

# **Social democracy, embeddedness, and decommodification: On the conceptual innovations and intellectual affiliations of Karl Polanyi**

Gareth Dale (draft)

There is no shortage of paradoxes and debates concerning the intellectual affiliations of the Hungarian economic historian and political economist Karl Polanyi. He has been described as a Marxist, a Liberal and a Romantic.<sup>1</sup> *The Great Transformation* (TGT), his *magnum opus*, is read as a Communist Manifesto by some, as a Liberal Manifesto by others. Its axial concept, the 'double movement' – which refers to the extension of market control over livelihoods and the 'protective counter-movement' that arises in response -- has been described as “Polanyi’s metaphor for class struggle” (Stroshane 1997: 107) while others deploy it as a metaphor for class reconciliation, with the counter-movement envisaged as bringing otherwise antagonistic social groups together: workers with capitalists for 'protection' from foreign capital, and peasants with the landed aristocracy against the importation of cheap foodstuffs.

There are several possible reasons why Polanyi has been subject to such varied interpretation. It may be the outcome of summarizing the views of a major thinker whose political and intellectual commitments inevitably alter somewhat in response to changing circumstances. His tendency “to be inconsistent in his definition of key concepts,” as one of his followers put it (Halperin 1988: 30), and to “contradict himself in

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<sup>1</sup> On the last of these, see for example Cook (1968: 209, 213).

the same work,” may have played a part too. But in this essay I would like to draw attention to two other factors. One is that too many of those who cite his work are unfamiliar with the contours of political and intellectual life in the early twentieth-century Central Europe in which his thought was formed. The other is his proclivity to draw upon and meld together intellectual traditions that were not only different but in certain respects antithetical. I shall look at these questions in detail, drawing in detail upon his unpublished writings collected in the Karl Polanyi Archive at Montréal’s Concordia University. But to begin with, I shall illustrate the nature of the problem by exploring one of the debates that continue to revolve around Polanyi’s work, concerning his analysis of and attitude towards post-war capitalist reforms and the welfare state.

To simplify a little, it is a debate with two sides. To borrow Iván Szelényi’s terms, one side constructs a ‘hard’ Karl Polanyi, the other a ‘soft’ one. The former advocated a socialist mixed economy dominated by redistributive mechanisms. He was a radical socialist for whom the market could not remain and should never be the dominant mechanism of economic coordination. The latter insisted that the market should remain the dominant coordinating mechanism but should be complemented by redistributive institutions. The ‘double movement’ acts, in this reading, as a self-correcting mechanism that moderates the excesses of market fundamentalism; its author was positioned within the social-democratic mainstream for which the only goal that is both realistic and desirable is a regulated form of capitalism.

### **The ‘hard’ and the ‘soft’ Karl Polanyi**

The first premonition of what was to become one of the central debates over Karl Polanyi’s legacy occurred not long after his death. George Dalton, a friend and student, drafted a paper that attributed to his mentor advocacy of the reform of capitalism.

Polanyi’s wife, Ilona Duczynska, fired off an irate reply: this is at best “an interpretation

put upon his thought," she wrote Dalton, adding that her husband, his eyes ever upon the "wide horizon," had always scrupulously avoided

any idea of policy making or relating oneself to a special field like "reform of capitalism". In his heart of hearts he thought jolly little even of the welfare state proper (there was a marked distaste for Sweden, for instance) on the grounds that no new society was emerging.<sup>2</sup>

Whether, she added, "he would have upheld the 're-embedding' theory regarding the welfare state I would not know. Guardedly, I'd say, if at all."

The Dalton-Duczynska dispute was conducted privately, but essentially the same debate was ignited publicly by an essay by Ivan Szelényi in 1991. Szelényi had belonged to the Polanyi-influenced 'Budapest School,' and had come to international prominence with a sociological diagnosis of the nature of the Soviet system, co-authored with György Konrád, that was organized around the Polanyian concepts of 'models of economic integration' and 'redistribution' (Konrád and Szelényi 1979: 47-63; Brown (1988). There is, Szelényi says, no avoiding the fact that there are two interpretations of Polanyi: a 'hard' one and a 'soft' one. The former, although supportive of the capitalist welfare state and the New Deal, believed that these would and must be superseded by a socialist mixed economy dominated by redistributive mechanisms. His 'soft' alter ego insisted that the market mechanism remain essentially intact but be complemented by secondary, redistributive mechanisms. For Szelényi the soft interpretation is the more useful addition to the theoretical toolbox, for it is closer to his own view of "the realities of the West and of the East in our times," but he gamely concedes (Szelényi 1991: 236) that his "is probably not an authentic interpretation of Polanyi."

It is fair to say that most of those who use Polanyi's ideas position themselves closer to Dalton and Szelényi than to Duczynska. The Daltonian construction of

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<sup>2</sup> 55-2, Ilona Duczynska to George Dalton 4.4.1965. References of the form "1-10" are to box and folder numbers of materials in the Polanyi Archive.

Polanyi's argument has become a familiar one; in the following I outline a composite version culled from several authors. It begins with a restatement of the double movement: that, in response to crisis tendencies in *laissez-faire* capitalism, in particular the instability of the business cycle and its associated unemployment, 'social forces' struggled to socialize and regulate the conditions of investment (Jessop and Sum 2006: 261; Blyth 2002: 2). Their success led to a recognition, increasingly hegemonic, that the free market must be supplemented (although not supplanted) by extra-market institutional arrangements, including "internal corporate structures, ... discretionary fiscal and monetary policies, [and] social security networks" as well as "prudential safeguards" such as deposit insurance and interest rate controls – all of which serve simultaneously to stabilize capitalism and to safeguard its vitality (O'Hara 2000: 132, 222; Block 1991: 86). The compromise solution that resulted from the "blending" of self-regulating market and protective response was a market economy "embedded in and sustained by a market society" (Jessop and Sum 2006: 261; Blyth 2002: 2; O'Hara 2000: 132, 222). The double movement, in this reading, forecast that the self-regulating market would not be resurrected, a prediction that "was largely vindicated in the first two decades after the war" (Manfred Bienefeld, cited in Lacher 1999). That era saw the consolidation of new political-economic regimes, Keynesianism and 'Fordism,' that enabled politics to redress the inequities of the market (Cox 2002: 94), ensuring that states were "relegitimated" by society as the regulators of the economy and guarantors of a modicum of social equality (Cox 1994: 99-113). Under the Bretton Woods regime – otherwise known as "embedded liberalism" -- governments were able to play a muscular role in mediating between the national and international economy (Bienefeld 1991). Through social and political regulation, including comprehensive social legislation and collective bargaining over the remuneration of labour, the capitalist economy was to a considerable degree 're-embedded.' With capital obliged to behave

within a framework in which the state and trade unions also had a significant say, social progress was the result – as can be seen when one compares the age of embedded markets, 1948 to 1973, with the period since (Bienefeld 2007: 20). Polanyi should therefore be read, in Jürgen Habermas’s words (2001: 85), as the herald of “the Bretton Woods system, which set up the framework for the more or less successful social welfare state policy” that most industrial countries followed in the embedded-liberal age.

