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"Social freedom" in the 21st Century. Rereading Karl Polanyi

Introduction. Problems of capitalism, and the problem of capitalism

The neoliberal transformation starting at the end of the 1970s has been marked by a creeping economic depression and a dramatic decay of democracy, by various economic crises and spectacular bubbles, by wars and famines. Rentiers are the principal beneficiaries of a rapidly growing inequality. Nobody knows when, and even if, the great crisis that burst in 2007-2008 will cease.

Both the economic crisis and the crisis of democracy undermine the "substantive freedom" (Amartya Sen) of the great majority of people. Market freedom – in reality, a "mere advocacy of free enterprise" in a market dominated by great industrial and financial groups (Polanyi 2001, p. 265) – has been supported by unaccountable national and international political institutions, which are increasingly 'privatized', that is to say, directly influenced and even occupied by the economic-financial oligarchy.

Neoliberal policies did not succeed in the purpose they were designed for: the overcoming of the crisis of the 1970s. Moreover, they continue to be implemented in spite of their self-defeating effects and paradoxical loops. The global devaluation of labour-power allows an immediate increase of profits, but feeds a depressive tendency. Running into debt reveals itself to be a trap. The attempt to solve the problem of a slowing-down accumulation through a bottom-top income redistribution and financial rent is illusionary, indeed contradictory. 'Extractive capitalism' and "accumulation by dispossession" (Harvey 2005) result in augmenting inequality and shifting costs onto the human and natural environment ("social costs": see Kapp 1978 [1963]). The deterioration of the environment tends in turn, in the medium-long term, to increase costs of production, thereby making further "socialization" of them necessary. Such a kind of runaway process has been called "the second contradiction of capitalism" by James O'Connor (1991), the first being the Marxian tendency to over-accumulation. Private investments in new fields – natural resources, common goods (including intellectual goods), public utilities, social services – are looking for rent more than profit, are frequently a source of corruption, and further reduce the remains of the welfare state.¹

¹ On the role of the state in this process, see Galbraith 2008. Concerning "the great financialization" in a world perspective, in relation to the present and past phases of development, and with a special reference to Karl Polanyi's thought, see Kari Polanyi Levitt 2013. Some of the questions hinted at in this introductory section are more extensively considered in Cangiani 2014.

Is there a way out?

Colin Crouch (2013) intelligently describes a possible “social democracy as the highest form of liberalism”, whereby capitalism would be made “fit for society”. However, the small minority of people taking advantage from the present situation have the power to address the economic and political change in the opposite way. Their own class struggle has been successful.

Moreover, political forces oriented to a new kind of social-democratic reformism, of which capitalism itself could take advantage, are presently missing. Illusions about a ‘mixed economy’ or a ‘third way’ have been dropped. Wolfgang Streeck (2014) not only acknowledges this situation, but also shows that neoliberal policies give rise to vicious circles menacing the very existence of capitalism. He argues that countering stagnation through the re-commodification of labour, land and money – Polanyi’s “fictitious commodities” – deprives capitalism of necessary regulatory institutions. The weakening of the latter results in “five systemic disorders of today’s advanced capitalism”: “stagnation, oligarchic redistribution, the plundering of the public domain, corruption and global anarchy” (ibid., p. 55). “Has capitalism seen its days?” Anyway, Streeck concludes, “what is to be expected [...] is a long and painful period of cumulative decay” (ibid., pp. 45 and 64).

A growing number of radical critics of current policies are convinced that a systemic crisis of capitalist accumulation looms large beyond ‘financialization’ and the financial crisis. Numerous studies turn to Karl Marx’s theory of the limits, contradictory dynamics and unavoidable crises inherent in capitalist accumulation. According to Ernst Lohoff and Norbert Trenkle, the pathological growth of finance or the exploding private and state indebtedness are not causes, but symptoms of a systemic crisis, revealing the obsolescence of capitalism as a historically-specific production method. The abstract end-in-itself of making more money out of money, implying a paradoxical reversal of means and ends, becomes evident when the purpose of financial investment is no longer the production of real wealth, but only the increase of fictitious capital, which has become “the motor of accumulation”. Moreover, the raising bid needed to support such a bet on the future cannot continue indefinitely. Sooner or later, “a gigantic devaluation of fictitious capital must occur” (Lohoff and Trenkle 2012, p. 19).

Paul Mattick (2011) supports his analysis of recent history, the limits of Keynesism and “the failure of capitalism” by making reference to Marx, and also to the radical institutional approach of Thorstein Veblen and Wesley Mitchell, and to Paul Mattick (senior) (1969). Wolfram Elsner, too, raises the problem of the falling rate of profit and over-accumulation as deeper causes of the so-called financial crisis. He points out that growing inequality and the plunder of natural and human resources, needed to restore the desired profit rate, require a progressive dismantling of democratic decision procedures (Elsner 2013).²

² A further step in this direction would be realised, for example, through the Transatlantic Trade and Investment Partnership, under negotiation between the USA and the EU since 2013.

The financialization of the economy was explained by Harry Magdoff and Paul Sweezy (1987) as a consequence of the tendency to stagnation of monopoly capitalism. John Bellamy Foster and Fred Magdoff continue the way traced by this theory and show new evidence supporting it. “We are clearly at a global turning point”, they maintain; effective reforms being (practically, at least) unfeasible, “a more rational social order” would require “a real political and economic democracy; what the present rulers of the world fear and decry most – as ‘socialism’” (Bellamy Foster and Magdoff 2009, pp. 138-140).

