

# Vandals in the Free-Market Temple

*The 200-year-old hoax of the "self-regulating market"*

BY MARJORIE KELLY

"Once a person has an internalized picture of reality, further experience tends to confirm that picture."

—Willis Harman, *Global Mind Change*.

I'VE BEEN READING the most fascinating book recently—a book all the better because I picked it up for 25 cents from a bin at the Salvation Army (next to the luggage, across the aisle from Household Potpourri). It was a strange place to discover a 1944 paperback by an obscure economic historian—mingling with *Star Trek VI* and Danielle Steel—but there it was, *The Great Transformation*, by Karl Polanyi (Beacon Press, still in print, by the way). The author's name was what caught my eye, for I'd seen references to Polanyi as one of the fathers of the free-market critique—considered as influential in some circles as John Maynard Keynes—and in the back of my mind I'd been meaning to look him up.

My instincts proved right. Polanyi's book puts a human face on free-market capitalism in an analysis quite unlike anything I've read. The human face he uncovers, not incidentally, is one of suffering—the suffering that has dogged the heels of the free market ever since its birth during the Industrial Revolution. Reading Polanyi clarified something I'd always felt at some level but never articulated adequately—a suppressed rage about the disparities of wealth under capitalism, but a lack of clarity about where to direct it. Because I as a businessperson did not, like many of my friends, think of business as an unalloyed evil. Poverty is an inescapable fact of life, I had told myself. Even Jesus said "The poor will always be with us." And anyway, wasn't poverty worse under socialism than under capitalism?

But that's hogwash. Even if poverty is a fact of life, that doesn't excuse the fact it's increasing steadily, in the richest nation on earth—among people who work full time. I mean, let's set aside the straw dog of communism once and for all: It failed, it never worked, it's done. But that's no reason to

---

**Free-market apologists worry that government will become a Frankenstein's monster, but the real monster is the market itself.**

---

deify the free market. There's something seriously wrong, at the very heart of capitalism. And it's time we faced it—not as social activists screaming over the fence at business, not as governments trying to rein in business, but as businesspeople looking ourselves full in the mirror.

"Greed" is what most people say is the culprit—but that's too easy. Because if greed is the problem, it's individuals who are at fault, and we can't change human nature, blah blah blah. Polanyi is more accurate in saying the free market itself is at fault, as a system—because it elevates gain to inappropriate heights, and posits self-interest as the sole regulator of the market.

It's a long-standing myth of capitalism, that competing self-interests work themselves out for the benefit of all, as though guided by an "invisible hand," in Adam Smith's memorable phrase. But it's a fiction, Polanyi says. A hoax, I say—an enormous hoax, which has had calamitous effects.

As Polanyi explains, economic relations for centuries had been subordinate to social relations. But the self-regulating market turned that inside out—claiming the market itself to be of paramount importance, and declaring society to be simply a part of the market.

What this meant was that human beings and the natural environment became "commodities," with no intrinsic worth, only a price set by the market. Thus everything in the world—all people, all the Earth's resources—were to be used by the market for

one purpose only: to increase profits. And to whom did those profits flow? To the ownership class.

Pretty good scam, if you can get away with it: "Everything in the world exists to benefit us, the ownership class. This is the natural law. And if you let us get richer and richer, things eventually will work out to the benefit of all, as though by an invisible hand."

In what other sphere of life would we swallow such a ridiculous, superstitious definition of how the world works? An "invisible hand" indeed! What if I told you, for instance, that some "invisible hand" had guided me to the Polanyi book in the Salvation Army, as though for my salvation? If you were feeling open-minded you might say, "Well, hmm, it is interesting how things like that happen, isn't it." But you might say, "What an idiot, I can't believe she said that."

If we don't let normal people get away with talking about invisible hands, why do adults turn to jelly when economists mention it—as though it were The One True Law?

It's absurd, this bowing and scraping before the self-regulating market. We can with much more truth say the body regulates itself and heals itself—but when Christian Scientists say that and their children end up dying, we haul them into court. Because we know that the body heals even better with a little help, like splints on broken arms. Just like the market works better with a little help—like anti-trust laws, and food and drug regulations, and all the thousands of tinkering our society uses to ensure human well-being.

The market self-regulates, all right, just as the jungle does—allowing the strong to devour the weak. One would think our civilization had grown beyond that.