Comparatively few voices have spoken up on behalf of the ‘hard’ interpretation of Polanyi, but one of them is in a uniquely authoritative position. The double movement, Kari Polanyi-Levitt contends, was not intended by her father to be understood as “an in-built repair operation,” an automatic self-correcting mechanism that simply moderates the excesses of market fundamentalism.<sup>3</sup> It is, rather, a notion with radical implications, theorizing as it does the existential contradiction between the requirements of a capitalist market economy for unlimited expansion and the requirements of people to live in mutually supportive relations in society. Her father “remained, to the end of his life, a socialist,” and refused to believe that capitalism could be “viable in the long term, precisely because of its disembedding tendencies.”<sup>4</sup>

If the case for a ‘hard’ Polanyi is associated above all with Polanyi-Levitt, its most forceful and meticulous advocate is the Marxist international relations theorist, Hannes Lacher. Basing his case primarily on the last chapter of TGT, Lacher (1999, 2007: 49) denies that Keynesian or ‘Fordist’ modifications to the capitalist economy can represent a Polanyian ‘re-embedding,’ for the latter means nothing less than the complete subjugation of economic life to democratic control, entailing the full decommodification of land, labour and money. “Only when this step has been taken can the logic of ‘the market’ be broken and simple product markets take a subordinate role in an economy

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<sup>3</sup> Kari Polanyi-Levitt, conversation with the author, Montreal 23.6.2006.

<sup>4</sup> Kari Polanyi-Levitt, conversation with the author, Montreal 23.06.2006.

no longer based primarily on exchange.” Neither labour market regulation nor restrictions on capital mobility in the post-war era represented even the partial fulfilment of Polanyi’s vision of an embedded economy, while the welfare state itself “must be seen as the negation of all that Polanyi hoped and wrote for.”<sup>5</sup> Lacher (1999) buttresses this provocative point with a quote from Polanyi:

Factory legislation, social insurance, tariffs, trade unions, and the experiments of public services, even on the scale of the TVA, have affected the position of liberal capitalism as little as similar departures towards interventionism and socialism had done in Europe up to 1914.

State regulation and protectionism, in Lacher’s reading of TGT, did not offer a solution to capitalism’s destructive consequences but formed an integral part of the pathogenesis of market society. Welfare institutions are not a break from but a supportive framework for an economic system based upon commodified labour power, with social policy acting to incorporate the working classes into the wage-labour relation and the state. The evolving crisis about which Polanyi was concerned was of capitalism and not merely of its liberal form -- for even a regulated capitalism cannot overcome the cultural contradictions between habitat and improvement, society and economy. Lacher does allow that Polanyi believed that a deepening of protectionist tendencies could pass over into a genuine re-embedding process, and that a radicalization of the New Deal might have been a suitable vehicle for this. But his hopes in this regard failed to materialize, and Washington turned instead to foisting its market utopia on the rest of the world. Polanyi recognized the defeat, and saw that the prospects for a progressive postwar order – constructed around a system of ‘tame empires’ (regions) that would utilize a diversity of forms of economic planning – were diminishing. A Polanyian view

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<sup>5</sup> In his 2007 essay Lacher modifies his position, conceding that the post-war period was poised “halfway between the market system and embeddedness”; it was an epoch in which the dialectic of liberalization and protectionism continued, with the latter reacting to the adverse consequences of the former and exacerbating the crisis tendencies of the market system. Yet that process did not even come close abolishing the market system as such.

of the post-war era, Lacher continues (1999), would see that the partial decommodification of labour in the welfare state, far from following an 'embedding' logic, was linked to "a widening and deepening of commodity relations which took place under the umbrella of the regime of embedded liberalism." The epoch witnessed a more intensive subsumption of production processes under the power of capital, the subjugation of processes of social reproduction more generally to the requirements of capital accumulation, the deepening of the commodity status of labour and the ever-increasing commodification of nature. Postwar Western states, whatever the colours of their governing parties, reproduced those economic structures that rendered their societies an adjunct to the market even while trying to provide some degree of security to the working classes. Planning there was, but it was always *ad hoc*, never extending to control over investment and only partially and haphazardly to controls over price, wage and trade levels. Certain welfare criteria were developed, but the norms for efficiency and production were those dictated by an economy that remained governed by exchange value and the profit motive. Embedded liberalism, he concludes (1999),

neither banished the profit motive from the centre of the organisation of material life, nor did it render markets into a mere accessory of economic life. Welfare capitalism was not a 'society with markets,' but a society in which the logic of the market had penetrated to the very core of social organisation.

The Keynesian alternative to genuine re-embedding "was based on the simultaneity of the partial decommodification of individual labour and the overall extension and deepening of the commodification of social life, including the 'life-world.'"

## **Textual evidence**

As is normal in such debates, one can see, in Polanyi's writings, the grounds for both interpretative strategies outlined above. Not only are some of his concepts open to interpretation, but there were periods in his life in which he inclined towards more or less radical positions. Evidence for the 'soft' positions can be found from his writings in 1910s Budapest and in early 1920s Vienna. In the 1940s these once again come to the fore. By way of example, consider two excerpts from his correspondence. In one, a letter to Jacob Marschak in 1941, he proposes that "the urgent thing today is to produce a simple and clear i.e. rational picture of a *regulated market-system* in a plastic society i.e. in a society which can attain its self-organisation by political means."<sup>6</sup> In the other, to Oscar Jaszi, he avers, in contrast to his earlier writings which had integrated questions of class relations into the analysis, that "the question of property has no priority any more" in the USA, in large part because "the present trade-union situation plus social policy *has taken the labour organization out of the market.*" In a subtle but far-reaching modification of earlier statements the same letter goes on to suggest that

In reality today we can see nothing but a middle course. The real alternative is between a *laissez-faire* and a regulated economy. The first believes in automatic market organization, the second doesn't believe in it, and accordingly it undertakes the task of regulating the market. Land, money and labour *should not be left to* the market. Apart from this the free operation of the market should be left intact.<sup>7</sup>

Additional evidence for the 'soft' Polanyi is provided in the 'Weekend Notes' jotted down in the 1950s by his student Abe Rotstein. According to him, Polanyi had come to see the post-war U.S.A. as no longer a "market society" but merely a "market system," as witnessed by the expansion of new "market-free areas" within corporations, trade

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<sup>6</sup> 47-11, Letter Karl Polanyi to Marschak, 29.1.1941. Emphasis added.

<sup>7</sup> Litván (1990: 259-60). Emphases added.



unions and government.<sup>8</sup> Economic life had become embedded within these institutions; their goals were increasingly becoming manifest in economic behaviour -- for example, with government-sponsored road-building that reflects not market imperatives but the sponsor's inherent purposes.<sup>9</sup> Prosperity had brought a diminution of the motivation of fear for working people, while with higher taxes came a reduction in the role of profits in corporate behaviour. A new corporatism was gaining ground, which entailed a decline in the importance of the profit motive vis-à-vis the status-oriented interests of entrepreneurs, corporations, trade unions and government.

Yet for every piece of evidence that may appear to substantiate the 'soft' interpretation another can be found that leans the opposite way. If we select texts from the 1930s – against the backdrop of the Great Depression, the threat of fascism and the ascendancy of the Soviet Union -- the 'hard' Polanyi comes to the fore. In a paper on the "Sozialisierungsfrage," for example, he remarks that whereas Keynes seeks the stabilization of capitalism, he wishes for the opposite.<sup>10</sup> For as long as a majority of the population is excluded from responsibility for the goals of business, the national community would lack the will and strength upon which the massive adjustments that are indispensable to the healthy functioning of international economic and political processes will depend. The ultimate reason for the helpless drift of the world towards destruction is the "denial of community," and this the continuation of the capitalist system would ensure.<sup>11</sup> "The task of socialists," one of Polanyi's contributions to a 'Christian Left' bulletin declares, "is to prepare people's minds for the oncoming of the inevitable crisis, in which the working-class must give the lead."<sup>12</sup> Human labour, he argued in an article in *New Britain* – also in the 1930s,

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<sup>8</sup> 45-4 p.44, 45-2 p.11.