The reading of Karl Polanyi’s writings proposed in this paper is suggested by the need to respond to the theoretical questions and political worries mentioned above. Seventy years after the publication of *The Great Transformation*, we can find leading questions and illuminating explanations in Polanyi’s writings, provided that such basic issues of his analyses are taken into consideration, as the most general traits of the organization and dynamics of our society, making it radically specific in comparison to any previous society.

On this theoretical approach is also grounded Polanyi’s political philosophy. In order to avoid the risk of an entropic drift, and to restore society’s “freedom of creative adjustment” (Polanyi 1977, p. XLIII), an open-system outlook should be adopted and the ‘positive’ freedom of people to democratically participate in collective choices should be pursued. Polanyi’s demanding conception of a “social freedom” (see, in particular, Polanyi 1927) seems today more unworkable than ever: but this is precisely the reason why the alternative way it indicates needs to be taken.

The “strategic position” of the Speenhamland Law

The creation of “a market for labour”, Polanyi writes, “implied no less than the wholesale destruction of the traditional fabric of society” (2001, 81); hence the resistance to it, lasting from the 16th century to the Speenhamland Law of 1795, the disastrous consequences of which led to the Poor Law Reform of 1834. This reform was a decisive step towards a new societal organization taking the place of the traditional one. A market for *free* labour was, in fact, a fundamental requirement of “the new capitalistic economy” (ibid., 82), on which the new society was grounded.

Polanyi’s interpretation of the historical event of the Speenhamland Law explicitly reveals some fundamentals of his theory.

Firstly and most importantly, he aims at a genetic explanation of capitalism as a specific social organization whose basic institutions are a) market relations among free individuals, and b) capitalist relations of production. The result is efficaciously synthesized in *The Livelihood of Man* (Polanyi 1977, p. 9):

Within a generation – say, 1815 to 1845 [...] – the price-making market [...] showed its staggering capacity for organizing human beings as they were mere chunks of raw

material and combining them, together with the surface of mother earth, which could now be freely marketed, into industrial units under the command of private persons mainly engaged in buying and selling for profit. Within an extremely brief period, the commodity fiction, as applied to labour and land, transformed the very substance of human society.

The new institution of the market system, Polanyi continues, “became the dominant force in the economy” and gave rise to “a whole society embedded in the mechanism of its own economy – *a market society*.”

Polanyi’s theoretical attitude is to be connected to the great scholars that, in the second half of the 19th and the beginning of the 20th century, investigated the origins and general features of capitalism. Max Weber, for instance, in his *General Economic History*, opens the chapters dedicated to modern capitalism by observing that only in the first half of the 19th century was a capitalist society formed. Then only, in fact, according to Weber, the livelihood was mainly provided by capitalist production, characterized by the “rational” employment of capital in view of profit, presupposing a series of institutional conditions, such as the “commercialization” of the economic life and, in the first place, the existence of free labour: legally free and economically forced to sell itself on the market by the “whip of hunger” (Weber 1961 [1923], p. 208). No need to recall Marx’s statement that “the *capital* [...] arises only when the owner of the means of production and subsistence finds the free worker available, on the market, as the seller of his own labour-power”. This “historical pre-condition”, Marx continues, is the crucial one: by making capitalist relations of production possible, it connotes a new phase of world’s history, “a new epoch in the process of social production” (Marx 1977, p. 274). “The positing of the individual as a *worker*, in this nakedness, is itself a product of *history*” that presupposes “the separation of the free labour from the objective conditions of its realization” (Marx 1974, p. 375).

Polanyi describes that separation as a “social catastrophe” culminating with the Industrial Revolution:

a principle quite unfavorable to individual and general happiness was wreaking havoc with his social environment, his neighborhood, his standing in the community, his craft; in a word, with those relationships to nature and man in which his economic existence was formerly embedded (Polanyi 2001, p. 135).

When, at the beginning of Chapter Fourteen of *The Great Transformation*, “Market and Man”, this process is incisively recalled, Polanyi adds that it is still “conspicuously apparent in colonial regions today” (ibid., p. 171): in the current day, too, continuing to be the “epoch” of capital, and of market and labour market.

The formation of the labour market, with its connection to pauperism becoming a *social* problem, is a key issue of Polanyi’s book, and in particular of Section 1 (“Satanic Mill,” Chapters

3-10) of Part Two, where Chapter 7, “Speenhamland, 1795,” occupies a central position, also conceptually.

Chapter 3 opens with a question which represents the sense of Polanyi’s work, by linking his historical survey to his basic political concern: “what was the mechanism through which the old social tissue was destroyed and a new integration of man and nature so unsuccessfully attempted?” (Polanyi 2001, p. 35).

“Labour and land were made into commodities” (Polanyi 1947², p. 110); the motives of “hunger and gain” were then supplying “the sole control” of the economic activity – Polanyi writes, echoing Weber. Therefore, the emergent society was

“economic” [...] to a degree previously never even approximated. [...] Market-economy thus created a new type of society. The economic or productive system was here entrusted to a self-acting device. [...] With the new economy, a new society sprang into being [...] [representing] a violent break with the conditions that preceded it. (Ibid., p. 111)

A new social system, a new culture was, then, *successfully* realized: one characterized by the “control of markets over human society” (Polanyi 2001, p. 58), that is, by a “dis-embedded”, autonomous, self-referential, and dominant economy. *Unsuccessful* is *the kind* of “integration of man and nature” such social organization leads to. Indeed, the very survival of the human species is at stake. “This is the abiding concern” – Polanyi says (1947², p. 109). After the tragic lesson of fascism and the war – being the outcome of the development of the market-capitalistic societal setup, with its irresolvable contradictions – the need for a radically different “integration of man and nature” is upheld in *The Great Transformation*.

