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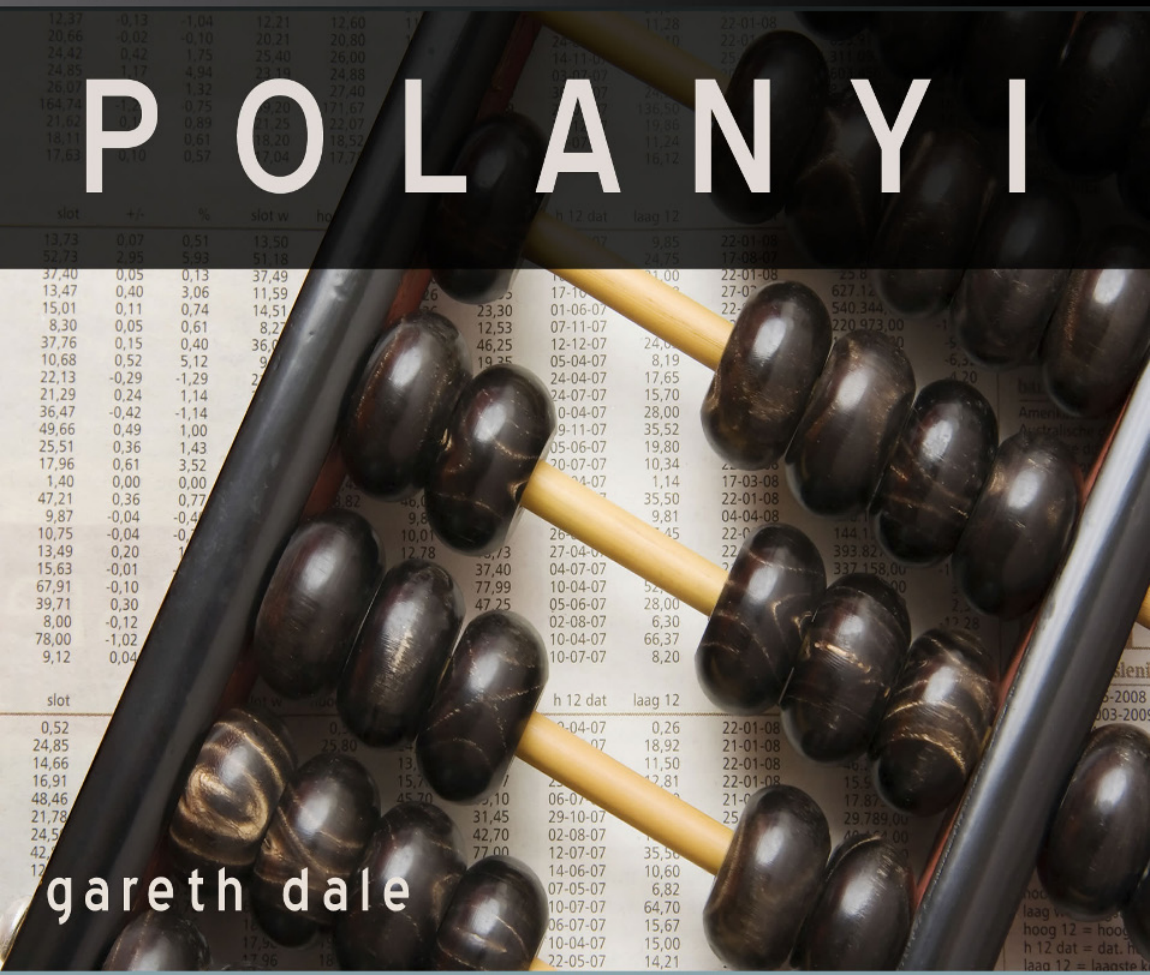
POLANYI



gareth dale

Karl Polanyi

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Karl Polanyi

The Limits of the Market

Gareth Dale

polity

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Preface

This book is a critical introduction to the work of Karl Polanyi. It provides an exposition of his key texts and presents a range of criticisms of his principal theses. Its origins lie in my interest in Polanyi's method. He meshes concepts from a variety of sociological and political-economic traditions to produce his own distinctive approach, but which ones was he appropriating and to what uses was he putting them? As I engaged more intensively with his works that sense of puzzlement began to recede. In its place there arose an admiration for the depth, breadth and originality of his intellectual engagement, albeit coupled with a greater awareness of its shortcomings in a number of areas, both empirical and theoretical. This book, then, is written from a broadly sympathetic yet critical standpoint.

During the first stages of my research it was at once apparent that no full-length general introduction to Polanyi's work yet existed. There is one useful and well-researched monograph, Ron Stanfield's *The Economic Thought of Karl Polanyi* (1986), but as the title indicates its focus is upon economic thought, and this, although indubitably the centre of Polanyi's attention, was not his sole concern. Rather than giving a critical exposition of Polanyi's ideas, moreover, Stanfield tends to bend them towards his own neo-Veblenian framework. In addition, his book has by now become dated. In the intervening decades a profusion of new primary materials and secondary literature has been published, the world has turned, and Polanyi has gained new and wider audiences. Apart from Stanfield's, the only other monographs that even partially

occupy the terrain of this book are Allen Sievers' *Critique of Karl Polanyi's New Economics* (1949) and Gregory Baum's *Karl Polanyi on Ethics and Economics* (1996), but neither is similar in purpose or character to this book. The former is a polemical critique, not a critical introduction, and anteceded the publication of all but one of its subject's own books. The latter is an extended essay containing Polanyian meditations on theology and ethics.