<sup>9</sup> 45-3, p.6

<sup>10</sup> 3-7 Karl Polanyi, Lecture abstract – 'Auszug aus einem Referat zur Sozialisierungsfrage,' [1919-33]

<sup>11</sup> 21-22 Karl Polanyi, Lecture - "Xty and the Social Order," [1937]

<sup>12</sup> 20-14 [1939] Karl Polanyi, 'Russia and the World.' The Christian Left Auxiliary Movement, a group to which Polanyi belonged, was dedicated to forging a socialist current within Christianity and to infusing the communist and socialist movements with the Christian spirit.

should cease to be a commodity altogether. This should be achieved by refusing to allow the conditions of human labour to be determined by a process of economic bargaining. Economic life should be subjected to human ideals of Justice.<sup>13</sup>

His 'The Essence of Fascism' (1935) argued in favour of

the extension of the democratic principle from politics to economics [which] implies *the abolition of the private property of the means of production*, and hence the disappearance of a separate autonomous economic sphere: the democratic political sphere becomes the whole of society.<sup>14</sup>

In his notes entitled 'Common Man's Masterplan' (1930s) he fleshes out his understanding of "regulated markets." These are:

markets with no supplementary markets for labour, land and money ...: The freedoms of arbitrary rejection of job to be limited. The freedom of arbitrary dismissal limited. The freedom of unlimited profits limited. The unlimited rights of private ownership limited. The public-spirited forms of enterprise fostered. The plastic society achieved. The concept of freedom reformed. Christianity transcended. The philosophy of the common man established.<sup>15</sup>

Even if one allows commodious room for interpretation, it is surely safe to say that at least the first and last of these criteria were left unfulfilled in even the most Keynesian or 'Fordist' of regimes – indeed, passages such as this oblige us to look again at the 'soft' pronouncements on regulated markets mentioned above .

Evidence that would appear to support the 'hard' interpretation can also be found in texts from the 1940s. "We are witnessing" -- so goes the central argument of TGT -- "a development under which the economic system ceases to lay down the law to

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<sup>13</sup> 18-10, Karl Polanyi, 'What Three-fold State?,' *New Britain*, vol. 2, no. 43, 1934, p.504.

<sup>14</sup> Polanyi (1935: 392). Emphasis added.

<sup>15</sup> 20-4 Karl Polanyi, 'Common Man's Masterplan.'

society and the primacy of society over that system is secured.” The self-regulating market was not yielding temporarily to regulation but had reached its quietus. It had served to spread industrial civilization to the planet but had utterly failed to cope with the new tasks that arose therewith, notably the “planetary integration of the national economies.”<sup>16</sup> Several years after the publication of TGT, in an article in which its main themes are summarized (1968: 76), Polanyi again puts forward his ideal of “a truly democratic society” characterized by an economy organized “through the planned intervention of the producers and consumers themselves” – a phrase that is redolent of his inter-war designs for a ‘functional’ socialist commonwealth. Also in the mid-1940s, Polanyi was stirred by a House of Commons debate on Bretton Woods to draft a commentary, ‘Lessons of the Westminster Revolt,’ for *The Leeds Weekly Citizen*, which, noting the sceptical voices in Parliament, proposes that they reflect the animosity of “the common man” to the Bretton Woods proposals. This sentiment, he explained, was eminently rational. “Under the cloak of free trade demagogy” Bretton Woods represented a declaration of “war on controlled foreign economies,” and hence on the prospects of a socialist Britain, for “an industrialized island could not plan its domestic existence unless it controlled its foreign economy.”<sup>17</sup> Although one cannot perhaps expect Jürgen Habermas or the numerous others who hail Polanyi as a prophet of the Bretton Woods regime to be familiar with 1940s editions of *The Leeds Weekly Citizen*, had they been so, their argument would have required, at minimum, root-and-branch restructuring.

Evidently, Polanyi cannot be pinned to either the ‘hard’ or ‘soft’ description: at times in his life he tacked closer to the right-wing mainstream of social democracy, at others towards the classical Marxist tradition, but he cannot be assimilated to either of these. To break from the confines of the debate, it seems to me, requires paying

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<sup>16</sup> 22-10 Karl Polanyi, “The Role of Market Methods in the Western World up to the High Middle Ages,” [1947-60]

<sup>17</sup> 18-34, Karl Polanyi, ‘British Labour and American New Dealers,’ *The Leeds Weekly Citizen*, January 10, 1947, p.5.

attention to his intellectual formation in the pre-war and inter-war periods, as well as careful elucidation both of central terms such as 're-embedding' and 'decommodification' and of two dichotomies around which his perspectives were organized: *laissez-faire* vis-à-vis regulation, and socialism versus capitalism.

### **Economic theory and socialist thought in *fin-de-siècle* Central Europe**

In order to reconstruct the contours of Polanyi's economic thought it is helpful to bear in mind the theoretical landscape that obtained in central Europe when he was young.

There were three important schools of thought. One, within the intelligentsia the least influential, was Marxism. It understood the market system as based upon a class relationship and generative of tendencies both toward polarization between property owners and the proletariat and to 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 (including the means of production, skills, and science) without regard to exchange value and the imperative of preserving existing exchange value (through the competitive pursuit of profits). The revolutionizing of the productive forces thus generates conditions that are inconsistent with the further self-expansion of capital, a tension that becomes manifested in crises of overaccumulation. Crises, in this perspective (Marx 1992: 323), are conceived of not as abnormal disequilibria irrupting into a natural state of equilibrium; rather, they "are always but momentary forcible solutions of the existing contradictions, violent eruptions which act to restore the disrupted equilibrium." Such a system, in which the reassertion of a temporary equilibrium requires the devaluation of capital through crisis, clearly cannot be described in terms of harmony and

stability.

The second, marginalism, embodies an altogether more benign set of assumptions concerning market behaviour. Some of its adherents constructed their theory around the concept of general equilibrium, which is premised upon the assumption that free markets enable the formation of efficient distribution equilibria. Its neo-Austrian proponents did not go so far down that particular road but pursued all the more adamantly a set of methodological arguments that justified the beneficent logic of the market system. They explained the origins of capitalist institutions as unintended outcomes arising from spontaneous individual action, notably through market processes (the invisible hand). Rather than instruments of class rule, they are conceived of as practical devices that enable individuals to pursue their interests as perfectly as is possible in a flawed world. Common to all species of the marginalist genus are the assumptions that profits derive from property ownership and entrepreneurial skill, and not surplus value, and that consumer demand is the determining element, such that economies tend towards equilibrium.