Possible alternatives and actual transformations

Immediately after the war, Polanyi was looking at the British Labour Government as an opportunity to attempt the construction of a new social organization, in the direction of socialism. He held fast to his beliefs, though clinging to a rational analysis of facts and a critical attitude³. In the same historical situation Thomas H. Marshall wrote his essay *Citizenship and Social Class* (1992 [1950]). Presenting the long, hard-won process of the institution of the labour market, Marshall makes reference to *The Great Transformation*, which he cites with the title of the British edition of 1945, *Origins of our Time*. His considering that process as fundamental and typical of the making of capitalist society is similar to Polanyi’s, as well as his pointing out that the Poor Law reform of 1834 institutionally ratified the existence of the new class of labourers-citizens, distinguished from the paupers, but continuing to be subject to systematic inequality and even exclusion.

³ See, for example, another article Polanyi published in the same year, 1947¹, and his writings on adult education (1945 and 1946 in particular).

With the Reform of 1834, Polanyi writes, “industrial capitalism as a social system” came into existence. The effects of a competitive labour market were “deleterious [...], until in the 1870s the recognition of the trade unions offered sufficient protection” (Polanyi 2001, pp. 87 and 86). Both Polanyi and Marshall highlight the leading role of the working class in the “defence” of society from the consequences of the institution of the market economy. This is, in Polanyi’s view, a defence of a new type; its forms and meaning are consistent with the organization of the new society, which is connoted by the capitalist relations of production. The Speenhamland Law was still consistent with the old type of defence; it “met the situation as judged by the ruling village interest, the squire’s” (ibid., p. 99). Its repeal, instead, was “the work of a new class entering on the historical scene, the middle classes of England”, and responded to the need for “a new class, a class of “independent labourers” (ibid., pp. 105 and 104).

The novelty, and the progressive-democratic meaning, of the defence of society by the working class is clearly represented by the extension of modern citizenship rights analysed by Marshall. The social struggle aimed at that extension has met difficulties and defeats. In its so-called golden times, it was only partially successful – in our times we witness the neoliberal turnabout. The target of equality and democracy has remained a horizon. The motive of gain and the correlative class division constitute the ultimate constraint, an insuperable limit all along the history of the market-capitalist society. Polanyi – like Marshall, who probably noticed this theme in *The Great Transformation* – points out the gap of several decades between the Poor Law Reform of 1834 and the achievement of workers’ political citizenship with the right of suffrage. This gap reveals the relevance of class division: its meaning, its weight. The institution of the labour market and the free worker was an essential requirement for the capitalist development, while the universal suffrage risked undermining it, together with the class rule of capital. So collapsed “the liberal state”, one of the four basic institutions of the “nineteenth-century civilization” mentioned in the first page of *The Great Transformation*⁴.

Liberal democracy ceased to be functional to the existent class structure when democratic elections gave the working class the opportunity to conquer the majority in parliaments. Indeed, even the possibility of moderate reforms by “popular governments” was so worrying as to give rise to more or less antidemocratic reactions. When the economic crisis burst and the strain – Polanyi writes (ibid., p. 228) – “spread to the political sphere”, the market economy found itself in a “final phase”, into which “the conflict of class forces entered decisively”. The end of the formal separation between the political and economic spheres, characterizing the nineteenth-century institutional arrangement, raised the question of the aims, subjects and method of a systematic and explicit political intervention in the economy. This was – and has continued to be, from then on – the stake of the class struggle.

The defeat of any revolutionary alternative and the institutional transformation allowed the survival of capitalism, of market society in its wider sense. To this purpose, various strategies of “stabilization” have been carried out, involving various social forces and motives in view of

⁴ The “balance-of-power system” among European states, “the international gold standard” and “the self-regulating market” are the other institutions.

removing “divisive issues from political determination”, that is, of stabilising social hierarchies (Maier 1987, p. 263). Already in the 1920s and 1930s, in his articles for *Der Österreichische Volkswirt*, Polanyi noticed and commented on the corporatist transformation, differently shaping in different countries and times. His reflection was addressed to “Capitalism in its non-Liberal, i.e. corporative, forms”, allowing it to continue “its existence unscathed under a new alias” (Polanyi 1935, p. 367).

In *The Great Transformation*, the history of “nineteenth-century civilization” is meaningful with reference to, and within, the history of capitalist society. The institutions of the former were a particular way of implementing the general features of the latter in the first phases of its development, resulting in a major economic and political crisis. Like Polanyi, many scholars of his time were able to both distinguish the two levels of conceptual generality and to connect them to each other. Richard Tawney (1947 [1926], p. 59) speaks of a generation confronted with the twentieth-century new kind of capitalism with “its control of industry by business and of both by finance, and its attempts to fix fair wages and fair prices”. These and other evident developments, Tawney continues, have made that generation not only “disillusioned with free competition”, but also longing for a more general mutation whereby “economic appetites” could be confined “to their proper sphere, as the servant, not the masters, of civilization”.

Many other theoretical contributions followed a similarly critical path. For example, Thorstein Veblen achieves a deep and detailed analysis of the new forms of business organization, showing their growingly parasitic relationship with a technologically developed industry. At the same time, he explains the non-coincidence, to say the least, between profitability and “serviceability for society at large” as an inherent *general* tendency of the market-capitalist productive system (see e.g. Veblen 1901). The “investment for a profit”, in particular that pursued by “business enterprises”, is presented by Veblen in the first page of his *Theory of Business Enterprise* (1904), as the “directing force” of the “Capitalistic System”. (The “principle of profit [...] as the organizing force in society” – to recall the above-quoted statement by Polanyi).