In *Karl Polanyi: The Limits of the Market* I aspire to a comprehensive treatment of Polanyi's work, but for reasons of space have omitted a number of topics. These I discuss elsewhere. They include, first and foremost, his political and intellectual formation in Hungary[1] and his biography (the subject of my next book).[2] They also include certain aspects of the 'embeddedness' theorem[3] and of the research propaedeutic to the writing of *The Great Transformation* (in particular with respect to his understanding of 'regulated capitalism' and of the contradictions between democracy and capitalism),[4] as well as his sometimes ambivalent and controversial comments on welfare states, the Bretton Woods system and the social democratic tradition.[5]

In addition to Polanyi's published works, interviews with his daughter Kari Polanyi-Levitt, and the secondary literature – of which a trio of volumes from the early 1990s, edited by Polanyi-Levitt (1990), by Marguerite Mendell and Daniel Salée (1991) and by Kenneth McRobbie (1994), are the most valuable – I have relied heavily upon texts archived at the Karl Polanyi Institute of Political Economy at Concordia University. It is thanks above all to my research there that I came to recognize the inadequacies of prevailing interpretations of Polanyi's oeuvre, given that they rely for the most part upon such a limited range of his published (and mainly English-language) works. In what follows, citations that begin with numerals in the form '1-11' are of folders and files in the Polanyi archive. Wherever possible I have included the dates of documents, and where I have made repeated use of a major text from the archive I have included it in the references. Translations from German sources, published and unpublished, are my own.

Karl Polanyi was an institutionalist, and it is perhaps fitting that, when turning to thank those who have helped this book on its way, I begin with an institution. The archive of the Karl Polanyi Institute was, as already mentioned, the source of all of the unpublished materials cited as well as a good many published ones. Containing draft manuscripts, correspondence with colleagues and friends, outlines of projected books, notes, memorabilia, part of Polanyi's

own library, and a cornucopia of other treasures, it is an indispensable resource – and one, moreover, that is well organized and welcoming. It is, then, to its co-founder, its administrator and its director – respectively, Kari Polanyi-Levitt, Ana Gomez and Margie Mendell – that I have incurred the greatest debts. I have also had the pleasure of attending two of the international Karl Polanyi conferences that the Institute has organized in recent years, in Istanbul and Montréal. To Kari, in addition, I express my gratitude for her willingness to sit unflaggingly through interview after interview, in Montréal and by telephone, over the course of nearly three years. Thanks are also due to Mathieu and Frédérique Denis, who helped to make my sojourns in Montréal so welcoming and enjoyable, and to Brunel University's Business School and School of Social Sciences, which financed my conference and research trips.

As regards preparation of the manuscript, my greatest debt is to three individuals who read a penultimate draft in its entirety. Chris Hann meticulously combed through chapter after chapter, commenting eruditely and with humour upon my errors, and nudging me towards improvements. Georgi Derluguian was tremendously encouraging. His remarks were incisive and useful – and provide much food for thought for my next book too. Keith Hart offered penetrating criticisms and constructive suggestions. In addition, I would like to express thanks to Costas Lapavitsas, who read and provided insightful advice on several chapters of an early draft. (Our inconclusive debate on the origins of money convinced me to leave that topic to sink beneath the Mesopotamian sands.) Margie Mendell's assiduous reading of one chapter helpfully uncovered a tangle of ambiguities while David Tandy and Mohammad Nafissi provided thoughtful comments on another. I am grateful to Dan Tompkins both for his observations on a chapter and for sharing his primary materials. In addition, Michael Hudson, Michele Cangiani, Kari Polanyi-Levitt, Tim Ingold, Johannes Renger and Keir Martin read and commented on one draft chapter each, Derek Wall checked part of the final manuscript, and Emma Hutchinson at Polity provided all the advice and support that one could possibly hope for. I wish to express my sincere thanks to them all.

Abbreviations

DST	Karl Polanyi (1966) *Dahomey and the Slave Trade: An Analysis of an Archaic Economy*, Seattle: University of Washington Press.
LOM	Karl Polanyi (1977) *The Livelihood of Man*, New York: Academic Press.
PAME	Karl Polanyi (1968) *Primitive, Archaic, and Modern Economies*, ed. George Dalton, New York: Anchor Books.
TGT	Karl Polanyi (2001) *The Great Transformation: The Political and Economic Origins of Our Time*, Boston: Beacon Press.
TMEE	Karl Polanyi, Conrad M. Arensberg and Harry W. Pearson, eds (1957) *Trade and Market in the Early Empires: Economies in History and Theory*, New York: Free Press.

To the memory of
Chris Harman
(1942–2009)

Introduction

> History has not been kind to Polanyi's prognostications. Free market capitalism is a resilient and stable system in much of the world – particularly in English-speaking countries. The gold standard is gone, but has been replaced by floating exchange rates, set by market forces. Better monetary management has greatly reduced business cycle severity. The great puzzle of Polanyi's book is thus its enduring allure, given the disconnect between his predictions and modern realities.
>
> Gregory Clark, *New York Sun*, June 2008

Stock markets are in meltdown. Trade, investment, output and employment graphs all point south. Protectionist stirrings are in the air. The prescriptions of free market liberalism are revealed as recipes for chaos. The 'smooth-tongued wizards' of 'the Market' (Kipling) – of whom the just-quoted economics professor is a fine example – lost confidence in their spells. This was the outlook as I wrote these lines in early 2009. It was also the world of the early 1930s, over which the Hungarian economic journalist Karl Polanyi was casting his critical eye.

