was no true industrial capitalism to speak of until that very moment<sup>26</sup>.

In his opinion, it was then when society rose almost immediately in a spontaneous counter – movement, which led to factory laws, social legislation and the resurgence of the worker, political and union movements to protect themselves from the situation in which workers were stuck after the Speenhamland abolishment. Criticism towards the transition of Speenhamland into its new situation had a lot to do with the lack of consideration of some transitional measures, necessary to avoid the brutal uprooting of the lowest strata of society.

As if Townsend's arguments from his *Dissertation on the Poor Laws* about society's dependence on the laws of nature were reborn, now poverty was the nature in which society survived and established its limits. The Political Economy was going to base its laws upon this dependency:

Pauperism, political economy, and the discovery of society were closely interwoven [...] To Ricardo and Malthus nothing seemed more real than material goods. The laws of the market meant for them the limit of human possibilities [...] That human possibilities were limited, not by the laws of the market, but by those of society itself was a recognition reserved to Owen who alone discerned behind the veil of market economy the emergent reality: society. However, his vision was lost again for a century<sup>27</sup>.

### *T. R. Malthus*

In 1798, taking his inspiration on a series of conversations with a friend (who was actually his own father), a young Thomas Robert Malthus (1766 – 1834) wrote his *Essay on the Principle of Population*, an essay in which, according to one of his most important supporters of the 20<sup>th</sup> century, John Maynard Keynes, he thought<sup>28</sup> to have found the key to human misery.

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<sup>25</sup> Ivi, p. 84.

<sup>26</sup> Cfr. M. CANGIANI, J. MAUCOURANT, *op. cit.*, pp. 30-31.

<sup>27</sup> K. POLANYI, *op. cit.*, p. 89.

<sup>28</sup> J.M. KEYNES, *Essays in Biography*, London, Macmillan, 1933, p. 119.

In the preface to his essay, Malthus claimed to know that in it, the representation of human life was tainted with melancholy, albeit these dark shades were found in reality and did not depend on his bleak, somber spirit. In his *Essay*, he explained his famous and controverted thesis about the different proportions in which subsistence (arithmetic) and population (geometric) grew, predicting a terrible future in which the lack of food would make the survival of the more disadvantaged classes of society impossible. To explain this disastrous paradox, he resorted to the aforementioned arguments by Joseph Townsend, which he had learned from the book by the Marquis of Condorcet (1795), which holds the laws of nature responsible for the threat that loomed over the future society:

Necessity, that imperious all pervading law of nature, restraints them within the prescribed bounds. The race of plants, and the race of animals shrink under this great restrictive law. And the race of man cannot, by any efforts of reason, escape from it. Among plants and animals its effects are waste of seed, sickness, and premature death. Among mankind, misery and vice. The former, misery, is an absolutely necessary consequence of it. Vice is a highly probable consequence, and we therefore see it abundantly prevail; but it ought not, perhaps, to be called an absolutely necessary consequence. [...] No fancied equality, no agrarian regulations in their utmost extent, could remove the pressure of it even for a single century<sup>29</sup>.

He was convinced that avoiding that misery was outside human reach, and he also considered that it wasn't appropriate to create public institutions to soften the effects of the laws of nature and generalize dependent poverty, regarding them as a shame for humanity. Instead, he preferred the existence of an obstacle to the population growth, which would consist in apprehension towards the difficulties of maintaining a family and fear of dependent poverty, so he harshly criticized, just like Ricardo, the system established by Speenhamland:

Were I to propose a palliative; and palliatives are all the nature of the case will admit; it should be, in the first place, the total abolition of all the present parish – laws. This would an any rate give liberty and freedom of action to the peasantry of England, which they can hardly be said to possess at present. They would then be able to settle without interruption, wherever there was a prospect of a greater plenty of work, and higher price for labour. The market of labour would then be free, and those obstacles removed, which as things are now, often for a considerable time prevent the price from rising according to the demand<sup>30</sup>.