The First World War solicited an even greater attention to institutional transformations and the crisis of liberal 19th-century capitalism, then also menacing the existence of capitalism itself. John Hobson points to the control that “strong business organizations” have acquired over government, with a view to turning internal and external policies to their own advantage, thus compromising the interest – and, of course, the freedom – of most citizens and of the nation as a whole. The overcoming of this class supremacy seems to Hobson the condition for establishing a really democratic government, founded on the development of “intelligent co-operation” with a view to “clearly defined ends”. However, it seems likely that capitalism will be able to persist, in a new, corporative shape, where state control and intervention, and the management of public opinion, would be “consistent with the largest liberty and opportunity of private profiteering” (Hobson 1919, pp. 75, 87, 143 and 200). In exchange for discipline, the government and entrepreneurs would offer workers’ organizations guaranteed minimum wages, unemployment benefit, pensions, factory committees, and a share in possible profits resulting from the exploitation of other populations (see *ibid.*, pp.164-65).

In March 1918 Antonio Gramsci envisaged an “organization of freedoms” for the future as being more “mature” than bourgeois individualism, whose advantages were nevertheless to be conserved. Shortly after, he warned against the opposite tendency emerging in the proposal, made in particular by the nationalist daily *L’Idea Nazionale*, to form a government from technical experts, in fact businessmen. A “professional state, a kind of capitalistic unionism”, a “régime of associations” represent, according to Gramsci, a regressive caesura in the evolution of modern society (Gramsci 1994, pp. 19-20). The following year he affirms that “the War has destroyed all the achievements of liberal ideology”, both in internal and international politics. Politics is no longer separate from economic processes: monopolistic capitalism increases in strength, together with bureaucracy and militarism, and the state “distributes wealth to private capitalists”. While, then, “the liberal world disintegrates”, Gramsci observes, “liberal economics” shows itself to be “an abstract and mathematical utopia”, “separate from the general historical process of civilization” (ibid., pp. 21-22).

These hints to a few examples of important though minority positions of the times of Polanyi’s youth can be useful to clarify the interpretation of his thought proposed in this paper.

Why is the Speenhamland episode given a great – excessive, according to many critics – relevance in *The Great Transformation*? Polanyi’s thesis is that its importance lies in its failure, which was a lever for a radical institutional change. Obviously, the diffusion of the market economy and the Industrial Revolution, supporting the power of the new bourgeois class, are the fundamental factors of the change. But social facts need to be socially acknowledged. A major cultural mutation was needed: new institutions (defined “habits of thought” by Veblen) for adapting society to “the Machine Age”. The epistemological change in economic science, emphasized by Polanyi (Chapters 9 and 10), was a factor of that mutation. The failure of the Speenhamland system was interpreted as positive feedback indicating that the existing social organization was only able to implement such solutions to the problem of poverty that worsened it. The widespread acknowledgement of a systemic crisis made a systemic change possible.

The present crisis suggests a similar consciousness (see above, the Introduction) of a systemic crisis; that is, of a crisis involving the rules of the social organization (see Morin 1976). The idea of a counter-adaptive nature of the market system, producing an unsuccessful “integration of man and nature”, is a fundamental motive of Polanyi’s research.

The Part Two of *The Great Transformation* ends, as we have seen, by alluding to the decisive relevance of “the conflict of class forces”. The First chapter of Part Three – “Popular Government and Market Economy” – begins by referring again to Speenhamland, the New Poor Law, the defeat of Chartism, the need to avoid a “popular government”, and the crisis of the “liberal state”. There follows the analysis of the 1920s as a period of political tensions and of economic policies preparing the Great Depression. This analysis is illuminating, not only in regard to those times, but also to our neoliberal times⁵. There is, in fact, a continuity beyond

⁵ It is not possible here to deal in detail with this point. But see Chapter 5, “Keynes and Polanyi. The 1920s and the 1990s” by Polanyi Levitt 2013.

the irreversible historical change, that can only be explained by making reference to the general features of a given social system. May we call it a market-capitalist system?

Commenting on the events of the 1920s, Polanyi refers to the “normal bargaining weapon” of strike as an indispensable social defence, which at the same time damages society. This is one of “the absurdities in which the commodity fiction in regard to labor must involve the community”, absurdities that illustrate “the utopian nature of a market society” (Polanyi 2001, p. 238). Absurdity and utopia are related in general to labour as a “fictitious commodity”, as an essential organizational factor of the market-capitalist society, characterizing it through all its phases, crises and transformations, in spite of any measure of social “defence”. Thus is it possible to explain why defence is needed but constrained, and subject to regressing in case of difficulty of the capitalist accumulation, and of weak or collusive labour organizations.

Even if we consider the most notable achievements of post-liberal capitalism in the post-war period – such as the pluralistic interest representation and the welfare state – labour remained a commodity. C. B. Macpherson (1987, p. 128) suggests that organized group interests were allowed to seek “to maintain their slice of the pie”, but not “to question the methods of the bakery”.