Polanyi was a child of late nineteenth-century liberalism. It was a civilization that, his friend G. D. H. Cole recalled, seemed to rest upon strong foundations, in contrast to the inter-war order, which 'threatens to tumble at any moment in ruins about our ears'.[1] Over the course of the turbulent 1930s Polanyi grappled with the causes of the crisis, developing a distinctive position that was presented in his masterwork, *The Great Transformation* (hereafter, TGT). It was a crisis, he argued, that should not be construed as occurring in

disconnected stages – world war, Great Depression, world war – for these were all symptoms of a deeper malaise, a civilizational breakdown, no less. Tracing the genesis of the collapse, he located its origin in the rise of free market capitalism; in this sense liberal civilization had sown the seeds of its own destruction. Market society had generated two sorts of pathologies that could not be remedied by its own mechanisms. One may be described as 'social diremption', by which I refer to the separation of state and market that, in the age of universal suffrage, becomes converted into an irreconcilable antagonism between political democracy and business oligarchy. The other may be dubbed 'ethical fragmentation'. Liberalism had created an ethically impoverished society, thanks to its creation of an environment in which human beings can only act effectively if they are rational egotists – the *Homo oeconomicus* model of man.

It is a critical diagnosis but the prognosis is not gloomy. Economic liberalism, Polanyi shows, was a utopian experiment and as such was bound to founder. Unlike any previous economic system the market economy, as it emerged in nineteenth-century Britain, stood out in that its functioning depended upon the commodification of land, labour and money. Turning such crucial components of the substance of life and nature over to the calculus of purchase and sale produced such corrosive tendencies that spontaneous reactions of 'social protection' were inevitable. Polanyi traces the 'disruptive strains' that ensue, which culminated in fascism and two world wars – during the last of which he wrote TGT. Yet despite being written at this darkest of times there is an implicit optimism: that a 'protective' society will win through in the end.

Karl Polanyi for the neoliberal age

For many years it has been apparent that Polanyi's ideas resonate. They speak to the condition of neoliberal globalization in an idiom that for the most part sounds remarkably familiar today – as in his proposition, within a discussion of the nineteenth-century world economy, that 'with free trade the new and tremendous hazards of planetary interdependence sprang into being'.[2] There is no shortage of literature that draws on his work to warn that 'market fundamentalism', in the words of his compatriot and fellow émigré George Soros, poses an existential threat to the 'open society',[3] or, in the more urgent idiom of William Greider, that so long as neoliberal dogma reigns unchallenged the 'manic logic' of globalization

'will continue to hurtle forward, fatefully out of control'.[4] The notion of a countermovement by society in response to the effects of the unregulated market system, one recent contribution avers,

> is an inspired perspective to focus on globalisation, its discontents and the counter-movements it generates. . . . Neo-liberal globalisation – as Polanyi showed so eloquently for a previous wave – dissolves social bonds and society resists.[5]

Neoliberals and the far right apart, Polanyi attracts interest from all points of the political compass, with particular appeal to critics of globalization (for whom he has become 'a kind of patron saint', in the words of a senior fellow at the Cato Institute).[6] 'It often seems as if Polanyi is speaking directly to present-day issues', remarks Joseph Stiglitz in the Foreword to the most recent edition of TGT, adding that Polanyi's arguments and concerns are consonant in particular 'with the issues raised by the rioters and marchers who took to the streets in Seattle and Prague in 1999 and 2000 to oppose the international financial institutions'.[7] Those arguments include first and foremost a radical critique of the neoliberal utopia. 'To allow the market mechanism to be sole director of the fate of human beings and their natural environment', Polanyi blazes,

> would result in the demolition of society. For the alleged commodity 'labour power' cannot be shoved about, used indiscriminately, or even left unused, without affecting also the human individual who happens to be the bearer of this peculiar commodity. . . . Robbed of the protective covering of cultural institutions, human beings would perish from the effects of social exposure; they would die as the victims of acute social dislocation. . . . Nature would be reduced to its elements, neighbourhoods and landscapes defiled, rivers polluted, military safety jeopardized, the power to produce food and raw materials destroyed.[8]

On some 'alterglobalization' protests placards insisting 'We live in a Society, not an Economy' have appeared – a message that Polanyi would have endorsed wholeheartedly. The various segments of the alterglobalization (a.k.a. 'global justice') movement may identify different structures as the underlying evil (globalization, capitalism or industrialism) but they unite in opposition to neoliberalism, the updated edition of Polanyi's nemesis, which was the classical liberalism of Ricardo, Spencer and Hayek. More speculatively, I would venture that Polanyi's 'double movement' thesis,

which I elucidate in chapter 2, may exert an appeal to the collective unconscious of the left as a whole, inverting as it does the familiar right-wing indictment against socialism: that it represents a utopian exercise in social engineering, inhuman in its suppression of catallactic spontaneity. With Polanyi the tables are turned. In his schema economic liberals are the utopian extremists while their opponents express a 'spontaneous reaction of social protection'. After the publication of TGT any university course on 'political extremism' that failed to include neoliberalism in its curriculum would be sadly lacking in credibility.

Polanyi's work evidently appeals to alterglobalization activists and socialists, but its appeal extends also to greens, social democrats and social conservatives. Within the latter group, one of his greatest admirers is the former Margaret Thatcher advisor John Gray, whose *False Dawn: The Delusions of Global Capitalism* settles accounts with her programme, in a blast against the economic dislocation, social chaos and political instability that it has spawned. Also deserving of mention are Jonathon Porritt, former co-chair of the Green Party and advisor to the governments of Tony Blair and Gordon Brown,[9] and David Marquand, a founder member of Britain's Social Democratic Party. In the 1990s Marquand suggested that Polanyi's work spoke 'even more loudly' to that decade than it had to the 1940s, both in terms of the potential for a progressive response to neoliberalism and in the form of a reactionary countermovement – which for Marquand would be likely to take the form of a 'fundamentalist tribalism', as exemplified by Bosnian Serbs, Tory MP Michael Portillo, Jean-Marie Le Pen, Chechen separatists, Silvio Berlusconi and Pat Buchanan.[10]

