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**The Role Of Markets In The Construction Of Wellbeing: The Need For  
A Polanyian Perspective**

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WeD is a multidisciplinary research group funded by the ESRC, dedicated to the study of poverty, inequality and the quality of life in poor countries. The research group is based at the University of Bath and draws on the knowledge and expertise from three different departments (Economics and International Development, Social and Policy Sciences and Psychology) as well as an extensive network of overseas contacts and specific partnerships with institutes in Bangladesh, Ethiopia, Peru and Thailand. The purpose of the research programme is to develop conceptual and methodological tools for investigating and understanding the social and cultural construction of wellbeing in specific countries.

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# The role of markets in the construction of wellbeing: the need for a Polanyian perspective

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## Abstract:

*Recent research on subjective wellbeing (SWB) has demonstrated the prime importance of social factors such as relationships with family and friends alongside income and work. While it has offered a new route to measuring utility for economists, SWB has revealed “puzzles and paradoxes” in relating it to income. Wellbeing is an holistic concept which seeks to engage with understanding people’s lives as they are lived in society. But the analytical boundaries between the social sciences thwart such an enquiry. After reviewing key findings on work and income for their connection to social dimensions, this paper reviews writings of key contributors to the SWB literature – Layard and Sen – and traces the problem to the use of the analytical concept of the self-regulating market. Polanyi’s *The Great Transformation* argues that the idea of the market as a self-regulating mechanism itself drove the promotion of a laissez-faire economy, so becoming detached from society. Polanyi contends that the concept of the market has itself to be re-embedded in wider society if we are to understand the means through which provisioning of needs takes place. Polanyi’s concept of the institutedness of the economy through reciprocity and redistribution as well as exchange provides a useful starting point for this investigation.*

## Keywords:

Subjective wellbeing; Polanyi; intrinsic motivation; procedural utility; inequality

## 1. INTRODUCTION

Recently the study of happiness and wellbeing has become of significant interest to economists. Psychologically validated measures of subjective wellbeing (SWB) and happiness have offered a new route to measuring utility for economists (Gough, McGregor et al. 2007) and hence the ability to

examine the relationship between income and utility. This research has produced “puzzles and paradoxes” (Gasper 2004) for economists particularly because the findings consistently show that increasing levels of income do not necessarily translate into rising levels of reported SWB. Moreover, this research demonstrates that SWB is significantly determined by social factors such as relationships to family, friends and community, trust and values.

Since wellbeing is an holistic concept that seeks to engage with understanding people’s lives as they are lived in society, it is not surprising that both economic and social factors are important. However, in seeking to better theorise its determinants this raises the question of whether the apparent puzzles and paradoxes that are arising are a result of analytical boundaries between the social sciences themselves. An understanding of the way people experience wellbeing does then require a better theorisation and reconnection of the relationship between the social and economic factors themselves. This endeavour necessarily confronts the methodological boundary that divides economics and sociology, central to which is the analytical concept of the self-regulating market. In reviewing the writings of key contributors to the SWB literature – Layard and Sen - we find that the boundary is clearly problematic, but the study of happiness and wellbeing presents a renewed need to tackle it.

However, to suggest that this is only an intellectual division of labour is too narrow and does not explain the apparent enormity of the task involved in re-connecting social to economic behaviour which appears to derive from more than simply intellectual foundations. This suggests the need to stand back and understand how it is that the analytical concept of the self-regulating market is so detached from other social science disciplines. Polanyi can help us here. In *The Great Transformation*, he explains the role that the developing conceptualisation of the self-regulating market played in the development of capitalism in the 19<sup>th</sup> century. He argues that development of the idea of the market as a self-regulating mechanism itself drove the promotion of a laissez-faire economy. In this the analytical concept of the market became detached from society itself while presenting the prospect of an achievable goal (following Bentham) “to deliver the greatest happiness to the greatest number” (Polanyi 2001:145). Polanyi argues that the analytical market has to be re-embedded in wider society if we are to understand the means through which provisioning of needs takes place and offers some conceptual tools to do this.

The purpose of the Wellbeing in Developing Countries Research Programme (WeD) at the University of Bath is to develop a coherent conceptual and methodological framework for understanding the social and cultural construction of wellbeing in specific developing societies. WED is seeking to move away from understandings of wellbeing that have dominated both development theory and practice with a focus on material outcomes, to a broader understanding which recognises the role of social interaction, culture and relationships both in the processes through which people construct their lifeworlds and the outcomes that arise. It has therefore defined wellbeing as “a state of being with others, where human needs are met, where one can act meaningfully to pursue one’s goals and where one enjoys a satisfactory quality of life” (Wellbeing in Developing Countries Research Group 2007). This definition allows for a conception of wellbeing that has both objective and subjective dimensions and recognises that these are socially constructed. The conceptual framework underlying this approach is one in which people deploy the resources to which they have access, to meet their needs and goals and produce their wellbeing. The processes (both actions and inactions) that lead to these outcomes are both influenced by and in turn reproduce social structure. These processes and outcomes potentially redefine needs and goals in an ongoing and dynamic process. Thus WeD adopts a structuration ontology concerned with the interaction of agency and structure in the ongoing reproduction of wellbeing outcomes and in which structures are “repeated relationships ...with a range of degrees of formality and tangibility” (McGregor and Kebede 2003:11) and that these vary from conventions and norms, to institutions and formally codified laws. Social structure is holistically defined in relation to economic, political, social and cultural structures, and is analytically presented in terms of policy regimes, political economy, social and cultural norms and values.