Limited democratic reforms and moderate popular governments were so worrisome as to contribute to starting a period of crisis in the 1970s. The crisis, on the one hand, has required the reversal of economic and democratic protections achieved by the working classes; on the other hand, it has made this reaction easier. Besides, the attack against democratic institutions, attitudes and practice, being both a preliminary condition and an effect of the neoliberal transformation, started in that decade⁶. Polanyi’s analysis of the events of the interwar period in their historical peculiarity highlights also more general tendencies that may also be found in our times. When a serious crisis has to be faced, the ruling class claims a stronger and exclusive control on political decisions about the quality and extent of reforms needed (see Polanyi 2001, p. 236). Anti-democratic and anti-liberal attitudes tend then to prevail. Polanyi interprets in this sense the “fascist situation” of the 1930s. In his opinion, the “fascist virus”, endemic as it is in the market society⁷, can always rise up if necessary. The anti-democratic reaction can also assume less radical forms, such as the British National Government of 1931. In this case, Labour statesmen espoused the reasons of the City, and suspended the two-party system by forming a coalition government (see Polanyi 1931).

Crises sharpen conflicts and open alternatives: this is the theme of the last two pages of the above-mentioned Nineteenth Chapter, “Popular Government and Market Economy”. There we find a definition of socialism as a break “with the attempt to make private money gains the general incentive to productive activities”, and a tendency toward a democratic control of a no-

⁶ When, for example, the *Report* of the Trilateral Commission (Crozier, Huntington and Watanuki 1975) was worked out and the prescriptions of the Chicago School were adopted in Chile after the *golpe* of 1973.

⁷ “The Fascist Virus” is the title of two manuscripts of the second half of the 1930s (Karl Polanyi Archive, file 18-08, n.d.). A synthetic project for a book entitled *The Fascist Transformation* can be found in another manuscript (Karl Polanyi Archive, file 20-08, 1934-35).

longer autonomous economy (Polanyi 2001, p. 242). In the aftermath of the war, Polanyi (1947, p. 117) singles out two tendencies. The first one leads to “a truly democratic society”, where the economy would be organized “through the planned intervention of the producers and consumers themselves”. The second tendency leads to a society “more intimately adjusted to the economic system”, whose basic institutions (the market, the capitalist relations of production) will remain “unchanged”. The alternative between these two tendencies is rooted in the fundamental features and dynamics of capitalist society, and becomes evident when systemic crises occur. Macpherson analyses it in similar terms several years later: one tendency is toward “a genuinely democratic participatory system”, another toward “some kind of corporative plebiscitarian state” (Macpherson 1987, p. 127). The neoliberal transformation was already following the latter.

A wide comparative outlook

Chapter 3 of *The Great Transformation*, as we have seen, deals with the origin of modern market-capitalistic society, provoking “dislocation” and suffering, tentatively mitigated by traditional reactions. The specificity of that society as to any other is referred to its fundamental economic institutions, indicated by the comprehensive concept of “market system”, and implying a cultural mutation affecting the whole social organization.

Chapter 4, “Societies and Economic Systems”, supports the point of the previous chapter by a wide-range comparison to ancient and primitive societies, with the purpose of showing “the entirely unprecedented nature” of our society (Polanyi 2001, p. 45). No other society was ever “dominated by the market pattern”; on the contrary, the economy was “submerged in [man’s] social relationships”, “run on noneconomic motives” (ibid., pp. 46 and 48). In order to explain how production and distribution could be organized in such different societies, Polanyi introduces “two principles of behaviour not primarily associated with economics: *reciprocity* and *redistribution*” (ibid., p. 49), respectively supported by the “institutional patterns” of *symmetry* and *centricity*. A third principle is added in the final pages of the chapter, *householding*, supported by the pattern of the “closed group”, i.e. of *autarchy*. There is here a reference to Aristotle⁸, who insisted on “production for use as against production for gain as the essence of householding proper” (ibid., pp. 55-56), thus in some way prefiguring the opposite essence of our society, the production for gain. Polanyi points out that not only in far societies, but in Europe too, “up to the end of feudalism”, all economic systems “were organized either on the principle of reciprocity or redistribution, or householding, or some combination of the three” (ibid., p. 57).

It is important to recall that the principles of integration are very abstract models; as such, they do not allow the understanding of any given economic system. To this purpose, the definition of the specific “culture traits” (ibid., p. 55) characterizing each social organization of production is required.

⁸ Aristotle’s economic thought, as a part of his political philosophy, is extensively dealt with several years later, in an essay included in *Trade and Market in the Early Empires* (Polanyi 1957¹).

These latter questions continue to be taken into consideration at the beginning of Chapter Five, “Evolution of the Market Pattern”, where another principle, that of *barter*, is introduced. Polanyi highlights that this principle

is not on a strict parity with the three other principles. The market pattern, with which it is associated, is more specific than either symmetry, centricity, or autarchy – which, in contrast to the market pattern, are mere “traits,” and do not create institutions designed for one function only (ibid., p. 59).

The market pattern, [...] being related to a peculiar motive of its own, the motive of truck or barter, is capable of creating a specific institution, namely, the market. Ultimately, that is why the control of the economic system by the market is of overwhelming consequence to the whole organization of society: it means no less than the running of society as an adjunct to the market. Instead of economy being embedded in social relations, social relations are embedded in the economic system. [...] For once the economic system is organized in separate institutions, based on specific motives and conferring a special status, society must be shaped in such a manner as to allow that system to function according to its own laws. This is the meaning of the familiar assertion that a market economy can function only in a market society (ibid., p. 60).