Alongside the appeal of his ideas to activists and the wider penumbra of critics of neoliberalism, Polanyi's influence is most strongly felt within the academy. Although in the first two decades after his death in 1964 he was known primarily to anthropologists, since then his influence has branched out across the social sciences. In social theory, for example, one may note that Jürgen Habermas' thesis of the 'uncoupling of system and lifeworld', as expounded in his *Theory of Communicative Action*, owes a good deal to Polanyi, while economic sociologists and moral philosophers have acknowledged their debts to his research into the 'embedding' of economic life in social systems. From the field of political ecology has flowed a steady stream of texts that take their cue from Polanyi in developing a critique of how industrial society came 'to understand nature in economic categories and subordinated the surface of the planet

to the needs of accumulation'.[11] Arguably the most prominent of this group is the Christian environmental economist Herman Daly, who cites Polanyi in support of his case that a sustainable 'economics for community', while allowing markets a significant role, could not tolerate the commodification of labour and land in the model of 'One Big Market'.[12]

In economics 'proper', Polanyi's name, where known at all, is often reviled. Many heterodox economists, however, would agree with Joseph Stiglitz when he opines that 'Economic science and economic history have come to recognize the validity of Polanyi's key contentions' (although one wonders whether Polanyi himself would recognize this accolade; he did after all wish his magnum opus to be entitled combatively *Freedom From Economics*).[13] Institutionalist economists, moreover, tend to look more kindly upon Polanyi, not least in the burgeoning literatures on 'varieties of capitalism' and comparative social policy,[14] while in international political economy his work is renowned. John Ruggie's notion of 'embedded liberalism', referring to the postwar compromise whereby a liberal international trade regime was constructed to include a normative commitment to interventionist governmental action at the domestic level, owes much to Polanyi.[15] In addition, one could point to the Régulation School, at least two of the founders of which are avowedly Polanyian,[16] as well as the world-systems school, established by his friends Terry Hopkins and Immanuel Wallerstein. (Polanyi has even been described as 'the most influential forerunner of "world-system" analysis' – although Braudel and Marx would have legitimate grounds to dispute that crown.[17])

Individual responsibility and the quest for community

As we shall see in the pages to come, there are a great many paradoxes and debates concerning the intellectual and political currents for which Polanyi is claimed, as well as over the meaning and applicability of his concepts and theses. Key terms such as 'market economy' have been interpreted in wildly divergent ways. The discussion in TGT of the role played by states in capitalist society has been taken as an argument for their potential to rescue capitalism from itself and to usher in its destruction, while its axial concept, the 'double movement', can be viewed as a metaphor both for class struggle and for class reconciliation.

There are several reasons why Polanyi's writings are subject to such varying interpretations. In part it is the normal consequence of representing a thinker in the singular, when his political views and social-scientific postulates alter over time. Although fairly consistent in his views over his lifetime, his approach to some issues did alter – there is, for example, no certified Polanyian position on questions of economic determinism or social evolution. Another factor, as we shall see, consists in his proclivity to balance between quite different, even antithetical traditions. He has, for example, been categorized as a Marxist, a liberal and a Romantic, and within anthropology alone he has attracted the labels empiricist, institutionalist and functionalist.[18] These difficulties in comprehending his *Weltanschauung* are compounded by the fact that his views were formed in a political and intellectual environment, early twentieth-century Central Europe, that is *terra incognita* to many of those who cite his work.

In conceiving this book I encountered a dilemma. A fully developed account of Karl Polanyi's work requires a close look at his life, including the socioeconomic environment and the political and geopolitical conflicts that impacted upon him, not to mention the intellectual traditions that excited his interest and the 'context of refutation' that he encountered – the prevailing theories that provoked his critical inquiry, the arguments he rebutted and the positions he sought to challenge. So turbulent were the times that he lived through, however, and so extraordinary that 'Great Generation' of Jewish Budapest intellectuals to which he belonged, that these cannot possibly be given the space they deserve within the confines of this book. I have therefore engaged in detail with his life and times in separate studies.[19] That said, a brief conspectus of his life and times, with particular focus upon his political, spiritual and intellectual formation, is indispensable.

The basic facts are well known. Born in 1886 into a bourgeois Jewish family, Polanyi passed his childhood and youth in Hungary during a tumultuous era, one that included rapid industrialization in the 1890s, political polarization in the 1900s, and war, followed by the 'Aster Revolution' of October 1918 and the Soviet Republic of early 1919. When a teenager, he joined a Socialist Students society, and was active at Budapest University in resisting a movement of anti-Semitic conservatives, a physical clash with whom led to his expulsion. Rather than allow the energy of their campaign to dissipate, Polanyi and his friends took the opportunity to found the 'Galilei Circle', an organization dedicated to moral regeneration

and education – 'To learn and to teach' was its motto. From 1913 he was co-editor of the Galileists' fortnightly periodical *Szabadgondolat* ('Free Thought'), and in 1914 was elected general secretary of the newly founded National Radical Bourgeois Party. Injured in war, he was unable to play an active part either in the Aster Revolution, which he supported wholeheartedly, or in the Soviet Republic, which he regarded with ambivalence.