While the research objective contains no mention of the economy, economic activity or of markets it is self-evident that economic activity is a key dimension of wellbeing. The objective therefore requires that we move beyond a focus on economic outcomes to the role both economic activity and its outcomes play in its social and cultural construction and how this contribution can best be explored conceptually and methodologically. This approach to theorising wellbeing therefore requires an approach to the analysis of the economy and market relationships that connects it and embeds it in wider society. The purpose of this paper is to both to demonstrate how findings of SWB research clearly indicate the need for this and to explore Polanyi’s perspective on both the source of this need and his approach to reconnection.

The paper proceeds as follows. It first very briefly overviews key findings of the literature on economics of happiness and SWB and then highlights two areas of this literature that directly concern the relationship between economic and social dimensions of wellbeing and so are of interest in considering it holistically. First, the role of intrinsic motivation in work and procedural utility more generally which highlight the importance of the fact that the process through which economic activity takes place matters. Second, is the effect of inequality and social status on SWB which has implications for the way power is exercised in these processes. Both of these areas of work highlight the fact that it is not only the outcomes of market interaction that matter for SWB but that processes of social interaction in markets are themselves important and cannot be fully disconnected from other aspects of social life. This being the case, the question arises as to how the processes of economic interaction are analysed and dealt with in discussions on wellbeing. The next section therefore considers how two key contributors – Layard and Sen – approach the issue. It finds that the influence of the analytic of the self-regulating market is pervasive in obscuring the relationship between the two. The following section therefore turns to Polanyi for an explanation of the underlying nature of the problem itself. Polanyi argued that the analytical concept of the self-regulating market was itself an instrument of a project to dis-embed the market from social relations - a project that is ultimately impossible. We then briefly examine how Polanyi's analytical tools can enable us to start the reconstructive project of building a conceptual framework for understanding the social and cultural construction of wellbeing with the economic dimensions in place.

## **2. FINDINGS FROM RESEARCH ON HAPPINESS AND WELLBEING**

The study of happiness and wellbeing using psychologically derived metrics has indicated that a wider range of factors than income alone are important. Economists have been concerned to explain what appear as “paradoxes and puzzles” (Gasper 2004) in the relationship between rising incomes and static or only slowly increasing levels of happiness. Studies using subjective wellbeing measures (SWB) of happiness or satisfaction with life, have consistently produced three main results:

- (i) people who are richer in terms of income are happier than poorer people in cross-sectional comparisons within countries; and in

- cross-country comparisons, countries with higher per capita incomes have higher reported levels of happiness than those with lower per capita incomes
- (ii) but in cross-country comparisons increases in income above a certain level (usually around \$15,000 (Frey and Stutzer 2002)) produce much smaller increases in happiness.
  - (iii) And in longitudinal studies happiness has remained relatively static although income has increased significantly in real terms (evidence is mainly from developed countries).

This latter result is known as the Easterlin paradox (Easterlin 2002) and much effort has been put into explaining it. Three explanations are current. First, adaptation in which people rapidly adjust to the lifestyle and possessions which higher incomes allow and hence continually strive for more with smaller increases in happiness arising each time as a result. Second, the hedonic treadmill effect in which an homeostatic process results in the restoration of levels of happiness which are inherited and characteristic of the individual after circumstances have changed – whether for better or worse. Third, that people tend to rate their happiness depending on their status with respect to comparison groups with the overall effect that richer people are more likely to be looking down when they are making comparisons with their peers whereas poorer people are more likely to have better off people in their comparison groups so explaining the general effect that richer people are happier than poor people. These results suggest the inadequacies of income as a sole proxy measure of SWB and have put emphasis on finding other explanations for the deviations revealed.

Layard argues that there are seven “big” factors that affect happiness (Layard 2005:63). In order of importance these are: family relationships; financial situation; work; community and friends; health; lastly personal freedom and personal values although these two cannot be ranked. Two of these seven factors are factors that are primarily economic and operate with the mediation of markets: financial situation (income and wealth) and work, the remaining five are clearly factors that would be regarded as social concerning relationships to the family, friends and community.

The rest of this section highlights two areas of the SWB literature that directly concern the social dimensions of the two economic aspects of wellbeing – work and income. First, the role of intrinsic motivation in work and more generally the role of procedural utility which highlight the

importance of the fact that the process through which economic activity takes place matters. Second, is the effect of inequality and social status on SWB which has implications for the way for the way power is exercised in these processes.