Of the 19 chapters which comprised the first edition of the *Essay*, after establishing the principles that regulated the laws of population in the first seven, he dedicated two more to criticize its precursors, like Wallace, who had anticipated the risk of overpopulation but still thought it was far off, and the Marquis of Condorcet, who penned *Esquisse d'un tableau historique des progrès de l'esprit humain* and whom he considered to be a Utopian whose ideas were, in his opinion, absolutely contradictory. By proposing measures that relieved the misery and uncertainty of the poor classes, in Malthus' opinion, what he was favoring was a faster growth of the world's population,

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<sup>29</sup> T.R. MALTHUS, *First Essay on Population*, reprint in Facsimile of *An Essay on the Principle of Population as it affects the Future Improvement of Society*, 1966 [1798], pp. 15-16.

<sup>30</sup> *Ivi*, pp. 95-96.

thereby aggravating the problem.

But the greatest foe he tried to defeat in his essay was undoubtedly the previously mentioned English philosopher William Godwin, to whom he dedicated six chapters, no less, to debunk his errors. In Malthus' opinion, Godwin's sin was recurring to abstract thinking and having like Condorcet an unlimited faith in the perfectibility of human beings (the picture that Condorcet painted in his *Esquisse* was too beautiful to be real: if generosity was a substitute for egoism, instead of producing beneficial results, it would only cause the misery that was affecting a share of the inhabitants at the moment to spread out and affect society as a whole). The Godwin's biggest mistake was to attribute to human institutions almost all of the vices and calamities that torment society:

As it has been clearly proved, however, (at least as I think) that is entirely a false conception, and that, independent of any political or social institutions whatever, the greater part of mankind, from the fixed and unalterable laws of nature, must ever be subject to the evil temptations arising from want, besides other passions<sup>31</sup>.

Property security and the institution of marriage would arouse unequal conditions. Those who were born after the distribution of properties found an already occupied world, therefore: «It has appeared, that from the inevitable laws of our nature, some human beings must suffer from want. These are the unhappy persons who, in the great lottery of life, have drawn a blank»<sup>32</sup>.

Adam Smith – whom he treats with more respect than the aforementioned authors – couldn't escape Malthus' criticisms at the end of his essay, either. Malthus started his 16<sup>th</sup> chapter lightly in this way: «Probable error of Dr. Adam Smith in representing every increase of the revenue or stock of a society as an increase in the funds for the maintenance of labour. Instances where an increase of wealth can have not tendency to better the condition of the labouring poor»<sup>33</sup>.

Leaving aside his opinions on Smith's oeuvre (after all, he was a follower of his), it should be noted that Malthus used his debate with the author of *Wealth of Nations* to prove his neophysiocratic tendencies and expose his preference for agrarian activities and the repercussion that the election between promoting agriculture or trade would have on the speed of the population growth and the situation of the poor classes:

It is evident, however, that two nations might increase, exactly with the same rapidity, in the exchangeable value of the annual produce of their land and labour; yet if one had applied itself chiefly to agriculture, and the other chiefly to commerce, the funds for the maintenance of labour, and consequently the effect of the increase of wealth in each nation, would be extremely different. In that which had applied itself chiefly to agriculture, the poor would live in great plenty, and population would

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<sup>31</sup> *Ivi*, p. 267.

<sup>32</sup> *Ivi*, p. 204. These serious sentences by Malthus turned him into a target of later criticism of socialist authors, from the Saint-Simonians to Marx, among others, like we will discuss later. However, it is important to remember that his harsh vision of reality didn't respond to a derogatory attitude towards humanity, more akin to the visions of Defoe or Townsend: «Malthus described this vision as 'very cautious', but 'far from being entirely disheartening'. It was not, perhaps, a noble or inspiring vision more decent than heroic. But it does not deserve the epithet that is still repeatedly applied to it – grim – and there is, of course, no reason to think that Malthus was any less humane than those who have professed larger goals.» (D. WINCH, *Introduction to Malthus An Essay on the Principle of Population*, Cambridge, Cambridge University Press, 1992, p. XXIII).