Following a brief flirtation with Second International Marxism, in the later 1900s Polanyi had gravitated towards a political current known as Liberal Socialism, associated with the Fabians, 'revisionist' Marxists such as Eduard Bernstein, and the sociologist Franz Oppenheimer. By socialism these thinkers understood a movement with an idealistic logic centred upon the ethic of solidarity, coupled to a deterministic drive: the tendency to socialization of the major means of production. The collectivist society that was coming into being, Polanyi firmly believed, would render liberal individualism antiquated. No longer concentrated in the hands of individual owners, capital was becoming ever less personal, management ever more bureaucratic, and in society at large personality was losing its centrality: in future, people would be valued less for their individuality than for their sociality. As a result of these trends, he ventured in 1909, '*in the coming period of a stable capitalism the ruling ideology will be socialist*'.[20]

Despite his own socialist mores, Polanyi was uncomfortable with this forecast, for reasons of substance and of method. Substantively, his concern was that the shift towards socialism involved a deception: the middle classes were wresting the movement back from the working classes – rather as the Roman Empire, by adopting Christianity, had taken over and defanged the religion of the rebellious slaves. In order to guide their struggle against 'a capitalist society which [was] becoming more and more socialist itself', some of pre-war Europe's rebellious slaves were turning instead to syndicalism – a movement with which he had more than a little sympathy. The methodological question concerned the scientific reasoning behind the prognosis. The model of human behaviour offered by deterministic positivism posed problems for Polanyi's most cherished tenet, individual responsibility. Could developments of such *ethical* import really be attributed to *socioeconomic* developments? This problem reflects a conflict with which he wrestled throughout his life, that between the ethic of individual responsibility and 'the reality of society'. It is a familiar dilemma, an impressively sophisticated and simplifying account of which has been given by Martin

Hollis, in his *Models of Man*. Are human beings best conceived of as 'Plastic Man': life-forms that develop through adaptive responses to their environment? If so, they are subject to scrutiny by scientific method, but where then lies the space for the exercise of individual ethical choice? Or are they better conceived as 'Autonomous Man': sovereign possessors of free will who are in themselves the explanation of their own actions? This model acknowledges ethical freedom but treats the individual as a black box, its actions amenable to hermeneutic interpretation but not to scientific analysis.[21]

It was a conflict with both intellectual and political aspects, and throughout his life Polanyi's philosophical and political reflections revolved around puzzles concerning the role of the individual in 'complex society', and how to steer political engagement between the rocks of determinism and voluntarism. Rational scientific analysis, he believed, demonstrated that society was destined to become more collectivist, yet ethically he was an individualist, championing the notion of individual responsibility and aspiring to live virtuously. The essence of moral life, he maintained, is the acceptance of individual responsibility; in Gregory Baum's description, he 'greatly treasured the emergence of the "bourgeois" or "civil" conscience, that is, the autonomous conscience of the person who recognizes himself or herself as a responsible agent'.[22]

The paradox involved in ethical individualists espousing positivist determinism was gleefully seized upon by clerical conservatives. Not only did they advance the stock argument that the denial of traditional religious beliefs begets moral degeneration, they also accused the Budapest radicals of inconsistency. How could they see ethical principles as merely the reflex of economic conditions, yet simultaneously demand that society prioritize a particular set of ethics centred on social justice and, moreover, that social movements rally behind liberal and/or socialist platforms?

To the charge of the Christian conservatives that the radicals and socialists were undermining what Hungarians called 'religious ethics' Polanyi replied in kind. It was *their* belief system that undermined morality. Centred upon supernatural intervention in the natural order, it lessened our sense of responsibility for our own actions – and it is the acceptance of responsibility, of 'man's self-determination', that constitutes the essence of true belief.[23] Moreover, 'religious ethics' destroys the bases of a truly ethical life: moral community and moral freedom. It undermines the former by sanctifying and exacerbating the antagonisms between nationalities and classes, and it repudiates moral freedom by permitting men to

choose between good and evil without allowing them to decide *what* is good and *what* is evil – the issue is simply referred to authority or tradition. 'The trouble with religious ethics', Polanyi concluded, 'is not that it is religious, but that it is not ethical.'[24]

Yet his attitude to Christianity *per se* was far from hostile. Even when writing those words (in 1911), Tolstoy was an intellectual enthusiasm, and Polanyi had come to appreciate the 'socialist flavour' of New Testament revelation.[25] Like Tolstoy, he neither became an observant Christian, nor believed in the divinity or the resurrection of Jesus, but did perceive religion to be an indispensable social construction. Defined broadly as a total conception of the universe and man's place within it such as to warrant the belief that life itself has meaning, religion furnishes a framework essential to the individual's sense of moral purpose.

Polanyi's understanding of Christianity was decidedly unorthodox. It is a religion that, it is conventionally assumed, departed from the Hellenic view of man as citizen, adapted to life in the polis, in favour of a concentration upon living in communion with God. If the Greeks emphasized the polis as the arena in which virtue was practised, Christians see virtue as submission to divine will. Put in these terms, Polanyi reads Christianity through a Hellenic prism. For him, its vital function is to unify individuality and sociality, creating a community of morally responsible persons; using Tönniesian terms he describes it as a movement devoted to converting *Gesellschaft* into *Gemeinschaft*.[26] Although the weight placed upon Christian themes varied greatly throughout his life, Polanyi's conception of man, although fundamentally Aristotelian, never lost its theological bent. With Aristotle and Marx he defines man as a social creature, but whereas for Marx man's sociality evolves out of human interaction with nature through social labour, Polanyi privileges the creation of moral community, a human capacity that achieves its highest form in religious myth. The importance of religion lies not in its supernatural cosmology but in the broaching of eschatological questions and above all in the creation of spiritual connectedness and ethical community.

Some systemically satanic features of capitalism

In 1919 Polanyi moved to Vienna, in whose radical political culture he felt thoroughly at home. The city was, as has often been noted, a laboratory of modernity in which the question of the nature of

democracy and its interaction with capitalism took centre stage. 'There was a real sense of the trade unions, the working class, being involved in political decision making', as Kari Polanyi-Levitt describes it. 'When you think of my father with his bourgeois background, theories of the working class as vanguard had only seemed hot air, until that living reality of Vienna, with its May Day parades – a demonstration of pride which saw the whole city draped in red.'[27] Polanyi developed an admiration for the achievements of Social Democracy in Vienna that was unreserved. In the process, he drew closer to the Marxism of its leading intellectuals, notably Otto Bauer, and engaged in a thoroughgoing re-evaluation of Marxism, which – together with academic sociology – he had previously castigated as positivist and deterministic.