The third major branch of economic theory was Germany's 'Historical School.' Its most prominent representatives included Friedrich List and Gustav Schmoller, as well as Karl Bücher and Eugen Dühring. In contrast both to Marx and Engels, for whom socio-economic harmony is impossible in capitalism, and to marginalists, for whom it derives from the operation of the 'self-regulating market,' for the historicists a harmonious society can be fashioned under any mode of production but this requires the deliberate design of economic institutions, trade policy, and mechanisms of income distribution (Reinert 2000). Against the marginalist perception of the growth of markets as a natural phenomenon, List, Schmoller and company stressed their historical specificity: they insisted upon the centrality of the state in organizing and developing markets, drawing attention to the historical novelty of the profit motive. Unlike

marginalism, they were troubled by the threat to social harmony that free markets posed and above all by the *pace* of the social changes underway in the late nineteenth century. A deregulated market economy, Schmoller warned (in Peukert 2001: 99), in words that would not seem out of place today, spawns a “casino speculation mentality”; an economy of that sort threatens to break loose from its cultural context, undermining all integrative values and creating anomie, criminality, egotistic individualism, and an insecure underclass. All higher civilizations, he warned his readers (Schmoller, 1874, in Nau, 1998: 82, 89), had collapsed as a consequence of uprisings by the lower orders catalyzed by “excessively strained social antagonisms.” As prophylactic he prescribed institutional reform, comprising welfare measures, state regulation of the economy and a humanistic educational policy. In this way the state would be charged with translating 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” (Schmoller, in Nau 1998: 96). Schmoller (1902) expresses his institutional approach to the question of social harmony in this way:

As civilisation advances, the state and the national economy diverge more and more the one from the other, each a separate circle with its own organs; and yet this separation must again constantly make way for a unifying guidance, a growing interaction, a harmonious joint-movement.

That ‘unifying guidance,’ the chief coordinating function, cannot but be assumed by the state, yet he also accords importance to a range of organizations that ought to play a role parallel to the guilds of the medieval age, *viz.*, trade unions, trade corporations and employers’ organisations (in Peukert, 2001: 109). In such ways, intervention by the state and civil-society associations could repair the social damage wreaked by the separation of politics and economics.

These were the three major schools of thought in economic theory that Polanyi encountered in his youth. Needless to say, they were not exclusive; elements from two or more could be and were combined. Thus, Max Weber carved out a space between marginalism and historicism, coupling the methodological individualism of the former with the latter's critique of universal economic laws. 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 (Kuhn 2007). Some thinkers were able to combine all three. Eduard Bernstein, for example, was a disciple of both Eugen Dühring and Marx, and subscribed to marginalism's subjective-psychological theory of value. This, broadly, was Polanyi's position too. He preferred marginalist value theory to either Ricardo or Marx's labour value theory but accepted the historicist critique of marginalism: that the quest for a formal, rule-governed economic theory is futile, that the economy is determined by social norms and conventions that change over time, and that economic analysis must be grounded in empirical inquiry.

Together with Dühring, Achille Loria, Franz Oppenheimer, and others, Bernstein inspired the Central European current of "liberal socialism." Its most prominent Hungarian exponent was Polanyi's mentor, Oscar Jászi, particularly after 1911, during which year he sojourned for several months in Berlin, making the acquaintance of Bernstein and Ferdinand Tönnies, and Oppenheimer -- with whom he was to maintain contact for some three decades (Litván 2006: 72). In the version espoused by Oppenheimer and Jászi, liberal socialism was dedicated to democratization, and to overcoming the exploitative character of capitalism -- a task they believed would already be accomplished with the expropriation of the *Junkers* and the opening to all of the opportunity to own land.

Before and during the First World War Polanyi was situated squarely within the liberal socialist camp but in the years immediately thereafter this was inflected by his dedication to Guild Socialism. In terms of its lineage, Guild Socialism was the product of the confluence of four strands of nineteenth-century British radicalism: the medievalist reaction against industrialism, the Owenite cooperative movement, Christian socialism, and Fabianism. Some Marxist influences were present too, transmitted principally through William Morris. It was an ideational mix that was then heated in the fires of the 1910s: the Great Unrest of 1910-14, and the shop stewards' movements, workers' councils and mass strikes of 1916-19. The outcome, a curious hybrid of the Fabian and syndicalist traditions, was sometimes referred to as 'English syndicalism,' where 'English' connoted scepticism towards abrupt change and a saturation in the culture of liberalism. As Guild Socialism's most distinguished adherent, Bertrand Russell, put it (1918: 124), whereas the syndicalists accept from Marx the doctrine of class war and from anarchism the immediate abolition of political power, "the Guild Socialists, though some persons in this country regard them as extremists, really represent the English love of compromise." For Polanyi, Guild Socialism embodied an ideal blend of his liberal-socialist and Romantic anti-capitalist inclinations. Moreover, he shared its critique of what the Guildsmen called the 'commodity theory of labour'; from Carlyle, through Ruskin and Morris, S. T. Glass has described (1966: 9), they "derived their view of labour as having an almost religious character so that, for example, its purchase and use for private profit gave them great offence."

As a convinced Guild Socialist when he moved to Vienna in 1919, Polanyi could not but feel a close affinity with the Marxism of Otto Bauer and the SDAP. The prominent Guildsman G. D. H. Cole had been in close contact with socialist leaders throughout Central Europe and had been especially well received by the



Austromarxists Rudolf Hilferding and Otto Bauer. In 1919 Bauer popularized Cole's ideas in a series of articles in the *Arbeiter-Zeitung* -- a series so popular that it was reprinted twelve times in less than two years -- and followed it up in 1920 with a book, *Bolshevism or Social Democracy?*, which presented Guild Socialism as the strategy appropriate to the course of 'non-revolutionary socialization' that the SDAP was attempting to implement at the time. Socialism, Bauer argued in terms with which Polanyi would undoubtedly have agreed, was rooted in the "individual's desire for freedom, the source of which is the self-activity of the masses, which aims at the *selfgovernment* of all workers."<sup>18</sup>

In other respects too, Polanyi felt politically at home in 'Red Vienna.' He admired unequivocally the SDAP's achievements, and singled out for commendation the social welfare reforms, social housing initiatives, municipal support for culture, and educational reform.<sup>19</sup> Like him, the SDAP's understanding of the socialist mission of the labour movement prioritized the cultural arena and placed a tremendous emphasis upon workers' education. The SDAP included in its leadership a number of impressive and innovative thinkers whose neo-Kantian and Machian amendments to Marxism were particularly congenial to Polanyi. In addition, they -- in particular his friend Otto Bauer -- were enthusiasts for Tönnies (Mozetič 1987: 43, 195, 218ff), and it is no coincidence that from what is known of Polanyi's reading in the social sciences during his spell in Vienna it is clear that he studied Tönnies very thoroughly indeed, alongside Marx, Dühring and marginalist economists such as Joseph Schumpeter.

## **Ferdinand Tönnies and Robert Owen**

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<sup>18</sup> Quoted in Braunthal (1961: 45). Emphasis in original.

<sup>19</sup> 18-18 Karl Polanyi (n.d.) 'Lecture – "Education and Social Reality. Austrian. Experience."'

Ferdinand Tönnies was a sociological ally of the German Historical School. He shared its dual critique of 'Manchester liberalism' and Marxism, which included the belief that both currents were irredeemably marred by an economic-determinist methodology. A friend and student of the *Kathedersozialist* Adolf Wagner, he was involved in the *Verein für Sozialpolitik* but unlike Wagner and the conservative wing of German historicism he steered to the political left. Not only did he support all movements of liberation against the remains of feudalism but, more significantly, he was frozen out of the German academy due to his support for a dockworkers' strike and in the 1930s was reduced to poverty due to his opposition to Hitler's regime (Ringer 1969: 168). He admired many of Marx's teachings, espoused welfare and regulatory state collectivism and economic democracy, supported workers' educational and cooperative movements and was close to the right wing of the German SPD, which he joined in 1930 (Pappenheim 1959: 80). He was, in short, an important conduit between the Marxist and institutionalist traditions in Central Europe.

