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POLANYI

gareth dale

[illegible]

Karl Polanyi

The Limits of the Market

Gareth Dale



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Karl Polanyi

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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-Weblenian 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 Hungary¹ and his biography (the subject of my next book).² They also include certain aspects of the 'embeddedness' theorem³ 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 Lapavistas, 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)

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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 catalytic 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 counter-movement – 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 Institutional 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