In the following two decades he wrote a series of essays that drew heavily upon Marx's philosophy and anthropology, exploring the ethical implications of Marx's theories of alienation and commodity fetishism in a manner not unlike that of his childhood friend Georg Lukacs in *History and Class Consciousness*. One of these essays, 'Community and Society', advances the argument that the market economy negates authentic individual responsibility, undermines community, and systematically obstructs moral behaviour. Where for Bernard Mandeville the market system mischievously but magically converts private vice into public virtue, for Polanyi the alchemy is demonic, transmuting private virtue into public vice. The essay is a powerful tract, and characteristic of his output in the inter-war period; as such, an excerpt warrants reproduction.

> The market acts like an invisible boundary isolating all individuals in their day-to-day activities, as producers and consumers. They produce for the market, they are supplied from the market. Beyond it they cannot reach, however eagerly they may wish to serve their fellows. Any attempt to be helpful on their part is instantly frustrated by the market mechanism. Giving your goods away at less than the market price will benefit somebody for a short time, but it would also drive your neighbour out of business, and finally ruin your own, with consequent losses of employment for those dependent on your factory or enterprise. Doing more than your due as a working man will make the conditions of work for your comrades worse. By refusing to spend on luxuries you will be throwing some people out of work, by refusing to save you will be doing the same to others. As long as you follow the rules of the market, buying at the lowest and selling at the highest price whatever you happen to be dealing in, you are comparatively safe. The damage you are doing to your

> fellows in order to serve your own interest is, then, unavoidable. The more completely, therefore, one discards the idea of serving one's fellows, the more successfully one can reduce one's responsibility for harm done to others. Under such a system, human beings are not allowed to be good, even though they may wish to be so.[28]

Another essay from the inter-war period, 'On Liberty', identifies and attempts to resolve the dilemmas of liberal moral philosophy, as well as presenting Marxian reflections on the domination of society by market forces. In a market society, Polanyi argues,

> it is not human will but prices that determine the purposes of labour, and not human will but the interest rate that commands capital. . . . Capitalists, workers, and indeed people in general, appear as mere extras on the economic stage. The only real and functioning objective facts of society are competition, capital, interest, prices and so forth; here, human free will is but a mirage, a fantasy. . . . Like bedazzled slaves we read our fate from market prices which are, ultimately, nothing but an emanation of our own selves, alienated from our consciousness.[29]

In chapter 1 I discuss this essay in detail, as well as Polanyi's other writings dealing with the theme of individual morality in an alienated social system.

Although Polanyi's critique of capitalism was trenchant, rarely in his life did he engage in organized political activity. However, in Vienna, and later in Britain, he did attach himself to the Christian socialist movement. Christianity and socialism, he believed, were not only complementary movements but positively required symbiosis. The similarities between the economic and social form of early Christian and communist societies are well known, he pointed out, but his specific interest lay in the congruence between the moral and spiritual questions that the two traditions pose.[30] Common to both was a belief in the unique worth of each individual as it is realized through communal life. Only socialism could secure for the human personality its unique, God-given value.[31] Conversely, something greater was required for human liberation than simply a classless society: new cultures and new forms of social behaviour, which, he proposed, should follow the contours 'of a Christian-spirited guild life'.[32] This theme is explored in greater detail in chapter 1, which also provides an overview of a selection of Polanyi's economic and philosophical writings from the inter-war period.

Turning to the practical question of how alienation could be overcome and social unity established, the simple and abstract answer was socialism, but what would this entail in practice? Criticizing the market economy was one thing, but what could be offered in its place? Capitalism patently lacked an adequate economic mechanism for enabling the needs of people qua conscious members of society (as opposed to individual consumers) to be expressed, but how could such a system be designed? These are rarely pressing practical questions for socialists, but with the Bolsheviks in charge in Russia and Social Democracy in Vienna this was no ordinary historical conjuncture.

It was in Vienna that many of the contributions to the famous 'accounting debate' over the feasibility of socialist economy were written, including two by Polanyi himself. His was a unique approach, offering a critique both of central planning and of classical liberalism, and sympathetic to the 'socialist practitioners' Otto Bauer, Lenin and G. D. H. Cole but not to the 'dogmaticians' Karl Kautsky, Trotsky and Otto Neurath.[33] It was based, he later summarized, upon:

> functional premises (which I borrowed from G. D. H. Cole's *Guild Socialism*); equilibrium economics (mainly from Schumpeter, *Das Wesen und der Hauptinhalt der theoretischen Nationalökonomie*); ethical and humanitarian socialism (which was my main postulate).[34]

Polanyi reworks these three elements around a pivotal concept, *Übersicht*. Normally translated as 'overview' or 'oversight',[35] in his usage it means the taking stock of, or insight into, human needs and the availability of resources, and the possibility of making economic decisions which take both into consideration.[36] It is not entirely unrelated to, but is far from being a synonym of, the present-day use of the term 'oversight', with its sense of the regulation of business combined with greater transparency.[37] Because the fundamental premise of socialism is the conscious and responsible control of the economic process by the workers themselves, Polanyi argues, its viability depends upon the creation of oversight within economic relations.[38] In chapter 1 I present a précis of his case.