Tönnies is best remembered, if I may put it ironically, as sociology's forgotten founding father. A Google search on "neo-Marxist" yields 113,000 entries, an order of magnitude ahead of "neo-Weberian" with a respectable 12,000 and "neo-Durkheimian" with 4,000. For "neo-Tönniesian," not a solitary entry. Yet his influence has been more pervasive than this void in cyberspace would imply. *Community and Society* in particular exerted a profound impact upon subsequent social theory, especially in Central Europe. In that work Tönnies famously contrasts the ideal types *Gemeinschaft* and *Gesellschaft*, the former denoting an 'organic' and 'natural' condition of society, the latter a realm of inauthentic experience in which individuals exist in a permanent condition of separation from others. *Gesellschaft* is described by the terms 'abstract,' 'artificial' and 'fictitious'; in a later work he portrays it as a "fictitious totality" (Tönnies 1988: 76; 1974: 173-4). Characterized as it is by the sharp separation of social spheres, the common values that

enable group behaviour to function are not rooted in custom and governed by face-to-face relations but must be deliberately fashioned with the aid of abstract systems (1988: 65). In particular, the creation of contracts requires the momentary and artificial construction of a common will. On the labour market (1988: 98),

labour is bought and paid for as if it represented merely future services to be consumed in the performance itself. The fiction underlying this is that the [manufacturer, capitalist or joint stock company] is the real author and producer and hires workers only as helpers. This fiction gains in verisimilitude the more the conditions of co-operation and later the implements of production become, as it were, alive and capable of carrying out automatic imitation of human craft and skill through their cleverly planned construction.

Labour power, it follows (1988: 101), is “a purely fictitious, unnatural commodity created by human will.” Tönnies (1988: 93, 82) gives pride of place to labour as the fictitious commodity that defines *Gesellschaft*, but extends the same analysis to land (which “cannot be made or fabricated”) and to money (which, being held by people who have not produced it themselves, is “a purely abstract commodity”). He perceived that what he termed (1988: 258) the “great transformation” from *Gemeinschaft* to *Gesellschaft* was irreversible and tragic and yet believed that, thanks to the waxing influence of the working classes, a new communal era could yet dawn. For him, the road thereto was not signposted class struggle but moral enlightenment and political reform.

In several important respects, Tönnies’ thinking was akin to that of Polanyi’s political idol, Robert Owen – and the resemblance was explicitly noted by Polanyi (1977: 49). Thus, Owen (1927: 181) wrote of the supply-demand market mechanism as an “artificial law” – artificial because “the principle of individual gain” prevails over and exists “in opposition to the well-being of society.” In the summary of his biographer, G. D. H. Cole (1925: 154), his approach was “what we should call nowadays a sort of

benevolent State Socialism, to be achieved by authority working from above. But it differed materially from the State Socialism of later days in its insistence on the necessity for the greatest possible measure of local devolution and autonomy.”

With the caveats that ideas develop dialogically, with continuous interaction with and reference to previous traditions, and that several concepts which Polanyi valued in Tönnies’ output were similar to the ideas of a range of other thinkers, notably Robert Owen, it is possible to note a number of Tönniesian elements in Polanyi’s social theory. Like the German sociologist he saw *Gesellschaft* as a two-class society, a division that had become, in terms of the needs of society, redundant and the retention of which “therefore, turns into a denial of community.”<sup>20</sup> Like Tönnies, he criticized both ‘Manchester liberalism’ and Marxism as economic reductionist, and mistakenly assumed an identity between the Ricardian and Marxist theories of value. Yet the most evident commonality is in the theory of ‘fictitious commodities’ and its corollary the ‘dis/embedded economy’ that Polanyi developed in the interwar period. In ‘The Fascist Virus,’ by way of illustration, he argues that for labour to be bought or sold a contract must be construed which sanctions

the transfer of the invisible and immaterial commodity labour from the seller to the buyer. It is only by means of such a construction that the term commodity can be made to apply to labour. However, legal fictions are mere instruments of thought which by themselves do not affect the actual world. The invidious element which changed the course of civilization lay in the human implications of that fiction. For if labour is to be handled as a commodity then the vast majority of human society, or rather of its adult males, must be put at the disposal of the market on which that fictitious commodity is being bartered.<sup>21</sup>

Essentially the same Tönniesian idea underlies the central premise of *The Great*

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<sup>20</sup> 21-22, ‘Christian Left Group - The Auxiliary Movement – “Statements from Christian Left Training Week-ends” – Notes’ [1937].

<sup>21</sup> 18-8, Karl Polanyi, ‘The Fascist Virus.’

*Transformation*: that the commodification of land, labour and money poses a mortal threat to nature, human beings, and business respectively, inevitably generating grievances, resistance and the ensuing imperative of protection (Polanyi 1957: 132, 162). The protective counter-movement is *Gemeinschaft*, characterized by social unity, while the self-regulating market is *Gesellschaft*, characterized by tendencies to social disintegration. Human beings and nature, according to this argument, are either not produced at all (like land) or, if so, not for sale (like labour); as such they are not genuine commodities at all, but the fiction of their being so produced was to become the organizing principle of nineteenth-century society (Polanyi, 1957: 72; 1968: 36). Because labour is inseparable from the human beings of which society consists, and land is their natural habitat, their insertion as fictitious commodities into the market mechanism brought the subjugation of “the substance of society itself to the laws of the market” (Polanyi 1957: 71). Whereas previous economies had been “embedded in social relations” in the market system economic behaviour becomes “disembedded” from the social fabric. This is a central idea of TGT and is formulated in numerous alternative ways: social relations become “embedded in the economic system;” society becomes “an accessory of the economic system;” and, given that the vital ingredients of any society, labour and land, are commodified “a market economy can exist only in a market society” (Polanyi 1957: 57, 75, 71).

In drawing attention to the Tönniesian elements in Polanyi’s thought I am hinting at an alternative genealogy of his conceptualization of embeddedness to that proposed by Fred Block in an influential reading earlier this decade. For Block, Polanyi embraced a Hegelian form of Marxism in the 1930s, not unlike that of his childhood friend Georg Lukacs, and it was within a fundamentally Marxist framework that TGT was conceived. As Polanyi proceeded to write the manuscript in 1941 he abandoned Marxism but without fully expunging its presence. While writing TGT he began to explore a range of

new, non-Marxist concepts such as 'fictitious commodities,' the 'double movement' and the 'embedded economy.' In developing these he found himself increasingly pulled out of the Marxist orbit. The resulting incompatibility of theoretical frameworks explains the conceptual tensions at work in TGT, in particular with regard to 'embeddedness.' In an initial Marxian formulation Polanyi implies that the emergence of a market society serves to disembed the economy, because the pursuit of individual gain is elevated to become the organizing principle of economic life. The consequence must inevitably be a radical break with the logic of market society. Yet a purely self-regulating market system, Polanyi goes on to argue, is a utopia; as such, it cannot be truly disembedded. As he "starts to elaborate the moment of contradiction in his argument," according to Block (2001),

Polanyi gives the concept of embeddedness a new and unanticipated meaning. [He] demonstrates persuasively that for most of the history of market society, the strength of protection effectively reembeds the economy. He suggests that effectively functioning market societies must maintain some threshold level of embeddedness or else risk social and economic disaster.