### **Intrinsic motivation and procedural utility**

Work is one of Layard's "big seven" factors mentioned above: those who are satisfied with their work are more likely to be satisfied with other aspects of their life - although the causation could of course go in either direction (Frey and Stutzer 2002). Studies have estimated the loss of happiness - the pure happiness effect - related to being unemployed, independently of the income effect, and it is found to far outweigh the income effect and so deeply questions economist's assumptions about the disutility of work (Clark and Oswald 1994). One approach to the explanation for this is work that builds on psychologists work on the "hidden costs of reward" (Lane 1991; Frey 1997). This recognises that the motivation for work may be both intrinsic and extrinsic (instrumental). Intrinsic motivation encompasses aspects of work which relate to developing personal control, skills and personal contacts. Extrinsic rewards on the other hand are those related to pay, working conditions, job security, physical security and social status. Satisfaction at work has been shown to be positively related to both of these aspects of reward. However, the balance of incentives that supports them is important - management of an employee by interventions that are experienced as controlling can undermine intrinsic motivation whereas those that are felt to be supportive raise motivation and satisfaction (Frey and Stutzer 2002).

Frey has developed "crowding theory" as an economic theory of personal motivation that seeks to systematically explore the interaction of intrinsic and extrinsic motivation in relation to relative price effects. In this, he is not concerned with the origins of intrinsic and extrinsic motivation per se but with their relationship to prices and the circumstances under which extrinsic motivation - usually price - can crowd out intrinsic motivation (Frey 1997) - an effect that economics usually assumes is either non-existent or constant. The point here is that where actions are motivated by intrinsic rewards - volunteer work is often cited as an example - then actually offering to pay can actually undermine this motivation. Frey argues that it is important to understand under what conditions intrinsic motivation may be crowded out since this is central to the design of incentives more generally. There is also the possibility that crowding out intrinsic motivation in one area has spill-

over effects on other areas of behaviour, so reducing intrinsic motivation in these also. One example he uses, is the case of the siting of a nuclear waste repository in Switzerland. He argues that citizens may recognise the civic need to do this and accept it in their own community, in part because they recognise the legitimacy of the procedure through which the decision for siting the facility has gone. However he found that when compensation was offered as part of the package, the level of acceptability of the siting decision fell and suggests that this demonstrates the crowding out effect of offering these extrinsic rewards on the intrinsic motivation to accept the scheme as a civic duty. Moreover, once compensation is introduced as a norm, the implication is that it actually changes the underlying social problem and can therefore spill over onto other issues that raise similar concerns.

Frey and Stutzer (2002) go further to examine the idea that the process as well as the outcome matters, that fairness, honesty and other aspects of the process of interaction are things that people gain wellbeing from. They argue that some economists have indicated that such “procedural utility” (p153) is important (including Sen) pointing out that there is a wide social science literature in psychology, politics and sociology that examines the value of participation. They investigate procedural utility by examining voting in Switzerland since rational choice theories suggest that people will not vote because they cannot effect the outcome. Cantons in Switzerland exercise political decentralisation in different ways with respect to the numbers of referenda that they hold, the differences in wellbeing arising from different degrees of participation in the political process can be calculated. Going a step further, since foreigners are not able to vote they can calculate the differential effect that actually participating has over not having the right to participate. They find that those living in areas of Switzerland with greater participation rights experience higher subjective wellbeing and they also find that the this effect is smaller for foreigners (p167), so supporting the notion that this procedural utility exists in practice. While this is an example from politics, it strongly builds on ideas of intrinsic work motivation to suggest that if participation and procedure is important in this area then it is also likely to be important in economic interactions.

This concern for the procedural aspects of market experience is also argued by Lane (1991), who argues for happiness and human development as the objectives to be maximised. For him, human development arises from cognitive complexity, autonomy and personal control (or self-attribution) and self-esteem. He takes the view that work is the key means through which

the market contributes to human development and particularly emphasises the role of intrinsic motivation. However, he also argues that market transactions for consumers are a site in which cognitive complexity is developed in dealing with transactions and learning takes place - also arising from the use of money. Further that transactions contribute to the development of self-attribution as they are a means through which the individual learns how others react to one's own actions. It also contributes to self-esteem because it offers opportunities for participation and achievement with expanding choices and specialities further creating these opportunities in contrast to a sole focus on participation via political rights. Moreover, he argues that these opportunities are not dependent on income beyond the poverty level.

This view that intrinsic motivation is important supports the idea that people undertake action and behaviour due to its intrinsic value and hence that social interactions that embody such values also matter. However, these sources of wellbeing can in turn be crowded out by bringing the logic of payment and the market into these areas of social life, which can be detrimental to society as a whole. At the same time according to Lane, the market as a locus of social activity and interaction can have positive dynamic effects on learning, the opportunities for establishing autonomy and self-esteem through them.

### **Inequality, status and power**

A second area of emerging work and findings in research on happiness and wellbeing relates to the role of inequality and social status. As indicated above, one of the attempts to explain the Easterlin paradox is that people's relative positions – their status within society – matters.