WHAT'S AMAZING is the recent resurgence of interest in the self-regulating market—and the equally dismaying lack of intelligent opposi-

tion. One of the most articulate critics of laissez-faire is Robert Kuttner, *Business Week* columnist and author of *The End of Laissez-Faire* (1991, Knopf). "My subject is in a sense the *second* end of laissez-faire," he writes, "for the ideal of a self-regulating economy seemingly had been dispatched once and for all after the bitter lessons of the global Great Depression, the ensuing World War II, and the explanatory power of Keynesian economics." But laissez-faire has risen repeatedly from the dead, he says—most recently in the wake of communism's collapse, so often heralded as a vindication of the free market.

While free-market apologists worry that government will become a kind of Frankenstein's monster, Kuttner and other critics show that the market is the real monster. The record clearly shows that the path through history cut by the unfettered market is a path of human suffering. And as businesspeople, this is our collective burden of guilt—the sins of the fathers being visited upon the sons and daughters. For even if we ourselves are good people, in a business sector becoming more humane, we are heirs to a frightening legacy. We must own up to what has been done in business's name.

We might start by forgiving Adam Smith his blindness, for in 1776 when he published *The Wealth of Nations*, the real effects of the free market were yet unknown. But within a decade it became clear that pauperism was rising inexorably with wealth. Rioting was growing more frequent. Industrial towns were becoming wastelands. And by 1817 Robert Owen was lamenting that laborers were "infinitely more degraded and miserable than they were before the introduction of these manufactories."

It's worth lingering over these events of a century and more ago, for nowhere can we find a market as unfettered by the dread hand of government. And it brought a time of unmitigated suffering, for all but the ownership class. Defenders of the free market gloss over this, for in their terms only the market itself is real, and everything else—pollution, starvation, unemployment—is an "externality." None of our business, in other words: not part of *our* balance sheet.

But it ought to be our business, it seems to me, if the free market by its *very nature* creates unspeakable wealth for the few, and offers only subsistence wages to the many. For this is what the historical record shows.



### The market self-regulates, all right, just as the jungle does—allowing the strong to devour the weak.

In Polanyi's terms, the free market from its inception created "Two Nations," one of which benefited enormously from the rise of industry, the other of which suffered ignominiously.

Polanyi made this observation in 1944, yet it is even more true today—in the wake of the Reagan-Bush era, when the "benevolent" hand of the market was so enthusiastically unfettered. The result, as we well know, is that *over half* of the additional income generated between 1977 and 1989 went—not to the top 20 percent, which would be shameful, not to the top 10 percent, but to the top *1 percent*, which is sinful. In roughly that same period—between 1978 and 1987—the number of people who worked full-time, year round, and still fell below the poverty line climbed by an embarrassing 43 percent.

Note we're not talking here about welfare recipients. We're not talking about street people. We're talking about people who work forty hours a week, and still can't feed their families. As businesspeople we ought to hang our heads: How can we possibly allow this to happen? How can we permit it, that anyone could work an honest job in the wealthiest country in the world and still not be able to feed their family?

And how *dare* we scream when Secretary of Labor Robert Reich talks about rais-

ing the minimum wage by a lousy 25 cents an hour. You know what that adds up to in a forty-hour week? \$10. You know what it adds up to in an entire year? A paltry \$520. You know how many people we could give this raise to, if we eliminated a single million-dollar executive bonus? About 2,000. A couple thousand people could buy a few more groceries with a 25-cent raise, and CEOs earning \$10 million scream bloody murder?

Let the market set wages, they say. Translation: Let the people with power and wealth continue to take advantage of those who have nothing because

they desperately need a job. That's the natural law of the market.

Well, if that's the natural law we ought to change it. Just like we changed the natural law that said the average lifespan is forty years. Like we changed the natural law that said most infants don't survive infancy.

We have to be willfully blind not to see the truth: that unfettered markets mean giving the wealthy a free hand to get wealthier. Because if we really look at the system, we can see that the Two Nations effect is built right in. It's simple, really: At its most basic, the system is about maximizing profits—and profits go to the ownership class (and these days to the managerial class as well). Maximizing profits means minimizing expenses. And since labor is an expense, that means paying working people as little as possible, so that people who own and run the company can make as much as possible. That's the design of the system, to give as little as possible to one group, and as much as possible to another.

To call this natural law is a bit like saying the divine right of kings is natural law. Because when we say that the sole purpose of business is to enrich the ownership class, well, it's like saying the ownership class is the center of the universe. Which is as narrow-minded as Ptolemy saying the Earth is the center of the solar system. In case we forgot, that turned out not to be true. But as false as it was, people still believed it for fourteen centuries.

Belief in the self-regulating market is at two centuries and counting. Seems to me we're overdue for a Copernican revolution—recognizing that the Earth really is not the center of the solar system, and enriching the rich really is not the purpose of capitalism. The real purpose of capitalism, it seems to me, is to enrich all humanity. ☩