Clearly there is a tension between the two meanings. On one side, "the reembedding of the market economy is normal and necessary for it to achieve any degree of functionality." On the other is "the more Marxist argument that the protective countermovement critically weakens the ability of market selfregulation to function so as to produce crises of growing intensity." The former concept challenges "a core presumption of both market liberals and Marxists," for "both of these traditions are built on the idea that there is an analytically autonomous economy that is subject to its own internal logic." In conclusion, Block suggests that "Polanyi glimpsed the idea of the always embedded market economy, but he was not able to give that idea a name or develop it theoretically because it represented too great a divergence from his initial

theoretical starting point.” The “always embedded” thesis is Polanyi’s original contribution, and the one that offers the greatest heuristic potential.

How persuasive is Block’s account? There is no doubt that in the inter-war period Polanyi was situated within the orbit of Marxist movements and ideas. In the mid-1920s he produced some eminently Marxist essays, including one on ethics and alienation (‘On Liberty’) which argues, along the lines of Marx and Lukacs, that in the bewitched world of capitalism in which all important relationships are created behind the backs of human beings, moral calculation of the impact of our economic actions becomes impossible. During the Great Depression he renewed his interest in Marx, became a committed Christian Socialist and “a staunch supporter”<sup>22</sup> of Stalin’s Russia. In this period he held the proletariat to be the universal class, the bearer of an objective interest in replacing capitalism by socialism. Block is also correct in identifying Marxist themes in TGT. Marx and Engels wrote at length upon the threats to nature and to human society posed by the market system. “The worker sinks to the level of a commodity and becomes indeed the most wretched of commodities,” was one of Marx’s barbs against the market economy (Elster 1986: 35). “To make land an object of huckstering – the land which is our one and all, the first condition of our existence – was the last step towards making oneself an object of huckstering,” added Engels (in Lie 1991: 231). Other Marxian tropes in TGT include the analysis of the institutional separation of politics and economics as a product of market capitalism, the use of anthropological materials to defamiliarize capitalist social relations, the notion of the ‘economistic fallacy,’ the debunking of the ‘market mentality’ and the arguments given to justify the case for socialism: historically, with reference to the crisis tendencies of capitalist society and, anthropologically, with reference to the human being’s ability to cooperate with others in directing nature’s resources to the satisfaction of human needs and wants.

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<sup>22</sup> Telephone interview with Kari Polanyi-Levitt, 06.09.2008.

Where Block errs is in his exaggeration of the degree to which the 'always embedded' notion -- the idea that economic behaviour is always already woven into legal, political, customary and ideological fabrics -- is original to Polanyi. One need only think of the Scottish and German Historical Schools, with their explorations of the market economy's institutional preconditions, or of the traditions of sociological thought. For Marx, economic behaviour cannot be studied as if it is isolated from society. In the *Grundrisse* (1973: 101) he cautions that:

the simplest economic category, e.g. exchange value, presupposes population, moreover a population producing in specific relations; as well as a certain kind of family, or commune, or state, etc. It can never exist other than as an abstract, one-sided relation within an already given, concrete, living whole.

That 'the economy,' as a separate analytical category, came into existence, Marx explained in the *Critique of Hegel's Philosophy of Right* and elsewhere, was consequent upon the emergence of a new matrix of class relations centred on the relationship between the owners of money and the means of production, on the one hand, and free workers, the sellers of their own labour-power, on the other. Separated from the necessary instruments and materials of production, workers must contract with other parties in order to produce; they must sell their labour-power to secure the means of survival. It was upon this foundation that Marx developed his theory of the separate institutionalization of politics and economics: it was on the basis of this historically novel separation that the central dynamic of capitalist society -- the drive to infinite accumulation, with social purposes subordinated to market imperatives -- comes to appear as if emanating from a particular 'sphere,' the economic. Here too, Block is mistaken: the Marxist tradition is not "built on the idea that there is an analytically autonomous economy that is subject to its own internal logic" -- unless, that is,



'analytically' refers to the attempt to analyze the economy as an institutionally distinct subsystem, but if so Polanyi is guilty of this too.

Polanyi's 'embeddedness' draws upon Marxist influences but also, perhaps more so, upon Tönnies' *Gemeinschaft*, in which individuals engage in direct, face-to-face relationships, unmediated by money, and the tensions which Block believes reflect a contradiction between different theoretical frameworks are in fact already present in Tönnies' work. The *Gemeinschaft-Gesellschaft* couplet, as is well known, can be interpreted in one of two ways. It can be taken to refer to different types of society – one, based on contract and interest, the other, on status, feeling and custom. If read in this way it encounters a series of difficulties. On the one hand, as Kurtuluş Gemici points out (2008),

historical research shows that the common acceptance of ancient societies as status societies is ill-founded and rather mythical; it discards evidence indicating that even friendship or familial relations could have been contractual in the ancient world. On the other hand, comparative empirical examination of social entities at different levels of economic development presents a picture that is considerably more complex than the hypothesized movement from community to society as industrialization and capitalism develop.

Alternatively, Tönnies' dichotomy can be applied to customary and contractual relations that exist symbiotically in every society. The social relationships characteristic of *Gesellschaft*, in the interpretation of the philosopher and saint, Edith Stein,

need to be informed and sustained by relationships characteristic of *Gemeinschaft*. Individuals come together in the forms of association characteristic of *Gesellschaft* for their own purposes, treating other individuals as instruments for the achievement of the purposes of the association. But nonetheless, they bring with them to these new relationships habits of living together with others that do not allow them to treat others *only* as such instruments. And in the course of their working together with others further sympathies are engendered that motivate the treatment of those others

No association, she concludes, “no matter how well organized, no matter how faultless a social mechanism, could continue to function, if it were no more than the norms and values of *Gesellschaft* require it to be.”<sup>23</sup>

Just as for Tönnies’ analogous concepts, Polanyi’s ‘embeddedness’ can be understood either as a methodological axiom that holds that *all* economic behaviour is enmeshed in non-economic institutions, or as a theoretical proposition that refers to differences in the degree of that ‘enmeshment.’ (Gemici 2008). The disembedded economy is understood in TGT both as a descriptive empirical term and as an ‘ideal type’ (a structural-analytical concept for the purposes of comparison). In this, the Polanyian ambiguity is directly analogous to its Tönniesian predecessor. Fred Block, as we saw earlier, is correct to perceive incompatibilities between different theoretical frameworks within TGT but he errs in exaggerating the Marxian and ignoring the Tönniesian influences in Polanyi’s pre-1940 thought. The tensions within Polanyi’s conception of embeddedness do not result solely from a theoretical clash between Marxist and non-Marxist frameworks but are endemic in the Tönniesian concepts upon which he draws.

### **Embeddedness and decommodification in the mid-twentieth century**

In an important article from 1928, ‘Liberale Sozialreformer in England,’ Polanyi discusses the rise of the New Liberals in Britain around John Maynard Keynes and Ramsay Muir. It contains this suggestive passage.

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<sup>23</sup> As paraphrased in Macintyre (2006: 127).