The effects of income inequality on reported SWB differ between developed and developing economies (Graham forthcoming). While studies in the US and Europe find insignificant impacts on happiness, results from Latin America find that it has a positive impact on the rich and a negative impact on the poor. A proposed explanation of these results is that in developed countries inequality is a signal of the potential for upward mobility and hence does not negatively affect SWB. Graham and Felton (2005) argue that these results from Latin America may be different to previous studies because underlying inequality is much higher and hence may be seen as a

signal of persistent advantage or disadvantage – so affecting rich and poor groups differently. Moreover, citing studies that have shown the status and relative positions affect SWB, they also examine the effect of what they call “inequality per se” (ibid:2). This is the effect of inequality between groups based on race, family background, location or quality of education, and not just the outcome of these effects as reflected in income. They find that the impact of these on SWB is also important and may be more important than income inequality in Latin America, hence making the case that SWB derives from differential social positions and not just the income inequality that may result from these, that is that social status in itself affects SWB. While their findings on the relationship of SWB to inequality in Latin America may run counter to findings from work on developed countries this study suggests that the relationship may be particularly important in some countries and is therefore an issue that should be systematically considered.

Apart from evidence to suggest that differences in SWB measures may be explained by differential status in some contexts, it has also been argued that social status plays a key role in explaining differential health outcomes in a developed country context (Marmot 2004; Wilkinson 2005). Marmot’s study of UK civil servants over a period of thirty years shows that inequalities in health outcomes – what he calls the “the social gradient” (Marmot 2004) - cannot be explained by factors such as income, occupation and education. Rather he argues that status is the critical factor in determining these outcomes because it signals the degree of autonomy or control people have over their lives and the nature of their participation in society and it is these that crucially determine how they are affected by them and their response to them.

The role of people’s relative position in terms of status is therefore being used to explain differential outcomes in terms of both objective and subjective wellbeing. Given that status is not just an outcome but part of the process of interaction, these findings beg the question of its relationship to dimensions of power. Thus it is not only the process of social interaction that matters in markets as elsewhere in society but we must consider the effect that status plays in influencing the power different players have in their market and social interactions. The market analytic is premised on voluntary exchange, but as Frey indicates “as soon as one moves outside the perfect market, personal interactions become important... This is obvious for decision-making systems centred on bargaining where the actors necessarily enter into social interactions” (Frey 1997:93). Since

exchange occurs between actors and is a site in which meaning is constructed and power exercised, how then does status relate to power operate in this environment and how does it affect its “voluntary” nature. This is clearly not a new question but one that seems to again arise from findings of studies on the determinants of objective and subjective wellbeing and hence to require that it be addressed.

In summary, it is clear that factors contributing to wellbeing derived in the economic spheres of income and work also have social dimensions and highlight the fact that these also connect to some of the social factors of community and friends, health, personal freedom and personal values. First, the process of economic activity is itself found to offer reward and satisfaction or procedural utility because it relates to underlying values. Work is found to be motivated by intrinsic factors and not simply the extrinsic rewards of pay and conditions. Moreover, these intrinsic factors, which relate to underlying values, can be crowded out by extrinsic rewards, and this can happen at a societal as well as an individual level. The process of market activity also has wider benefits in terms of what it offers for human development considered as cognitive learning processes, autonomy and personal control and self-esteem.

Second, in explaining subjective and objective wellbeing results, inequality and social status are found to be important factors. The role of inequality arising from income is ambiguous in explaining SWB results in a number of contexts, but was helpful in explaining them for poor people in Latin America. Moreover, the role of status reflected in underlying social inequalities of race, education and so on were found to be important, if not more important than income differentials. In studies of health outcomes in a developed country, status is also found to be a key factor.

Both of these areas bring to light social factors that underlie economic activity and particularly how these operate in the process of economic activity rather than its outcomes alone. This highlights the need to be able to understand economic activity within its social context as one part of the process of social interaction in order to develop frameworks for effectively analysing wellbeing. However, before seeking to find approaches to reconnecting these social dimensions to our understanding of economic activity, it is important to understand the reasons for their analytical disconnection, and it is to this we now turn.

### 3. LOCATING THE ANALYTICAL DISCONNECTION

The analytical divide in thinking about the relationship between the underlying conditions in which markets operate is apparent in both Layard and Sen's writings.

Layard argues for the strength of basic economic thinking that voluntary exchange results in efficient outcomes provided the market is truly free (p129):

*“So there are huge gains all round if we can freely exchange goods and services with each other – including our labour. This is especially so where markets are large and well informed and no one affects anyone else except through the process of voluntary exchange. Indeed, economists have correctly shown that if these conditions exist and contracts can be enforced and tastes are given, the outcome will be fully “efficient”. In other words, everyone will be as happy as is possible without someone else being less happy. .... Yet why did this advance not guarantee a rise in personal happiness?” (p231)*

He suggests the reasons are that many things that matter do not reach us through voluntary exchange which is only a limited part of the story – markets (particularly free ones) are not the most important part of the story then.