At first sight it may appear strange that Polanyi was strongly influenced by Marxism even while his schema for a socialist economy drew heavily upon an antithetical current: Schumpeterian marginalism. This raises the question of how best to characterize

his economic thought. Was it Marxist, or marginalist? The short answer is 'neither' (or 'both'), but there is more to it than that. Let me explain, by way of a brief excursus on the landscape of economic theory that obtained in Central Europe at the time.

There were three major schools of thought. One, marginalism, embodied a benign set of assumptions concerning market behaviour: that the system functions in a way that is beneficent, even if the motives underlying individual actions may not be; that capitalist institutions are practical devices that enable individuals to pursue their interests as perfectly as is possible in a flawed world; that free markets enable the formation of efficient distribution equilibria, with market clearing taken as a given; and that profits derive from property ownership and entrepreneurial skill. The second, Marxism, had no truck with marginalism's equilibrium assumption. Behind that, the economist Henryk Grossman argued, lay 'the need to justify the existing social order as a "reasonable," "self-regulating" mechanism'. Indeed, the term 'self-regulating market' itself was explicitly intended to direct attention away from 'the actually prevailing chaos' thrown up by capitalism's recurrent crises, and the injustice and arbitrariness of the distribution of wealth.[39] For Marxists, in contrast, the market system is based upon a class relationship, and generates tendencies both towards polarization between property owners and the proletariat and towards economic crisis. At their root is the contradiction between the use value and exchange value of commodities, which translates in Marx's crisis theory into a contradiction between the tendency towards the absolute development of the productive forces without regard to exchange value and the imperative of preserving existing exchange value. The revolutionizing of the productive forces thus generates conditions that are inconsistent with the further self-expansion of capital, a tension that is manifested in overaccumulation crises. Crises, in this perspective, are conceived of not as an abnormal disequilibrium irrupting into a normal state of equilibrium; rather, they 'are always but momentary forcible solutions of the existing contradictions, violent eruptions which act to restore the disrupted equilibrium'.[40] Such a system can emphatically not be described in terms of social harmony or economic stability.

The third branch of economic theory in Polanyi's youth, Germany's 'Historical School', is less well known today. Its pioneering figures were Friedrich List and Gustav Schmoller, with followers that included Eugen Dühring, and sociological outriders such as

Ferdinand Tönnies. Whereas for Marxism socioeconomic harmony is impossible in capitalism, and for marginalism it derives from the operation of the 'self-regulating market', for the historicists it may be fashioned under any mode of production, but this requires the conscious design of economic and social institutions. Against the marginalist perception of the growth of markets as a natural phenomenon, List, Schmoller and company stressed their historical specificity, and insisted upon the centrality of the state in organizing markets. Unlike marginalists, they were troubled by the threat to social cohesion that free markets posed, warned of the 'casino speculation mentality' that it spawned, and advocated welfare measures, state regulation of the economy and a humanistic educational policy.[41] In this way the state would be able to translate the normative premises of social justice into a new institutional framework in order to recreate community, resolving the conflict between the 'fourth estate' (workers) and the other classes such that the former can be 'reintegrated harmoniously into the social and political organism'.[42]

Needless to say, the three schools of thought were not exclusive; there existed numerous individuals who combined elements from two or more. Max Weber, famously, carved out a space between marginalism and historicism, coupling the methodological individualism of the former with the latter's critique of universal economic laws. Some historicists adopted marginalism's subjective-psychological theory of value. There were also the 'neo-harmonist' Marxists, such as Karl Kautsky, Otto Bauer and Rudolf Hilferding, so called because they believed that state action could potentially eliminate economic crises, given that these were understood to be the outcome of disproportions between economic sectors.[43] Some thinkers were able to pitch their tent in all three camps. Werner Sombart was one such, Eduard Bernstein another – he was heavily influenced both by Marx and by Dühring, but preferred marginalist value theory to either Ricardo's 'natural' labour value theory or Marx's 'social' emendation thereof. This was Polanyi's position too. Despite espousing the marginalist theory of value he shared much of the Marxist and historicist critique of marginalism: that the quest for a formal, rule-governed economic theory was a futile enterprise, that the economy is determined not by given and unchanging natural laws but by social norms and conventions that are malleable over time, and that economic analysis begins with institutions and must be grounded in empirical inquiries that draw upon anthropology, statistics or history.

From civilizational breakdown to neoliberalism

If Polanyi had ceased writing in 1933, when he was forced into exile for a second time – this time to Britain – his work would be remembered as little more than a footnote to the socialist accounting debate. But in the 1930s he found his metier, and the tools he required to master it. The subject was the collapse of nineteenth-century liberal civilization and the 'great transformation' to a new social order. The tools arrived through his engagement, while an instructor with the Workers' Educational Association, with economic and social history.

With hindsight, he himself was aware that a sharp change had occurred. 'From 1909 to 1935 I achieved nothing' was his (characteristically hyperbolic) assessment. 'I strained my powers in the futile directions of stark idealism, its soarings lost in the void.'[44] 'What can he possibly have meant by this?', I asked Kari Polanyi-Levitt. By 'stark idealism', she replied,

> I think he is referring to his work on the socialist accountancy debate – it involved building an ideal model. He never seemed to resolve the problem that he was working on, but slithered around between neoclassical ideas and Keynesian theory, never quite getting to the bottom of it all. But then in England he turned to economic and social history. In this he discovered a more positive way of addressing the problem of the market, and one that he, with his skills as a historian and his ability to open the scope of economic history to include anthropology, was well adapted to. This no longer involved imagining a model of an ideal economy but actual concrete research.[45]

The breakthrough work was *The Great Transformation*, which I discuss in detail in chapter 2. It is in TGT that Polanyi introduces the concepts for which he became known: the 'double movement' of marketization and societal countermovement, 'fictitious commodities', and 'embeddedness', a metaphor (denoting a state of dependence upon or subordination to) that refers to the relationship between 'economy' and 'society'. In essence, its argument is that the pathological developments through which Polanyi's generation was living – the First World War, the rise of fascism, the Great Depression, world-market implosion, and an arms race that pointed towards renewed world war – were not disconnected events but manifestations of an underlying problem, the disruption of social unity, which was rooted in the rise of 'market society'. The origins

of the 'cataclysm', as Polanyi put it, 'lay in the utopian endeavor of economic liberalism to set up a self-regulating market system'.[46] Such is the destructive impact upon human beings and the environment that a reaction against the market economy is inevitable, giving rise to state economic intervention, but this undermines the vitality of the market itself. As a result, regulated capitalism is an unstable formation that was doomed to collapse.