In a pure exchange economy, in utopian capitalism, in Ferdinand Tönnies' *Gesellschaft*, nothing but contract matters; its content is the cash nexus: payment for labour power. In the *Gemeinschaft*, of the future and of the past, it is status that counts; its essence is not money or monetary value but power, rank, influence, respect, responsibility, freedom – the reality of socio-cultural values. Just as the Liberal Party's economic programme represents an attempt, while staying within the framework of private property, to build the public economy [*Gemeinwirtschaft*] into the societal order [*Gesellschaftsverfassung*], its accompanying social reform has as its aim to transform wage labour from a mere contractual relationship into a juridically guaranteed status position, determined by social values, all without any fundamental supplanting of private property in the means of production.<sup>24</sup>

This excerpt is of interest, I would suggest, in part because it provides evidence of Tönniesian precursors of two concepts, 'utopian capitalism' and the 'embeddedness' of the economy in society, that were to be further developed in TGT, but also because it expresses the assumption that a greater role for state regulation within a capitalist economy, under the right sort of government, represents a major stride towards *Gemeinschaft*-type embeddedness. (To the ear, the link is clearer in German: 'Gemeinwirtschaft' means public sector.) Polanyi notes that the Liberal Party is significantly modifying its approach to fundamental values and policies, including individualism, social justice, public ownership and the market economy, and proceeds to claim that there is no reason why it should not, in alliance with Labour, push beyond the limits of liberal capitalism such that wage labour in Britain would cease to be a merely contractual relationship.

In this supposition he was not alone. In the inter-war period the corporatist shift in economic policymaking then underway was widely viewed as propitious to, if not direct evidence of, a transition to socialism. To name but two famous examples, this was the *leitmotif* of Hayek's *Road to Serfdom*, which detected the hydra of socialism in almost

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<sup>24</sup> Polanyi (2002b: 96, 103). Emphasis added.

every act of government regulation, while Hayek's compatriot, Joseph Schumpeter, believed as late as 1949 that in the USA and Western Europe *laissez-faire* capitalism was giving way to policies that in some respects "differ but little from genuine socialist planning," in respect of government intervention, redistributive taxation, public control over the labour and money markets, and expansion of the public sector and of social security (Schumpeter 1954: 418). As for Polanyi he believed that history's rudder was set firmly towards regulation, decommodification and planning. In the assumption that this trend would on the whole be salutary, with democratic socialism a likely development, he can often seem to approve of regulation, planning and decommodification *per se*. Read his texts more closely, however, and a differentiated position emerges.

Crucially, he does not equate decommodification with re-embedding or with socialism. In his usage, the 'de-' of decommodify carries the weak charge of the prefix in words such as 'demote' and 'deflate,' not the stronger force of 'depose' or 'deracinate.' In TGT (1957: 177, 231, 252) he avers that the decommodification of money had already been largely realized with "the creation of deposits," and that "social legislation, factory laws, unemployment insurance, and, above all, trade unions" have as their purpose the removal of human labour "*from the orbit of the market.*" He believed that labour in Britain prior to 1834 was decommodified, as it was in fascist Italy, and in the USA in the early 1940s.

Decommodification processes went hand in hand with the trend towards the reunification of economy and society – arguably, another Tönniesian trope in Polanyi's thoughtworld. Yet Polanyi does not see this as synonymous with the trend towards embeddedness, for the reunification of economy and society could take a variety of guises, and, as fascism revealed, these included the possibility of a morbid 'disembedded' outcome in which economy and society were unified but under the

domination of the former. Other forms of capitalist corporatism were possible, as pioneered by the “conservative planners” around Harold Macmillan – and here again, Polanyi was under no illusions that the object of corporatist reform was not the supersession of capitalism but its restoration (Polanyi 2002a: 259).

That said, Polanyi was on the whole optimistic that the global drift was indeed towards ‘re-embedding.’ After the defeat of fascism, he opined in the early 1940s (2005b), “capitalism will be unable to thwart progress towards democracy and socialism.” “We are witnessing a development,” TGT proclaims (1957: 251), “under which the economic system ceases to lay down the law to society and the primacy of society over that system is secured,” and this may occur “in a great variety of ways, democratic and aristocratic, constitutionalist and authoritarian.” The Soviet Union was his favoured exemplar, alongside Clement Attlee’s Britain and Roosevelt’s New Deal (Litván 1990: 259-60; Block and Somers 1984: 74). The market economy was disappearing across much of the world, he assumed, plausibly enough, towards the end of the war Polanyi (2005: 326-333), a claim that he repeated at regular intervals, with decreasing plausibility, until the end of his days.<sup>25</sup>

As we have seen, Polanyi was careful to distinguish between capitalist-corporative trends and socialist transformation. This was certainly the case when the plans of conservatives or fascists were under discussion. On the whole, it also applies to his discussion of the New Deal: although Roosevelt’s reforms offered the prospect of a different, “independent solution of the problem of an industrial society”<sup>26</sup> they were evidently “not meant to supersede private enterprise, but on the contrary to save it from monopoly and modernize its working.”<sup>27</sup> Yet when it came to governments that deployed socialist rhetoric, notably Attlee’s, Polanyi threw caution to the wind. Britain, he enthused in 1946, was undergoing “a rapid transition to a Socialist society – the only

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<sup>25</sup> Polanyi (1959: 162); 49-3 Karl Polanyi to Carter [Goodrich?], 17.2.1954.

<sup>26</sup> 45-4, Abraham Rotstein: ‘Notes of Weekend III with Karl Polanyi’ [1956], pp.40-44.

<sup>27</sup> 20-2, Karl Polanyi, Book outline and introduction – ‘Tame Empires,’ [1938-1939]

alternative to war and depression.”<sup>28</sup> This was thinking at its most wishful, for Attlee’s government showed no sign of developing an alternative to market capitalism and every sign of continuing Britain’s liberal-imperialist traditions. It joined NATO and the Bretton Woods institutions, diverted a higher proportion of GDP to arms than did even the US or France, secretly set up a nuclear bomb making programme, deployed troops to fight left-wing and national liberation movements in Korea, Greece, Malaya and Vietnam and, domestically, to break strikes, and supported Apartheid South Africa.

The failure of Polanyi’s predictions with regard to the Attlee government did not in the least douse his faith that the great transformation remained on track. In the early 1950s he continued to believe that a shift to a new socioeconomic paradigm was coming to maturity, the “postulates” of which were “full employment at home, regulated trading abroad, [and] a controlled development of the national resources.” (“Nothing less than a shift of the place occupied by the economy in society as a whole was involved,” he opined.<sup>29</sup>) But this was surely an exaggeration, as Peter Drucker pointed out to him at the time. It is the case, Drucker conceded, that the belief in the omnipotence and benevolence of the market “has all but been given up,” that the boundary between the self-regulating market and political organization had been greatly blurred, and that in sizeable sectors of Western economies the market had been altogether replaced. And yet the previous twenty or twenty-five years had nonetheless “seen a fantastic expansion of market-organization” into territories such as Africa, India, and even China which, “as late as the end of World War I, [had remained] almost entirely outside the scope of the market.”<sup>30</sup>

In Polanyi’s misjudgements of mid-century economic policy regimes several factors are at work. One is that, with a sufficiently loose definition of decommodification almost all ‘actually existing market economies’ can be defined as decommodified mixed

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<sup>28</sup> 18-33, Karl Polanyi: Draft articles, 1945-1946.

<sup>29</sup> 35-11, Karl Polanyi, Draft introduction to *The Livelihood of Man*.

<sup>30</sup> 49-4 Correspondence, Peter Drucker to Karl Polanyi, 2.10.1955.

economies. In addition, he had a persistent tendency to overestimate the ability of parliamentary government to implement socialist transformation. Although not unsympathetic to Marxist and syndicalist notions of working-class self-emancipation, he also embraced several of what Hal Draper (1966) has dubbed the “six strains of socialism-from-above,” including ‘plannism’ (social engineering) and ‘permeationism’ (the Fabian faith in the inevitable self-collectivization of capitalism).