*“We are affected by our experience of how other people live.... We are affected in a quite involuntary way by crime on the streets, the friendliness of our neighbours... moreover our values can change... we are ever more influenced by exaggerated versions of the “survival of the fittest”... and “the invisible hand”. A result has been the well-documented decline in trust” (p232).*

These two quotes from a single paragraph highlight the source of the problem. Layard importantly recognises that wellbeing is derived from both spheres of activity. The problem is then that the norm of autonomy of individual action that is assumed in the market realm cannot be directly applied in the social realm. Indeed, even in the citation above, he seems to be arguing that it is the very reference to ideologies of the “survival of the fittest” and “the invisible hand” that have encouraged individualism and are part of the problem and hence that these metaphors of Darwin and Smith so

much used to promote the market have in fact had a negative impact on wellbeing.

This echoes his earlier discussion of individualism, contractarian thinking, commitment and trust (ibid:104) in which decisions are made on the basis of short-term interaction and gain. Referring to Becker's well known work on the family in which individuals are theorised to maximise their individual welfare, he points out that the evidence shows that operating in this way in practice undermines marriage: "giving confers satisfaction, and can confer more satisfaction than taking...In all walks of life, good behaviour by one person elicits good behaviour by others" (p105). Thus he recognises that human behaviour is not solely self-interested. In a subsequent chapter Layard argues for the innate capacity of individuals to attempt cooperation to achieve better outcomes despite the fact that game theory suggests individuals will not. He argues that this is not solely a result of the existence of rules and punishment but that reputation – developing a reputation for cooperation can improve our prospective outcomes (p99); the desire for social approval; a sense of fairness; and commitment or an inner motivation for self-respect, result in our not behaving as the pure self-interested axiom of the model of rational economic man would expect. Moreover, in a discussion of values he refers to the contractarian tendency in relation to work contracts which focus solely on extrinsic rewards – especially money – recognising the problem identified by Durkheim that "even in a contract not everything is contractual" (Slater and Tonkiss 2001:100) as attempting to formulate contracts that are sufficiently detailed sends us into "infinite regress, with growing numbers of accountants and lawyers. In the end no contract can cover all the eventualities, and at some point we have to rely on the contractor's professional pride" (ibid: 140). This clearly demonstrates the importance of the role of the underlying social order and that the values and commitments that underlie market exchange affect the nature and way exchange is in fact conducted. The importance of the nature of social interactions themselves converges with economists interest in social capital and trust in recent years and its implications for market efficiency and economic growth (Durlauf and Fafchamps 2005). The problem therefore seems to lie in the fact that the market analytic is a blunt - and potentially damaging - instrument in facilitating our understanding of how the underlying social order is in fact constructed and operates.

This analytical gulf between economic and social realms, and the role of the market analytic in creating it, is also apparent in Sen's writing. While he is

directly concerned about the question of power in markets, when explicitly considering their role in development, he argues that (1999:142):

*“The market mechanism, which arouses passion in favor as well as against, is a basic arrangement through which people can interact with each other and undertake mutually advantageous activities. In this light, it is very hard indeed to see how any reasonable critic could be against the market mechanism, as such. The problems that arise spring typically from other sources – not from the existence of markets per se – and include such concerns as inadequate preparedness to make use of market transactions, unconstrained concealment of information or unregulated use of activities that allow the powerful to capitalise on their asymmetrical advantage. These have to be dealt with not by suppressing the markets, but by allowing them to function better and with greater fairness, and with supplementation. The overall achievements of the market are deeply contingent on political and social arrangements”.*

While pointing out the importance of underlying social and political conditions, Sen also indicates that over the last three decades we have moved from a situation in which the limitations and defects of markets were routinely discussed to one in which “the virtues of the market mechanism are now standardly assumed to be so pervasive that qualifications seem unimportant” (ibid: 111). He points out that the focus on its assessment has been on the outcomes and results it produces - and while this is not unimportant – argues that “the more immediate case for the freedom of market transaction lies in the basic importance of that freedom itself” (ibid:112). Pointing out that we often take the role of transactions in daily life as important he identifies an analogy with the role of behavioural rules - such as business ethics – whose existence or non-existence do in fact make a major difference. Echoing Durkheim’s view he argues that “the role of elementary business ethics thus has to be moved out of its obscure presence to a manifest recognition. Similarly, the absence of the freedom to transact can be a major issues in itself in many contexts” (ibid:113). He uses examples of labour bondage in South Asia, the collapse of communism but the unwillingness of people in these countries to return to the previous system, the issue of child labour and of the constraints to women’s work outside the home, to illustrate the profound ways in which freedom in markets generally and labour markets in particular are constrained by underlying social norms in many countries.

