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# Market Fetishism and the Attack on Social Reason: A Comment on Hayek, Polanyi, and Wainwright

*By John Bellamy Foster*

In an age when the rationalist tradition of the Enlightenment is under attack, it is perhaps worth recalling that the arch-conservative economist, Friedrich Hayek, the leading intellectual figure of the free market right, made one of the sharpest attacks ever to be directed at the idea that reason can play a useful role in shaping human affairs. In *The Fatal Conceit: The Errors of Socialism*, Hayek writes:

The basic point of my argument — that morals, including, especially, our institutions of property, freedom, and justice, are not a creation of man's reason but a distinct second endowment conferred on him by cultural evolution — runs counter to the main intellectual outlook of the twentieth century. The influence of rationalism has indeed been so profound and pervasive that, in general, the more intelligent an educated person is, the more likely he or she now is not only to be a rationalist, but also to hold socialist views (regardless of whether he or she is sufficiently doctrinal to attach to his or her views any label, including 'socialist'). The higher we climb up the ladder of intelligence, the more we talk with intellectuals, the more likely we are to encounter socialist convictions. Rationalists tend to be intelligent and intellectual; and intelligent intellectuals tend to be socialists....One's initial surprise at finding that intelligent people tend to be socialists diminishes when one realizes that, of course, intelligent people will tend to overvalue intelligence, and to suppose that we must owe all the advantages and opportunities that our civilization offers to deliberate design rather than to following traditional rules, and likewise to suppose that we can, by exercising our reason, eliminate all remaining undesired features by still more intelligent reflection, and still more appropriate design and "rational coordination" of our undertakings. This leads one to be favorably disposed to the

central economic planning and control that lie at the heart of socialism.<sup>1</sup>

To illustrate his point, Hayek directs his attack at such noted 20th century intellectuals as H.G. Wells, John Maynard Keynes, Albert Einstein, and Bertrand Russell. Hayek focuses particularly on Einstein's article, "Why Socialism?" written for the first issue of *Monthly Review* (May 1949). He condemns Einstein's use in that article of the "popular socialist slogan...that 'production for use' ought to replace the 'production for profit' of the capitalist order," and also Einstein's reference to "the economic anarchy of capitalist production." According to Hayek, "The high-minded socialist slogan, 'Production for use, not for profit', which we find in one form or another from Aristotle to Bertrand Russell, from Albert Einstein to Archbishop Camara of Brazil (and often, since Aristotle, with the addition that these profits are made 'at the expense of others'), betrays ignorance of how productive capacity is multiplied by different individuals obtaining access to different knowledge whose total exceeds what any single one of them could muster."<sup>2</sup>

This attack on rationalism is one of the linchpins of Hayek's thought, and a key axiom of the free market right. In a famous 1945 essay on "The Use of Knowledge in Society," Hayek challenged the very idea that practical knowledge (particularly economic knowledge) could be codified. Such knowledge he suggests is ephemeral, incomplete and particularistic in character. Hence, he argues for "the existence of a body of very important but unorganized knowledge which cannot possibly be called scientific in the sense of knowledge of general rules; the knowledge of particular circumstances of time and place." There are things, Hayek writes, that "we know but cannot tell"; and such tacit, non-codifiable knowledge is precisely what entrepreneurs use to carry out economic and technological innovation.

The efficient social utilization of such knowledge is only possible, Hayek insists, through the free market. "The most significant fact about this system is the economy of knowledge with which it operates, or how little the individual participants need to know in order to be able to take the right action." Any interference by the state is fatal to this natural, spontaneous order.<sup>3</sup>

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<sup>1</sup>Hayek, *The Fatal Conceit*, in *Collected Works*, vol. I (New York: Routledge, 1988), pp. 53-54.

<sup>2</sup>*Ibid.*, p. 104.

<sup>3</sup>Frederick Hayek, *Individualism and Economic Order* (Chicago: University of Chicago Press, 1948), pp. 80, 86; Hilary Wainwright, "A New Kind of

This radical opposition to the social exercise of reason (outside of the mechanism of the market itself) helps explain the fact that Hayek has recently achieved immense popularity among movement intellectuals in Eastern European societies — a popularity which cannot be merely attributed to the growth of capitalist institutions and ideology in these societies. This is a challenge taken up by Hilary Wainwright's provocative new book, *Arguments for a New Left: Answering the Free Market Right*.<sup>4</sup> Wainwright is best known for her role as the founder and co-coordinator of the Popular Planning Unit of the Greater London Council (GLC) from 1982-1986, when the GLC under socialist leadership defied the conservative assault of Thatcherism by using its resources to aid grassroots forces of popular resistance. She is better understood, however, as an activist intellectual in the broader European tradition of such figures as E.P. Thompson, Petra Kelley and Rudolf Bahro.