Unlike Marx, for whom universal suffrage enables the working class to be brought into political life but only in a formal sense, with real interests in a class-polarized society remaining particularistic and opposed to one another, Polanyi, alongside Bernstein, Bauer, Emil Lederer, John Strachey and others, held that in Western democracies the trends in the political and economic fields move in opposite directions: with universal suffrage and trade union strength, political power shifts into the hands of the working classes even as economic power is concentrated in giant industrial and financial institutions. In this perspective, ‘actually existing democracy’ in the political sphere provides the platform upon which a socialist democracy can be constructed; it need not undergo a wholesale transformation but simply requires extending into the economic sphere (Colletti 1972: 107-8).

Lest this point be misunderstood, I am not suggesting that Bauer, Polanyi or other left social democrats were uncritical of liberal democracy. Indeed, Polanyi went so far as to argue that capitalism in all its manifestations was hierarchical and bureaucratic and, as such, incompatible with democracy. He subscribed to the full range of criticisms advanced by the left social democracy of his era: capitalism forbids democratization in the workplace, keeping workers disempowered in this crucial arena of life; it exalts the private sphere at the cost of the public, privileging the consumer over the citizen and undermining social cohesion; it generates social inequality which creates political apathy amongst the have-nots; and, by underpinning a divide between economics and

politics, with democracy only applying to a section of the former and economic decision-making left to market forces, it surrenders a vital sphere of collective self-determination to the anarchic play of private choice and to powerful and unaccountable organizations, ensuring that advantage is systematically tilted in favour of the wealthy and that the power of the economic elite is kept intact. If restricted to the political field, he insisted, parliamentary democracy was bound to degenerate. However, he believed, nothing in the constitution of parliamentary democracy prevented it from becoming "an instrument of working class policies."<sup>31</sup> He retained a sanguine confidence that, in spite of their lobbying advantages, economic elites could not systematically prevent the interests of the masses from being genuinely represented in parliament, and that the same historical conditions that had enabled the development of formal democracy – the growth in education and mobilization of the subordinate classes – would also advance the cause of social and economic equality, ultimately loosening the lock on political power enjoyed by the propertied classes. He held no truck with the radical critiques of liberal democracy such as those advanced by Rousseauians -- e.g. Pateman (1970) -- that representative democracy is the alienation by citizens, through elections, of their right to make political decisions, or by Marxists – e.g. Foot (2005) -- that the rich have learned to live with parliamentary democracy because they have managed so comfortably to undermine the capacity of parliaments to represent the interests of the masses. For all his criticisms of the limited nature of reforms introduced by elected governments – whether welfare measures or the Bretton Woods regime – Polanyi believed that parliamentary democracy provided an adequate basis upon which socialist transformation could be instituted at the national level via the gradual implementation of progressive reforms.

A further element that contributed to Polanyi's over-estimation of the promise of

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<sup>31</sup> 9-2, Karl Polanyi: Notes on readings and lecture notes, 1934-1946; 18-6, Karl Polanyi, "Fascism and Marxian Terminology", *New Britain*, vol. 3, no. 57, 1934.



mid-twentieth century social democratic governments was his conception of the role of states in capitalist society. Sandra Halperin overstates the case when she writes (2004: xiv) that he saw the “state and global structures as sociologically neutral,” as does Christopher Chase-Dunn (1989: 35-7) with his remark that in theorizing the political structure of capitalism as ‘the state’ rather than the interstate system (an arena of competitive struggles involving firms and states) Polanyi fails to grasp a central obstacle to socialist transition through national processes of state-led reform. The exaggeration in these criticisms is apparent when one considers, for example, the detailed analysis in TGT of the relationship between state intervention and international finance, or the warnings in ‘Universalism Capitalism or Regional Planning’ (1945) of the anti-democratic thrust of the nascent US hegemony. And yet Chase-Dunn does have a point. While concurring with Polanyi that the expansion and deepening of commodification generates reactions and stimulates the formation of political structures that shield people from the full effects of market forces, he argues that these constraints placed upon market forces in one region, state or industry,

are often one of the most important driving forces in the expansion of commodification to new areas. Successful labor organizing causes capital to look elsewhere for labor. Monopolies organized locally or nationally encourage consumers to try to gain access to outside markets where goods may be cheaper, and cheaper production in these outside markets is also encouraged.

Accordingly, commercialization and regulation should not be viewed as mutually antagonistic but as principles that “interact in a spiral which drives a number of the long-run trends visible in the world-system.”

What Chase-Dunn highlights here is but one instance of the use of economic power by elites to threaten progressive change. For all the reforms of Roosevelt, Attlee and their confreres, they left intact the entrenched power of capitalist classes – a crucial

point that is neglected in Polanyi's writings on the post-war period. Throughout the post-war decades of 'embedded liberalism' the bulk of the means of production the world over remained in the hands of existing business elites whose primary goal remained the accumulation of capital. They were able to use their wealth and power to evade regulations that restricted them in that end, lobbying politicians and influencing public opinion. In this sense, the preconditions for the neoliberal turn of the 1980s were, in the era that preceded it, already vitally present in the shape of entrenched capitalist classes but also in the liberal commitments of social democracy. For the former, having been somewhat inconvenienced by political regulation during the long boom, the crisis of the 1970s and the failure of Keynesian policies to restore profit rates provided the opportunity for revanche (Harman 2009; Neale 2004; Harvey 2005). Coupled with a U.S.-led campaign to prise open foreign markets, the rise of finance capital, and the drive by revenue-squeezed states to sell assets, this provides the background to understanding the 1980s neoliberal turn (Davidson 2009; Gowan 1999; Duménil and Lévy 2004).

## **Conclusion**

Karl Polanyi was an original, even a great, thinker and it is only natural that his legacy has been fought over, with his ideas subjected to sharply divergent interpretations. In this article I have illustrated one axis of disagreement by revisiting the debate over what Széleányi termed the 'hard' and the 'soft' Polanyi, with respect in particular to the implications of his ideas for understanding political-economic restructuring at the national and international levels in the postwar epoch. However, I hope to have shown that it is a caricature to present him either as a champion of Keynesian social democracy and 'embedded liberalism' or as an uncompromising opponent of market economy.

Unlike many of his followers he was a radical socialist, committed to the replacement of capitalism by a socialist order. He consistently espoused the traditional socialist position that individualism, Enlightenment values, civil liberties, and democracy can only truly flourish in a socialist society and, conversely, that market fundamentalism fragments and atomizes society, creating conditions inimical to virtuous behaviour and preparing the ground for authoritarianism. Yet the meaning he gives to the process of decommodification that a socialist transition would involve remained vague. This haziness underlay his misreading of corporatist trends within mid-twentieth century capitalism as harbingers of its demise, which a number of his sympathetic critics have noted (Haynes and Husan 1998; Block and Somers 1984). He failed to identify the way in which the development of capitalism modifies the forms taken by markets and commodities or to anticipate that state intervention could contribute to the stabilization of market societies; as such, his analysis of what guided the pragmatic retreat from the extremes of the market in the mid-twentieth century, although insightful, remains ultimately inadequate.

The recent debates discussed in this essay, including the contributions by Block, Lacher and Gemici, have been fruitful, both in their contribution to a deeper understanding of Polanyi's intellectual formation – with useful discussion of concepts such as the 'embedded economy,' 'fictitious commodities' and the 'double movement' -- and in the utilization of his ideas in discussion of contemporary political economy. In this article I hope to have contributed to a more developed understanding of these questions, not least by way of an extended discussion of the neglected traditions -- historicism, Tönniesian and liberal socialism – in dialogue with which Polanyi's ideas evolved.

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