Indeed, Sen has extended the market analytic beyond utilities to individual freedoms as the means through which wellbeing is defined, including the freedom to choose commodity baskets and capabilities to function. In making the shift from utilities to freedoms he points out that it is not simply the number of options that matters but the attractiveness or quality of those options. He also argues that the basic results do not require an assumption of self-interestedness because “our primary concern is with substantive freedoms that people enjoy (no matter for what purpose they use these freedoms), not the extent to which their self interests are fulfilled (through their own self-interested behaviour” (p118). This appears to suggest that economic analysis of markets can be shifted towards a set of concerns with the processes involved in markets and not simply to their outcomes. It compares with Frey and Stutzer’s interest in procedural utility for political systems noted above. If this is a question of process, Sen’s next step is to consider how this process ultimately affects the distribution of outcomes. He argues that outcomes in terms of income inequality are exacerbated when we turn to the distribution of freedoms and capabilities because it often the inequitable distribution of freedoms that leads to income inequality. He therefore recognises the role of power in that freedoms are not equitably distributed, but does not theorise it. Instead he emphasises the need for the expansion of capabilities through health, education and so on to allow people to participate in markets and start to allow for “the opportunities offered by them to be reasonably shared” (ibid:142) since the market does not in itself allow for distributional equity. Implicit in this then is an understanding that equity in the distribution of capabilities is necessary for markets to function efficiently, but it is one that resorts to the mechanisms of social security to create those capabilities.

The contradiction which is appearing here seems to show that Sen’s position on the role of freedom in markets is somewhat under-developed if not contradictory (Prendergast 2005; Prendergast 2006). It is the capability set of an individual that allows her valued functionings to be achieved and therefore represents her freedom to have wellbeing. Sen’s proposal that freedoms need to be part of the means through which achieved wellbeing is evaluated has resulted in his distinction between two aspects of freedom: opportunity and process. Freedom can be valued for the substantive opportunity it gives to the pursuit of the individual’s objectives and goals. In assessing opportunities, he argues that attention has to be paid to the actual ability of a person to achieve those things that she has reason to value. In this case, the focus is not directly on what the processes involved happen to be, but on what the real opportunities of achievement are for the

persons involved. The process aspect on the other hand highlights the freedom involved in the process of making those choices, for example, whether the individual did in fact have autonomy in making choices and the lack of interference from others (Sen 2002:10).

The element of non-interference echoes the concern of political philosophers of the 18<sup>th</sup> century such as Locke with ideas of 'negative' freedom as the absence of coercion and interference from others and is a strongly individualist notion. Notions of 'positive' freedom on the other hand (as used by Marshall and Commons) recognise the relationship between the individual and society and that it is the development of collective action that allowed individual action to be liberated from interference by others such that "it [is] an expansion of the will of the individual far beyond what he could do by his own puny acts" (Prendergast 2006:2). Prendergast points out that Sen's view of process freedom is underdeveloped and this is evidenced in that he argues a basic case for the market as a means of practicing process freedom while also arguing that whether or not certain processes are desired depends on people's preferences. In failing to adopt an approach to process freedoms in markets which recognises the procedural rights based aspects of economic process, this leaves him arguing for market freedoms that are abstracted from and prior to knowing what the outcomes of the market in fact are.

Despite Sen's consistent acknowledgement in his work of the importance of wider societal conditions, his capability approach has undergone criticism for its failure to systematically address them in conceptual and theoretical terms (Stewart 2005; Deneulin 2006). The ability of individuals to achieve desired functionings depends on their capability set which is derived from these wider conditions – or what Deneulin calls "structures of living together" (Deneulin 2006). The debate centres on whether the capabilities that these structures give rise to can only be evaluated at the level of what they contribute to the freedoms of the individual<sup>1</sup> or whether their ability to enhance the freedoms of the group as a whole should also be assessed.

It is clear that Sen wishes to be progressive in his conceptualisation of freedom, but for both him and Layard it appears that the dominance of the

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<sup>1</sup> A position termed ethical individualism to contrast it with methodological individualism. Ethical individualism suggests that the individual is the unit of ethical concern rather than any wider social groups, but is not methodological in that this suggests that social phenomena can only be explained in terms of individuals and their properties Alkire, S. (forthcoming). "Using the Capability Approach: Prospective and Evaluative Analyses."

market analytic - as a self-regulating mechanism built on views of freedom and autonomy - prevents the reconnection of markets to wider social life. Both make assertions about the benefits that the self-regulating economy has to deliver as being incontrovertible. Layard recognises that this achievement requires underlying levels of social agreement that enable market exchange to occur but without fully seeking to understand and address the connection between the two. Sen recognises the importance of freedoms of process and opportunity in achieving wellbeing but abstracts the freedoms offered by the market from their deeper links in society. This clearly demonstrates the hegemonic hold of the market analytic and is obviously problematic for the development and application of concepts of wellbeing which are necessarily holistic in seeking to understand what enables people to live good lives in particular societies at particular times.

#### **4. STEPPING BACK – THE PROBLEM OF THE MARKET ANALYTIC**

The way in which the idea of the self-regulating market arose and contributed to the development of Britain in the 19<sup>th</sup> Century was the subject of Polanyi's 1944 book *The Great Transformation*. Polanyi directly examines the role that the developing conceptualisation of the self-regulating market played in the development of capitalism during that period. He argues that development of the idea of the market as a self-regulating mechanism itself drove the promotion of a laissez-faire economy.