<sup>33</sup> T. R. MALTHUS, *op. cit.*, p. 303.

rapidly increase. In that which had applied itself chiefly to commerce, the poor would be comparatively but little benefited, and consequently population would increase slowly<sup>34</sup>.

### *The socialists against Malthus*

Pierre Leroux, a printing worker who made his first weapons in the liberal daily paper *Le Globe*, converted to the Saint – Simonian creed when, during the 1830 Paris revolution, the paper fell into the hands of the Saint – Simonian sect (under the direction of Barthélemy Prosper Enfantin, «Le Père», and his loyal collaborator, a young Michel Chevalier). Shortly thereafter, after the November of 1831 schism that happened within the heart of the sect due to the strong differences between the two leaders, the former Carbonari and republican Armand Bazard and the visionary Enfantin, who eventually seized the power, Leroux abandoned the sect<sup>35</sup>.

Even though he always considered Saint – Simon, Fourier and Owen his masters (especially the first of the three), he still harbored differences with several thesis of the master, and he turned to a radical republicanism that led him to the French Chamber of Deputies in 1848. After his editorial venture in *Le Globe*, he collaborated in the *Revue Encyclopédique* in 1834. Afterwards, together with Louis Reybaud, he founded a vast editorial project that remained incomplete, *L'Encyclopédie Nouvelle*, and from 1841 on, with his friend and protector George Sand, he founded the *Revue Indépendante*, and in 1844, also with Sand, the *Revue Sociale*, which was subtitled *Revue sociale ou solution pacifique du problème du prolétariat*.

It was from these pages from where, in 1846, he published one of the harshest criticisms ever written by a socialist against the liberal economists, and especially against the figure of T. R. Malthus<sup>36</sup>. Leroux did not accept Malthus' inexorable laws about the population, or those of the English political economy. In a previous publication, *La carrosse de Mr. Aguado*, he held the sacrosanct competition laws and the private property responsible for the low wages and the misery of the working class:

Cette dissociation s'appelait autrefois féodalité, aujourd'hui elle s'appelle propriété. Elle se manifestait autrefois par la guerre, elle continue de se manifester par la concurrence.

Concurrence! Le beau terme que les économistes ont inventé là! Il exprime l'action de se ruer les uns contre les autres, Oh! La belle loi, et qu'elle est bien fait pour nous rendre bons et hereux! Je me rue sur toi, mon frère: voilà ce que veut dire concurrence!<sup>37</sup>

Banks (the Judaizing spirit), usury and slavery—towards which the capital forced the workers, who received pitiful wages and lived in overcrowded workhouses—were responsible for the miserable situation of society. Money had become the «*force dominatrice*», and so Leroux, even though he respected Saint – Simon, thought that he had with the capital. In his opinion, the industry in the hands of the capitalists and the

<sup>34</sup> *Ivi*, pp. 325-326.

<sup>35</sup> S. CHARLÉTY, *Histoire du Saint-Simonisme*, Paris, P. Harmann, 1931 [1896], p. 132.

<sup>36</sup> The texts included in this publication would later appear in book form in 1849, with the unmistakable title *Malthus et les Économistes ou Y Aura-t-il toujours des pauvres?*.

<sup>37</sup> P. LEROUX, *Le carrosse de Mr. Aguado*, Boussac, Imprimerie de Pierre Leroux, 1848, p. 83.

competition war which forced them to pay ridiculous wages, was the real cause of pauperism, and not the laws of nature, like Malthus claimed «le plus fort de tous vos économistes, le seul véritablement logique»:

Il y a cinquante ans que Malthus a écrit: «Un homme qui naît dans un monde déjà occupé, si les riches n'ont pas besoin de son travail, est réellement de trop sur la terre. Au grand banquet de la nature, il n'y a point de couvert mis pour lui. La nature le commande de s'en aller, et elle ne tardera pas à mettre elle – même cet ordre à execution [...] Oui, c'est l'industrie capitaliste qui tue; ce n'est pas, comme le dit Malthus, la Nature. La Nature n'est pas malfaisante que par l'ignorance de l'homme et par son immoralité»<sup>38</sup>.