The peculiarity of the *market* as to the other patterns is that of being not only a general model of economic relationships, but also a historical institution, implying a cultural attitude, a way of behaving and relating to others, a societal setup. At this point of Polanyi’s comparative analysis – which is of an anthropological type, in the sense of a holistic approach to cultures, considered as a whole in their historical specificity – the distinction between *markets* and *market system* is relevant. He argues that in pre-modern societies “[t]he presence or absence of markets or money does not necessarily affect the economic system” (ibid., p. 61); “never before our own time were markets more than accessories of economic life. As a rule, the economic system was absorbed in the social system” (ibid., p. 71). Even in the epoch of mercantilism, “markets were merely an accessory feature of an institutional setting controlled and regulated more than ever by social authority” (ibid., p. 70). But a radical change as to *all* preceding societies is achieved in the “next stage in mankind’s history” (ibid.), with the setting up of the market system. Now markets no longer draw their meaning, function, rules and limits from other institutions; on the contrary, the market as a system of price-making markets becomes itself a general “cultural trait”; that is, the institution by which the economic activity is fundamentally organized in the specific case of market-capitalist society.

Polanyi considers this point again in depth, and the methodological problems it raises, in the essay “The Economy as Instituted Process” (1957²). Here he substitutes the term “form of integration” with that of “principle”, and the term of exchange for that of barter. Then, the “principle of barter” becomes the “form of integration of *exchange*”. Exchange, in Polanyi’s view, “in order to produce integration requires a system of price-making markets” (ibid., p. 250). In other words, the exchange becomes the dominant form of integration only when the *market system* becomes the dominant form of economic organization. Therefore, the market

system has to be taken into consideration as such and explained in its general features, for it constitutes the “institutional setup”, the “definite institutional conditions” on the presence of which “the societal effects of individual behaviour depend” (ibid., p. 251).

Although diverse forms of integration can be found in any given society, one turns out to be dominant. In the market society – *only* in it – the exchange is the dominant form, thanks to the institution of the market system as the prevalent organization of the economy (in its “substantive” i.e. essential and therefore general meaning⁹). In Polanyi’s words (ibid., p. 255): 1) economic systems are normally classified “according to the dominant form of integration”. 2) Such dominance is “identified with the degree to which it comprises labour and land in society.” And 3)

The rise of the market to a ruling force in the economy can be traced by noting the extent to which land and food were mobilized through exchange, and labour was turned into a commodity free to be purchased in the market.

We meet here again our initial theme: the relevance of the making of a labour market. Moreover, this basic institution of the capitalist society seems to be essentially connected with the exchange as the dominant form of integration. A similarity is to be pointed to with the dialectical relationship between Part One and Part Two of the First Volume of Marx’s *Capital*. In the first Chapter, “The Commodity”, the analysis of “the form of value or exchange value” discovers a social form, a social organization: “a state of society – Marx writes in a Letter to Kugelmann – in which the interconnection of social labour expresses itself as the *private exchange* of the individual products of labour” (Marx and Engels 1988, p. 67). Marx explicitly presents this result of his work – being the first and most abstract step in the analysis of a historically given social organization – as the theoretical root of his Critique of Political Economy. The next step leads to the theory of capital, by way of the theory of money. Only at this point, in Chapter Four, is the capitalist mode of production fully defined: in the world of commodities, in the market system, where the exchange is the dominant form of integration (Polanyi) and the money is the “universal social medium” (Marx), also the labour-power of the “free worker” is the object of an exchange. Thus, the capitalist relations of production become the social-historical form in which labour and means of production are connected to each other – through market-monetary exchanges. The first level of the analysis, “The Commodity”, reveals itself as indispensable, not only as a premise to the following analysis, but for the understanding it allows of some fundamental features of the capitalist society.

Critique of economics

Polanyi’s critique of economics follows a method similar to that of Marx. The economic ideology is criticized by explaining it as a reflection of some actual features of a social

⁹ “The substantive meaning of economic derives from man’s dependence for his living upon nature and his fellows. It refers to the interchange with his natural and social environment, in so far as this results in supplying him with the means of material want satisfaction” (Polanyi 1957², p. 243).

organization – in fact, of our own society – which is not understood as such: as a whole, and in its historical specificity. Thus, obviously, those features themselves can be only partially and imperfectly understood; in compensation – so to say – they are fallaciously generalized and projected onto other societies, however different be they from ours.

The comparative analysis Polanyi carries on in numerous essays shows that “forms of trade, money uses, and market elements” (Polanyi 1957², p. 256) do exist in most, if not all, societies: but in each one they have peculiar origins, functions and relationship to each other and to the whole social system. Only in the market society,

since trade is directed by prices and prices are a function of the market, all trade is market trade, just as all money is exchange money. The market is the generating institution of which trade and money are the functions. (Ibid., pp. 256-57)

The economic ideology assumes this specific way of instituting trade and money as their general, essential definition: “viewed as an exchange system, or, in brief, catallactically, trade, money and market form an indivisible whole. Their common conceptual framework is the market”¹⁰. So abstracted from its pertinent historical context, the definition is improperly applied to non-market economies.

A fallacious generalization is applied by “formal” economics also to the market society. Thus the historically specific organisation of this society is not recognised as such: “an economy of a definite type, namely, a market system” (ibid., p. 247) is translated into a general theory of the economic behaviour and the resulting economic process. Individual, *apparently* free¹¹ “acts of economizing, i.e., of choices induced by scarcity situations” (ibid.), are supposed to lead through the market to a utopian equilibrium, where resources are optimally allocated. Besides, the role of money is not explained, but simply presupposed. It is true, in fact, that

[t]he general introduction of purchasing power as the means of acquisition converts the process of meeting requirements into an allocation of insufficient means with alternative uses, namely, money. (Ibid.)