Polanyi charts the development of these ideas through the thought of Townsend, Malthus and Ricardo relating them to the problems of poverty of the day and particularly the Speenhamland system of parish based poor relief. He argues that the laws of nature entered as a reference point and showed poverty as the result of a natural process of competition because "economic society was subject to laws that were *not* human laws" (ibid:131, original emphasis). Ricardo completed the effect through his theory of labour that saw labour as the sole source of value:

*"thereby reducing all conceivable transaction in economic society to the principle of equal exchange in a society of free men"..... "The dynamic of this situation was of overwhelming power. As its result the drive for a competitive market acquired the irresistible impetus of a process of Nature. For the self-regulating market was now believed to follow from the inexorable laws of Nature and the unshackling of the market to be an ineluctable necessity. The*

*creation of a labour market was an act of vivisection performed on the body of society by such as were steeled to their task by an assurance which only science can provide. That the Poor Law must disappear was part of this certainty.” (ibid:132).*

Theoretical developments were therefore central in crafting the economic liberalist project<sup>2</sup>. He laments that these laws have “haunted the science of man” (ibid:131) and that the reintegration of economy and society has since then been the goal of social science.

With this view, *The Great Transformation* argues that the laissez-faire project of disembedding the market from society is ultimately impossible (Block 2001). It was Polanyi’s analysis of the actual events and processes that occurred during this period that exemplified this fact. Attempts to promote laissez-faire produced a backlash of increasing regulation that he calls the “double movement”<sup>3</sup>. The regulation that this backlash provoked was fundamentally a result of the way in which people’s social relations and interests were affected. It is important to recognise that these interests were not simply the interests of particular groupings such that protectionism was a collectivist conspiracy as claimed by those promoting the project. Rather, he demonstrates that it was the myriad variety of ways in which this backlash took place to constrain the impact of laissez-faire that portrays its generality and underlines that it affected everyone’s welfare in ways that led them to seek protection against it. To see it as a protectionist conspiracy “mistook effect for cause” (ibid:213).

Thus the development of the analytic of the self-regulating economy helped drive this process. He argues that this analytic drove policy and decisions about institutional developments in the 19<sup>th</sup> century which were purposefully oriented to creating this self-regulating economy disembedded from society. Hence while “Laissez faire was planned; planning was not” (Polanyi 2001:148), since the movement against this process which brought in regulation (ie.planning) was not strategically organised but responding to

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<sup>2</sup> Using Callon’s concept of performativity, this could be argued to be one of the most successful examples ever to have occurred (Callon, M., Ed. (1998). The Laws of the Market. Oxford, Blackwells.

<sup>3</sup> Recently Polanyi’s ideas regarding the Great Transformation and the double movement been applied to the drive for free markets in the late 20<sup>th</sup> century, asking whether a second Great Transformation is possible. See for example: Stewart, F. (2006). Do we need a new 'Great Transformation'? Is one likely? Queen Elizabeth House Working Paper Series.

particular aspects of the backlash on an ad hoc basis. His fundamental point for us here is that the market analytic had itself become disembedded from society and human values – it became something to be attained as a self-regulatory utopia. This was part of the process through which economic theory developed and this was itself entrenched in seeking to understand and solve particular problems that were occurring at a particular historical moment in a particular country.

From this arises Polanyi's project (and that in his view for all social science) of re-embedding our analysis of economic activity and markets in society and seeing them as aspects of social process. Since wellbeing is essentially and necessarily an holistic concept it is vital to overcome this fractured relationship in the analysis of the relationship between markets and society if we are to develop meaningful approaches to studying wellbeing.

## **5. THE ECONOMY AS INSTITUTED PROCESS: AN APPROACH TO RE-CONNECTION**

An approach to the analysis of wellbeing incorporating both its economic and social dimensions must be holistic and Polanyi's approach was such an approach (Block and Somers 1984). He contributed two particular concepts to social science, those of "embeddedness" and the economy as "instituted process". Embeddedness has been most influential and precipitated the formalist - substantivist divide in economic anthropology, while the idea of "institutedness" has had rather less attention (Slater and Tonkiss 2001).

He returns to the idea of economics as the study of the substantive means through which provisioning of human needs takes place through economic action and turns to the work of anthropologists to better understand the relationship of different patterns of trade and exchange to meeting these needs (Polanyi 1957). This contrasts to formal approaches which see economic behaviour as the rational selection of means in order to achieve particular ends. From this perspective he argues that economic history prior to the 18<sup>th</sup> century and the study of the economy of non-Western environments shows that the process of provisioning occurs through a variety of means and not only the market. He argues that the analytic of the market economy is an "economistic fallacy" because it is a "compound concept" (ibid:270 fn) which has arisen in a particular context dependent on the presence of a particular market system of price making markets which

are institutionalised in a particular way. In order to understand the economy in all its forms it is then necessary to have a wider frame of reference than a so-called “market” system of this type. His interest then is in recognising that the economy is an “instituted process of interaction between man and his environment which results in a continuous supply of want satisfying material means” (ibid:248).

By starting from the study of empirical economies Polanyi argues that there are three broad patterns of provisioning: reciprocity, redistribution and exchange. It is from here that the notion of embeddedness flows as the study of how economic interaction is rooted in broader social relations. But his contestation is that systems of price-making markets are in themselves an institutional set up which needs to be studied and does not imply that these are the result of some “mysterious forces acting outside the range of personal or individual behaviour” (ibid:36).