Malthus would also be the object of his diatribes, some of them also aimed towards the Swiss economist Jean Herrenschwand, whom he considered a predecessor of Malthus, about his critical and inhumane attitude towards alms and public protection establishments. Leroux was willing to admit that the English economists, following Smith, would have identified the origin of the increase in production with the capital, but not that they would have accepted the results of a mechanism that he straightforwardly referred to as exploitative and that «kills like war».

In conclusion, Leroux had found in Malthus a target for his head – on attack towards the English economists who defended the new Political Economy, but his attack wasn't an isolated event. Similar criticisms, albeit not as vicious or exclusively targeted at the figure of Malthus, were found from the beginning of the 19<sup>th</sup> century in the writings of the Ricardian socialists<sup>39</sup> and in those of Sismondi, who definitely influenced the Saint – Simonians, and also in those of the Saint – Simonians, who, albeit respecting the principles of Say, denounced «the immorality of the Political Economy.» Other movements that Polanyi gathered in *TGT* also denounced the consequences of the Industrial Revolution that were based on the same principles: Fourier and his followers, like Victor Considerant; the neo – Babouvists like Buonarroti and Cabet and P. J. Proudhon himself, among other prominent advanced reformers<sup>40</sup>.

Even Christian social thought and social Catholicism in its different versions, like those of Alban de Villeneuve – Bargemont, Montalembert or the more radicalized Félicité Robert de Lamennais (author of the influential book *Paroles d'un croyant*), raised their voices against the unacceptable situation of the working class, coming close to the conception of the class struggle, albeit proposing conciliatory formulas that were quite far from those which would later be proposed by K. Marx and F. Engels in the mid – 1840s.

But, for Polanyi, it was undoubtedly Robert Owen who realized the true change that was taking place with the Industrial Revolution. Maybe because he was the only one who

<sup>38</sup> P. LEROUX, *Malthus et Les Économistes ou Y Aura-t-il toujours des pauvres?*, Boussac, Imprimerie de Pierre Leroux, 1849, p. 65.

<sup>39</sup> Cfr. A. GINZBURG, *I socialisti ricardiani*, Milano, ISEDI, 1976.

<sup>40</sup> Cfr. G. FACCARELLO, *Pierre-Joseph Proudhon*, in *Nouvelle histoire de la pensée économique. Des premiers mouvements socialistes aux néoclassiques*, Paris, La Découverte, vol. 2, 2000, pp. 44-61. On the controversy between Proudhon and Malthus, cfr. V. GIOIA, *Natural Laws and Political Economy: Proudhon vs. Malthus. Controversial aspects of Malthus' Essay on Population*, in «Cuadernos Aragoneses de Economía», 21, 2011, n. 1-2, pp. 29-47 and ID., *French utopian thought and political economy (1789-1848)*, in V. GIOIA, S. NOTO, A. SÁNCHEZ (a cura di), *Pensiero critico ed economia politica del XIX secolo: da Saint-Simon a Proudhon*, Bologna, Il Mulino, 2015.

had a practical, deep knowledge of the industry and, at the same time, was a social reformer. Polanyi thinks that no other thinker ever delved deeper in the territory of the industrial society than Owen did:

He was deeply aware of the distinction between society and state; while harboring no prejudice against the latter, as Godwin did, he looked to the state merely for that which it could perform: helpful intervention designed to avert harm from the community, emphatically not the organization of society<sup>41</sup>.

Unlike other socialists, he didn't feel any aversion towards the machines or towards industrial development, albeit he was aware of the effects that the introduction of machinery in the factories was causing. He expressed it like this in 1817:

The general diffusion of manufactures throughout a country generates a new character in its inhabitants; and as this character is formed upon a principle quite unfavorable to individual or general happiness, it will produce the most lamentable and permanent evils, unless its tendency be counteracted by legislative interference and direction<sup>42</sup>.