Wainwright's socialism was, she tells us, "shaped by protesting at the Soviet invasion of Czechoslovakia as much as by marching to stop the American bombing of Vietnam." Her first contacts with dissidents in Eastern Europe were in Prague in 1968 on the brink of the Soviet invasion. Her experiences at that time led her to believe that,

although these imagined friends had been defeated in their struggle for a democratic socialism, they would in parallel with us [the Western left] continue their thinking about real socialism, a socialism based on the popular democracy that pushed itself above the soil during the Prague Spring....My first encounters, 20 years later [upon returning to Eastern Europe], with the post-1968 generation of opposition activists shattered such an unconscious presumption.

For this new generation of activists in the East, Wainwright discovered in the wake of the revolution of 1989, "the names of Edward Thompson, or Petra Kelly, for instance, meant nothing." Instead it was to the critique of social reason provided by Hayek and the free-market right that these activists most frequently turned for inspiration. In an attempt to understand and combat this tendency Wainwright was driven back to the study of Hayek. "My mental debates with Hayek," she explains,

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Knowledge for a New Kind of State," in Gregory Albo, David Langille and Leo Panitch, ed., *A Different Kind of State?* (Toronto: Oxford University Press, 1993), pp. 116-17.

<sup>4</sup>Hilary Wainwright, *Arguments for a New Left: Answering the Free Market Right* (Cambridge, MA.: Blackwell, 1994).

provided tools with which to begin to reground and reestablish the idea of 'the social' and 'the public' as distinct from, but in critical relationship to, an accountable state. Hayek's appeal to many of the Easterners with whom I talked lies in his challenge to the social engineering state, and its presumption that it is able to know and meet the needs of people. My main challenge to Hayek is to his theory of knowledge: not to his recognition of practical, uncodified knowledge that cannot by nature be centralized, but to the idea that this experience-based knowledge is necessarily exclusively individual in character and cannot provide a basis for collective action."<sup>5</sup>

She makes her case by examining in detail various instances of collective struggle that have exemplified the social formation of knowledge, and a more democratic relation between social movements and state power. One such example is the Women's School in Gothenberg in northern Sweden, an "adult education college" which was a product of the Swedish feminist movement. Another example, from the political-economic realm, is the GLC. A third example is the rise in Western Europe of "parties of a new kind," namely the various Green parties in states like Germany, Denmark, the Netherlands, and Norway, with their links to extraparliamentary struggle. For Wainwright each of these cases confirms the revolutionary democratic view exemplified by Tom Paine in *The Rights of Man*. "Paine," she writes, "made the need for a form of government that awakened human capacities that normally lie unutilized, central to his polemic for representative government and the political rights that should go with it." Democracy itself, in the fullest sense, is therefore the answer to Hayek's critique of the narrow rationalism promoted by the social-engineering state.<sup>6</sup>

It is significant, however, that Wainwright's critique of Hayek goes no further than this. Her "argument for a new left" is thus strangely defensive. There is no general critique of Hayek's view of the market — that is, of the economic underpinnings of his thought. To be sure, Wainwright makes a point of condemning "unaccountable private wealth" and a completely unfettered market. Yet, her criticisms of Hayek's free-market philosophy are extremely timid where the institution of the market is concerned, as if most or all of this ground must now be conceded, even when dealing with economic views as one-sided as those of Hayek. Her objections to his economic philosophy are confined to certain "inconsistencies" in his thought: For example, the

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<sup>5</sup>*Ibid.*, pp. x-xii.

<sup>6</sup>*Ibid.*, p. 108.

failure to account for monopolies, the role of the capitalist class in regulating the market, and the existence of Taylorism. Against Hayek we are told that the market needs to be “socialized.” But the tentativeness of all of this is demonstrated by the fact that Wainwright repeatedly refers to “the powerful argument” of David Prychitko in favor of “Hayekian socialism” which combines an unfettered free market with worker’s self-management. Though Wainwright rejects this ideological strategy (which she sees as a cross between J.S. Mill and Hayek), she seems unable to point to the fundamental illogic of such a position.<sup>7</sup>

Why this failure to interrogate the market in a critique of the *free market* right? The answer seems to lie in the extent to which Wainwright embraces Diane Elson’s argument that the market can be “socialized” and used as the main technical means of organizing and implementing socialist reforms, provided that new economic networks (including worker-managed public enterprises) replace private corporations in setting the parameters of the price mechanism, and a basic income is guaranteed to all. In Wainwright’s argument, it appears as if the acceptance of the notion that feasible socialism requires that the market remain the main economic institution of society — provided it is “socialized” through the agency of “democratic economic networks” — eliminates any fundamental *economic* conflict with the free market right. Since the centrality of the market in the economic organization of society is no longer an issue, the question simply becomes one of whether the market is controlled and regulated by democratic social forces or left in the hands of private interests. Viewed in this way, the differences separating left and right may appear to be much more political and epistemological in character than economic. Hence we find that Hayek, the leading right-wing economist of the last half-century, is opposed in Wainwright’s book not so much because of his economics, but because of his theory of knowledge and its implications for political organization. Yet, Hayek’s “epistemology” is inseparable from his underlying assumptions with regard to capitalism and the market; it is therefore impossible to critique the former effectively without also providing a critique of the latter.<sup>8</sup>