But, according to both Marx and Polanyi, the modern form and meaning of money has to be explained as resulting from the generalization of the exchange as the dominant social relationship – from a specific social organization of the economy characterized, in Polanyi’s terms, by the form of integration of exchange. The “critique” – supported by empirical comparative studies – reveals that the postulates of formal economics derive from the want of theoretical determination of a specific institutional system – our own – some features of which are reductively defined and unduly generalized.

¹⁰ Ibid., p. 257. In *The Livelihood of Man* such false generalization is called “economistic fallacy” and explained as a “logical error”: “a broad, generic phenomenon [is] somehow taken to be identical with a species with which we happen to be familiar” (Polanyi 1977, p. 6).

¹¹ As Polanyi says the last chapter of *The Great Transformation*.

The “catallactic” meaning money acquires in the market society is also relevant if scarcity is to be explained as a basic *institutional* factor of the market system, and not, as conventional economics does, as a presupposition of the economic activity in general. Money, being only quantitative worth, is essentially scarce. In the market-capitalist society, scarcity depends, Polanyi affirms, on the fact that “all forms of income derive from the sale of goods and services” (ibid.). All exchanges are mediated by money, and all incomes are constituted by an amount of money. Scarcity is a necessary consequence of gain and hunger becoming *the* motives of economic behaviours, in an economic system that, thanks to the institution of the market, is integrated by the exchange – by monetary exchange. Formal economics obliterates this institutional meaning of scarcity by confusing it with the general condition of humankind after the expulsion of Adam and Eve from the Garden of Eden.

The recognition of the institutional connotation of hunger and scarcity, within a theory of the market-capitalist society, reveals a paradox: the purpose of the economic organization should, in general, be the solution of the problem of hunger and scarcity, but hunger and scarcity, in the case of market society, are, at the same time, basic institutions of that organization. It is possible to get over the paradox by considering – at a higher logical level – the social conditions that determine it.¹² Obviously, this theoretical solution does not eliminate the substantial contradiction, which is a good reason for raising the problem of society, for the “discovery of society” (considered below, in the next section, with reference to the Speenhamland system as a particular manifestation of a more general contradiction).

The fact of concentrating his research on primitive and ancient economic systems in the latter period of his life does not represent a discontinuity in Polanyi’s basic interest: “the extraordinary assumptions” underlying the market system (Polanyi 2001, p. 45). His “constant concern” remains a radical critique of that system as unsuited for a good human life, and implies an innovative methodological reflection, including the very concept of economy¹³. The comparative approach is an important aspect of Polanyi’s critical theory. The question of scarcity refers to such wider issues as the “production for gain” opposed to “production for use” (ibid., p. 56), or “the extreme artificiality” of a process of production “organized in the form of buying and selling” (ibid., p. 77). In this connection, as we have seen, labour as a “fictitious commodity” is particularly important for understanding the unique institutional features of the capitalist social system. Polanyi argues that to include labour and land as commodities “in the market mechanism means to subordinate the substance of society itself to the laws of the market” (ibid., p. 75). Thus, “the organization of society itself” becomes “an accessory of the economic system” (ibid., p. 79).

¹² Marshall Sahlins, whose innovative research in economic anthropology was deeply influenced by Polanyi, points out that, in comparison to hunter-gatherer societies, ours “is the era of hunger unprecedented. Now, in the time of the greatest technical power, is starvation an institution.” (Sahlins 1972, p. 36).

¹³ Besides the essay partially commented above (1957²), Polanyi’s essay “Carl Menger’s Two Meanings of ‘Economic’” (1961) and the Introduction and the first ten chapters of *The Livelihood of Man* (1977) are particularly relevant for methodological issues.

From the point of view of a comparative theory of economic systems, the problem of “the place of the economy” – concerning the shifting of the role of carrying on the economic function from one social structure to another – acquires, then, a special relevance: in the case of market-capitalist society, that role belongs to an autonomous *economic* structure (see Godelier 1978 and 1984; Neale 1964).

The meaning and the fundamental relevance of the connotation of the market-capitalist economy as “disembedded”, in comparison to the “embedded” economy of all preceding societies, should be clear at this point. This peculiar trait of our society, inherent in its market-capitalist economic organization, is also an important background of Polanyi’s political philosophy – as it will be synthetically shown in the next section.

The following distinction of three meanings of the opposition embedded/disembedded could be of some utility in order to avoid a misunderstanding of Polanyi’s conception.

1) The economy is always “embodied”, “embedded and enmeshed in institutions” (Polanyi 1957², pp. 247 and 250). Here the point is not the specific organization of the capitalist society in comparison to all preceding societies, but the general fact that any economy cannot but be socially organized, that is, *instituted*. Obviously, the market-capitalist system, too, is a way of socially instituting the economy.

2) Pre-modern economies are embedded in noneconomic institutions: the economic function is performed by noneconomic structures. In modern market-capitalist society, on the contrary, the economy is “economically” instituted, that is, organized by an economic structure, making it autonomous and thereby dominant – connoting an epoch. This conceptual acquisition belongs to the new theoretical paradigm introduced by the Marxian “critique of political economy”. Only on this basis is it possible to criticise the economic fallacy: a specific way of organizing (instituting) the economy is not perceived and acknowledged as such and its features are unduly generalized. The fact that the economy is “disembedded” explains the tendency to fallaciously considering its peculiar way of being instituted as the economy in general.

3) The actual functioning and development of the market society implies a complex interaction of economic and noneconomic motives and institutions. This way market economy functions and develops is often denoted as its being embedded. But this is not the sense in which Polanyi speaks of an embedded economy. The market economy remains disembedded because it constitutes the essential and dominant institution of the market society, and therefore the constraint to be unavoidably respected. Moreover, it tends to influence, direct and even determine noneconomic (indeed, non-market) motives and institutions, though relatively independent developments of the latter are in their turn influential on the whole economic and social process.