He also rejected the Malthusian and Ricardian limitations while criticizing the Christian perspective for considering it an «individualized» vision that denied the importance of society in the development of the human being:

His discovery of society urged him on to transcend Christianity and seek for a position beyond it. He grasped the truth that because society is real, man must ultimately submit to it. His socialism, one might say, was based on a reform of human consciousness to be reached to the recognition of the reality of society<sup>43</sup>.

About the phenomenon of pauperism, he emphasized that the main cause was the fact that workers depended exclusively on manufactures to survive. That's why he proposed the generalization of his system of humanitarian cooperative villages that allowed industrial development, without this leading to the destruction of the social structure. As Polanyi accurately claims, Owen thus realized that what appeared to be an economic problem was actually a social problem:

The Industrial Revolution was causing a social dislocation of stupendous proportions, and the problem of poverty was merely the economic aspect of this event. Owen justly pronounced that unless legislative interference and direction counteracted these devastating forces, great and permanent evils would follow<sup>44</sup>.

### *Concluding remarks*

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<sup>41</sup> K. POLANYI, *op. cit.*, p. 133.

<sup>42</sup> *Ivi*, p. 134.

<sup>43</sup> *Ivi*, p. 133.

<sup>44</sup> *Ivi*, p. 135.

In a sociology convention that took place in England two years after TGT was published, Polanyi summarized the theses that inspired his work: that economic determinism was fundamentally a 19th century phenomenon that was only effective under a market system that no longer worked in Europe; that the market system had violently distorted man's and society's vision, and that this vision had turned into one of the main obstacles to current civilization.

It is true that TGT fell into obscurity due to both the Cold War and the silence imposed upon it by orthodox Marxism (Polanyi wasn't a Marxist, but a socialist closer to guildism and socialism, with sharper Christian influences at some points in his life). Besides, mainstream economists and other social scientists treated him with the same indifference. So, we can say about Karl Polanyi, what Amartya Sen (in the foreword to Michael Polanyi's *The Tacit Dimension*) emphasized about his brother: he was considered an eclectic thinker that dabbled in fields as varied as pure science, history and economics. The interdisciplinary approach, that they had proposed, favored for many years a general lack of consideration for their work. It also cannot be overlooked that some of his theses, and especially those featured in TGT, were revised and/or criticized. This was the case of his excessively unconventional (or abrupt) vision of the industrialization process, and especially of the consequences that the Speenhamland system, which was active from 1796 until the repeal of the Poor Laws in 1834. For some authors – and, in some instances, Polanyi himself partially admits it – Speenhamland softened the consequences of the start of the Industrial Revolution, turning into an essential aid for the poorest people, and it was only from 1819 on that its effects started to prove counterproductive for productivity and the salaries.

On the other hand, it has been called into question that, if the works of Ricardo and Malthus – which were so vilified in TGT – were written precisely in the period in time before the repeal of the Poor Laws in 1834, what economy and what labor market were these economists talking about, if the latter wasn't established until the repeal of the aforementioned laws?

The sterility of the distinction between the substantivist and formalist concepts of the term "economy" has also been called into question, clearly assigning Polanyi to the former and creating a debate that has pitted historians and sociologists against one another for decades.

Aside from the criticism and revision of Polanyi's work – which in some countries was not released until after other later works from the same author, such as *Trade and Market in the Early Empires* or the posthumous *The Livelihood of Man* –, his influence was brought forward especially after the decades of 1970 and 1980. It was even reclaimed by non – dogmatic Marxist sectors as one of the main criticisms of the consequences of the Industrial Revolution and the emergence of the modern capitalist world.

After his criticism to the consequences of the rise of self-regulating market and its later consequences in the second, main Great Transformation – which took place after the 1820's –, according to J. Bognár in his foreword to *The Life and Work of K. Polanyi*: «Polanyi trusted humanity to develop a combination of the economic system and the value system that would maintain and even accelerate progress, yet protect the individual from amorality and complacency, with society institutionally defending the poor, the vulnerable, and the aged».