However, his notion of instituted process enables us to both focus on the institutions through which price-making markets come about while also broadening our frame of reference to recognise other means through which provisioning occurs in the form of reciprocity and redistribution. As he argues:

*“In the absence of any indication of societal conditions from which the motives of the individuals spring, there would be little, if anything, to sustain the interdependence of the movements and their recurrence on which the unity and stability of the process depends.....Unity and stability, structure and function, history and policy spell out operationally the content of our assertion that the human economy is an instituted process. The human economy then is embedded and enmeshed in institutions economic and non-economic. The inclusion of the non-economic is vital. For religion or government may be as important for the structure and functioning of the economy as monetary institutions or the availability of tools and machines themselves that lighten the toil of labour.” (ibid:34)*

This approach clearly signals that recognising the market analytic itself as a product of a particular time and place then means that we must look beyond it if we are to find appropriate conceptual tools to understand the economy in all the forms and varieties in which it is instantiated. The “unity and stability” of the market elements themselves can only be understood within

the wider frame of reference which incorporates all forms of provisioning – including those of reciprocity and redistribution.

The resonance of Polanyi's assertion with the findings of wellbeing research are clear. For example, the role of intrinsic motivation and procedural utility discussed above connects to the need to investigate the "societal conditions from which the motives of individuals spring" cited above. This requires that we put the "social human being" at the heart of the analysis (McGregor 2007) and pursue our analysis of the economy and markets recognising that this human being is located within relationships involving identity and meaning that are the foundation of both the economic and non-economic institutions to which Polanyi refers. This is the source of the underlying social order which provides the foundations for market exchange as discussed above.

Polanyi's conceptual tools were not fully developed and according to Lie (1991) he has even committed the "economistic fallacy" himself by accepting market exchange as a disembedded transaction. However, the concept of the economy as an instituted process offers an important starting point. In relation to WED's research it offers a starting point that is methodologically consistent with its concern for focussing on the process and means through which wellbeing outcomes are achieved. For Polanyi this focus on process brings into view the role of history and draws our attention towards "values, motives and policy" (ibid:34) and to bring social content and meaning into the frame. It is this more holistic agenda that will allow us to re-connect the apparently disconnected relationship between social and economic dimensions of wellbeing and begin to address the paradoxes and puzzles that they give rise to.

## **6. CONCLUSIONS**

Recent interest in the study of wellbeing and happiness has raised paradoxes and puzzles for economists regarding the relationship of income to SWB, and at the same time heightened their interest in the social dimensions which contribute to it in the form of relationships with family, friends and community and wider factors such as trust and values. Research has also shown that the processes of social interaction are important to wellbeing, especially in terms of the intrinsic motivation involved in work, but also more broadly in terms of the procedural utility people gain from the way in which interaction in markets and other arenas of social life

such as political systems takes place. Moreover research is also demonstrating the role of status in affecting wellbeing and raises key questions about how it affects the power relationships in these interactions and their outcomes.

Given the importance of these social dimensions both in their direct impact on wellbeing and through the importance of procedural utility, this suggests that tackling the underlying analytical divide between economics and sociology is in fact a basic requirement if we are to make progress in theorising wellbeing in a meaningful way. It is necessary to put the “social human being” back at the centre of an analysis which can allow processes of economic provisioning to be adequately understood within their social context.

We have shown that the analytic of the self-regulating market is evident in the work of key contributors to this area such as Layard and Sen. Yet both also recognise elements of the relationship between wider society and economic activity in the form of either freedoms or underlying social order. The questions this gives rise to have been the key questions of economic sociology in particular. However, an approach to tackling this divide appears to be greater than the idea that it is simply an entrenched division of labour between economists and sociologists.

We turned to Polanyi to better understand the origins of the problem. Polanyi recognised very well the way in which economic theory developed at critical points in the 19<sup>th</sup> century to suggest that disembodied price-making markets underlain by competitive forces resonant of the natural laws of nature would produce the greatest happiness for the greatest number. This perspective demonstrates the market analytic as historically specific and its evolution as in itself a means of producing a particular market system which, as his analysis of a century of British economic and social history showed, was ultimately unachievable. He argues that the analytic itself has no reference points in the analysis of empirical economies, and hence - one can argue - in empirical outcomes.

Polanyi’s project of understanding the process through which markets are instituted in time and place appears particularly urgent if we are to develop meaningful conceptual and analytical tools for the study of wellbeing. Moreover, it is timely given the widening interest in institutional approaches, but goes deeper than many of these which work mainly with formal institutions (Jutting 2003; Rodrik, Subramanian et al. 2004; Chang 2005).

His notion of embeddedness goes beyond the current analyses which do not work with these views of institutions as more deeply rooted in society.

To engage in an enquiry into wellbeing requires that we engage with people's lives as they are lived with markets and economic processes as a feature of social processes and structure. The analytical frameworks to be used must therefore be able to theorise the relationships between these economic and social dimensions and Polanyi's approach to the economy as an instituted process would therefore seem an appropriate starting point.

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