Polanyi scholars have been unable to agree on whether or not the prediction that resulted from this diagnosis, that the great transformation away from market liberalism was set to continue, was borne out by subsequent events. A literal reading of TGT reveals the prediction that because regulated capitalism is inherently unstable its replacement by socialism or fascism was inevitable. That this did not come to pass has stimulated debate upon how to interpret the postwar epoch in Polanyian terms. For some, it was characterized not by a self-regulating market system but by 'embedded liberalism', with governments able to play a muscular role in mediating between the national and international economy. This, some maintain, lies within the bounds of Polanyi's forecast. Still others maintain that the civilizational crisis with which Polanyi was concerned was of capitalism, and not merely of its liberal form, and even the regulated capitalism of the postwar 'golden age' could not succeed in overcoming the cultural contradictions between habitat and improvement, society and economy.

It is perhaps unfortunate that Polanyi himself did not tackle this subject head on during the years between the end of the war and his death in 1964. He remained, however, as intellectually active as ever, and prolific too, producing a string of essays, a monograph and a book manuscript. He devoted his energies to developing a universal, comparative and non-ethnocentric 'general economic history': a framework capable of making sense of modes of economic organization even where systems of interconnected price-making markets are absent. At Columbia University, where he was based from 1947, Polanyi and his collaborators designed a research programme in comparative economic history, examining the nature of markets, trade and money in 'primitive' and archaic societies. In the process they invented a range of new concepts, including the 'substantive economy' and 'forms of integration', that would enable the various species of economy that have existed throughout history to be classified, analysed and understood. I introduce these concepts, as well as the debates within economic anthropology that they stimulated, in chapter 3.

In following the argument of Polanyi and his co-thinkers it is vital to distinguish between the various meanings of 'market'. The term can mean simply the process of agreeing a commercial contract, or a market *place* – the location where people meet for the purpose of transferring goods. It is sometimes used broadly to indicate economic exchange motivated by individual gain or, at the limit, any situation in which people compete over scarce resources. But its other meanings also include: an aggregation of such sites into a system, involving repeated exchanges of commodities; a mechanism that determines the production and distribution of resources through supply–demand feedback (which Polanyi refers to as 'a price-making market system'); and an institution that co-ordinates *ex post* the strategies of multiple traders whereby each is independent, but all are interrelated through their contributions to the process of price formation upon which the behaviour of each depends.[47] Polanyi is careful to avoid mistaking the presence of a market place for the existence of a competitive mechanism of the supply–demand type; to assume so, he argues, is to make a category error. Whereas the former is in the reach of the archaeologist,

> a market mechanism is beyond the most nimble spade. While it may be comparatively easy to locate an open space where, sometime in the past, crowds were wont to meet and exchange goods, it is much less easy to ascertain whether, as a result of their behaviour, exchange rates were fluctuating and, if so, whether the supply of goods offered was changing in response to the . . . up or down movement of those rates.[48]

Economic historians, he adds, should beware of surmising the presence of markets from cultural traits such as gambling, meticulous accountancy, display of gainful motives or vigorous competition. These may play a vital part in the social life of many 'primitive' and archaic communities but their presence is no proof of the existence of functioning markets.[49]

In developing this case, Polanyi researched the economic history of a variety of 'archaic' empires, taking as his paradigm examples Mesopotamia, ancient Greece and Dahomey. In each case, the focus is upon the institutionalization of trade, markets and money. The thrust of his argument is that although many archaic empires were characterized by a complex division of labour (at least in the towns), developed trading networks, money dealing, as well as forms of banking, discounting and arbitrage, money, markets and trade were institutionalized separately from each other, and this explains

the fundamental rift between them and the modern market system. In chapter 4 I chart the course of his research in this area and evaluate the criticisms that have been levelled against it.

If the focus of the first four chapters is on Polanyi's output, with only limited discussion of subsequent interpretations, in chapters 5 and 6 that ratio is reversed. These closing chapters survey the ways in which his work has been used since his death, taking as their themes the two concepts for which he is best known: embeddedness and the double movement. The first of these has been used primarily within sociology. (Indeed, one survey of recent literature in economic sociology finds Polanyi to be the most frequently cited author after Weber, Marx and Durkheim.[50]) What exactly, I ask in chapter 5, does embeddedness mean? How should it be used? And how does it relate to previous conceptualizations of the relationship between economy and society? The chapter explores these questions, as well as the term's family resemblances to concepts developed by Marx, Tönnies and Weber, and the rather different interpretations offered by late twentieth-century sociologists.

Bringing the narrative up to the present day, the final chapter inquires into the origins and nature of the neoliberal ascendancy and the potential for its demise. The chapter reviews Polanyian accounts of the rise of neoliberalism, and surveys the uses to which the double movement concept has been put over the last two decades. Following an analysis of the strengths and weaknesses of the 'pendular' refunctioning of Polanyi's thesis, the chapter closes by asking whether the current global economic crisis signals a swing of the pendulum from the market-fundamentalist extreme back towards a form of socially co-ordinated capitalism.