Perhaps the best way to transcend these shortcomings of *Arguments for a New Left: Answering the Free Market Right* is to turn to Karl Polanyi’s critique of the utopian concept of the self-regulating market. The market fetishism of thinkers like Hayek and his teacher

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<sup>7</sup>*Ibid.*, pp. 146, 170-71, 183, 261.

<sup>8</sup>Diane Elson, “Market Socialism or the Socialization of the Market?” *New Left Review*, 172, November-December, 1988, pp. 3-44.

Ludwig von Mises arose as a reaction to the intellectual life of “Red Vienna” of the 1920s — Vienna during the rule of the Austrian Social Democratic Party. Abhorring the social democratic atmosphere in which they lived, von Mises and Hayek, representing the remnants of the old urban elites defending their lost privileges, sought to construct a virulently anti-socialist economics. These thinkers developed an economics designed to demonstrate “the impossibility of socialism”: the inviability of any society that chose to build an alternative future, displacing the free market as the main instrument of social organization. The antithesis to the ideas of Hayek and Mises, meanwhile, was to arise in the work of another Austrian thinker, Karl Polanyi, whose principal work, *The Great Transformation*, can be understood as a critique of market fetishism, or the utopia of the self-regulating market. “In the Vienna of the 1920s,” Kari Polanyi-Levitt has written, “Polanyi challenged von Mises and Hayek to a debate on the feasibility of democratic socialism. At that time Polanyi and Hayek were obscure and minor intellectual figures.” Yet the debate was later carried to the world stage. Both *The Great Transformation* and Hayek’s *Road to Serfdom* appeared just over fifty years ago in 1944.<sup>9</sup>

The principal thesis of *The Great Transformation* was that a self-regulating market “could not exist for any length of time without annihilating the human and natural substance of society.” The logic of such a system demands that nature, human labor and money all have to be treated as commodities, goods produced to be sold on the market at market prices; but no such result was ever achievable except through the destruction of the natural and human conditions of society itself. Market fetishism therefore always generates social and economic crises, which lead to the reestablishment of regulations designed to protect human beings and nature. The irrationality of a socioeconomic order erected on the principle of a self-regulating market is particularly evident in the ecological realm. “We might as well imagine” the individual human being “being born without hands or feet,” Polanyi observed, “as carrying on life without land. And yet to separate land from man and organize society in such a way as to satisfy the requirements of a real-estate market was a vital part of the utopian concept of a market economy.”<sup>10</sup>

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<sup>9</sup>Kari Polanyi-Levitt and Marguerite Mendell, “The Origins of Market Fetishism,” *Monthly Review*, 41, 2, June, 1989, p. 22; and Kari Polanyi-Levitt, “Toward Alternatives: Re-Reading The Great Transformation,” *Monthly Review*, 47, 2, May, 1995, p. 15.

<sup>10</sup>Karl Polanyi, *The Great Transformation* (Boston: Beacon, 1944), pp. 3, 178.

It is not just that Polanyi's analysis is needed to extend the critique of Hayek provided by Wainwright into the economic realm. Rather, it is essential to understand that the "epistemological" claims of Hayek's theory — namely, that the market is the cultural embodiment of individual knowledge extending beyond the reason of the individual actors — is fallacious precisely because of what Polanyi called "the extreme singularity" of market society; a form of society, which only takes into account human needs and actions and the natural bases of existence to the extent that they have been commodified, needs and actions that have been reduced to the logic of the market itself. The knowledge, values and logic upon which such a system is based derive what coherence they have from the annihilation of all other natural, human and social principles. In this respect the issue is not so much one of individual versus social knowledge and action, but rather how the individual is "socialized" in a society in which everything — all social relations — are reduced to mere cash nexus to the point that the market appears to be the only truly rational force in society. Hayekian views have to be rejected not only because they deny the very possibility of social knowledge extending beyond that of isolated individuals, and hence the possibility of social reason, but — even more importantly — because they substitute a mechanical economic order, which they claim has superseded human rationality, for human agency and the struggles of a common humanity. To reject the market fetishism of thinkers like Hayek is thus the *necessary first step* in developing a critique of what E.P. Thompson called, "the institutional and ideological determination of the societies in which we work, which are founded on unreason, or on the reasons of power and the reasons of money."<sup>11</sup>

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<sup>11</sup>*Ibid.*, p. 4; E.P. Thompson, *Making History* (New York: Pantheon, 1994), p. 363.