All these meanings are important; they correspond to three levels of theoretical abstraction that must be considered in their interplay, but never played against one another. In particular, the second meaning of the opposition embedded/disembedded should not be removed when

the third is relevant for the analysis. The second meaning corresponds to Polanyi's mind, and constitutes a main point of his theory, because it allows the definition of the most general institutional traits of the market society as a specific form of society. With regard to this definition, the commonplace that a pure and perfect market economy did never – might never – exist is irrelevant. Polanyi points out that liberalism does not imply *laissez-faire* (2001, pp. 155-56); furthermore, with the capitalist transformation – resulting in the end of the nineteenth-century form of self-regulating market, with the formal separation of economic and political institutions it implied – society tends to be even more embedded in its disembedded economy (see in particular the above-cited passage in Polanyi 1947, p. 117). The problem Polanyi raises by speaking of the “double movement” is also, or principally, that of the contradictory nature of market society in general – beyond the historical vicissitudes of its development. It is precisely for the disembedded nature of market economy that a “countermovement” defending society from the consequences of its own economic organization is needed. And it is for the same reason that, at the same time, market ideology continues to be widely diffused, and employed as a powerful political weapon, in spite of the fact that it is neither confirmed by evidence nor capable of fulfilling its promises.

A social mutation and a paradigm shift

Polanyi raises the issue of the “discovery of society” with reference to the epochal transition from traditional to market society. He deals extensively with this topic in the Chapter Ten of *The Great Transformation*, though meaningfully introducing it in the Chapter Seven, dedicated to Speenhamland:

the revolution which the justices of Berkshire had vainly attempted to stem and which the Poor Law Reform eventually freed shifted the vision of men toward their own collective being as if they had overlooked its presence before. [...] A world was uncovered, [...] that of the laws governing a complex society. (Polanyi 2001, p. 88)

Polanyi points out that the new political science of the first decades of the nineteenth century “introduced a new concept of law into human affairs, that of the laws of Nature” (ibid., p. 119). His critical analysis of such discovery presupposes the “critique of political economy”: the law of the world of commodities is in reality a historical law, a given social organization of the economic activity. The importance of the study of Marx for Polanyi's critique is clear and explicit in his manuscript “Community and Society” (1937), where he defines society as a system of relations among human beings, thereby tracing the distinction between natural and historical laws. Fetishism – consisting in ascribing qualities belonging to social organisation to objects, gods or nature – is itself explained as a consequence of the market system. “The exchange value of the goods is only a reflection of the relations between the human beings engaged in the production of the goods concerned”, Polanyi argues (ibid.): the failure to recognise this gives rise to the attribution of value to goods themselves. In general, the failure to understand society in its historical-institutional setup results in explanations of social processes in term of natural laws.

The new economic-individualistic society, made by exchange relations, frees itself from the preceding cultural tradition and political bonds, thereby raising the problem of society. Society cannot exist without norms: when the old ones disappear, how may they be substituted? How may social order be re-constituted? Thomas Hobbes builds his philosophy on a worried forewarning about the development of modern society (see Macpherson 1968). Economists take the economic-naturalistic-utilitarian short cut. In contrast to them, Polanyi insists on the specific historical characteristics of market-capitalist society and, therefore, on its radical difference from preceding societies. We have then an *economic* organization of society, the market and the capitalistic relations of production being its fundamental institutions. Such economy is no longer embedded in non-economic social institutions. We meet again the free labour, in connection with such an autonomous economic system and the question of society it compels to raise:

By what law was a laborer ordained to obey a master, to whom he was bound by no legal bond? [...] And what maintained balance and order in this human collective which neither invoked nor even tolerated the intervention of political government? (Polanyi 2001, p. 120)

Polanyi points out the importance of the problem of pauperism as a radically new phenomenon: an “apparently insoluble” social problem (Polanyi 2001, p 121). The nature of pauperism was misunderstood (*ibid.*, p. 115), because it was not explained as a consequence of “the nascent market economy” and its competition with the traditional social organization, still influential in the times of the Speenhamland Law. The need to understand the failure of the Speenhamland system, and, more in general, the fundamental and wider reality of the diffusion of an autonomous and individualistic economic organisation, explain both the “discovery of society” and the paradoxical naturalistic form it assumed.

In fact, the reaction to pauperism according to the pre-modern social organization, far from solving the problem, made it worse. The consequences of the Speenhamland Law – its positive feedback, the growing “degradation” of life conditions – gave a decisive push to a cultural change leading to the institution of a new social organization, the market system. With the Reform of 1834, Polanyi writes, “industrial capitalism as a social system” (*ibid.*, p. 87) came into existence.

The market mechanism, with the “improvement” it was making possible, should have offered the solution, but it did not. Not only it was itself the cause of pauperism in the course of its gradual formation in the previous decades, but the solution it was able to envisage must, in its turn, be consistent with its own organization, including the “whip of hunger”, the destruction of “habitation” for the sake of “progress”, and so on. The “lapse into naturalism” (*ibid.*) was, basically, a consequent ideological manifestation of the “mechanic” (autonomous, self-referential, dis-embedded) quality of the market-capitalist system, which was not acknowledged as such. Besides, transforming the social-institutional traits of the system into natural laws provided not only an explanation, but also a justification of it.

By criticising the economistic-naturalistic version the “discovery of society”, Polanyi reveals its more general and important meaning, going well beyond that version. The above-cited manuscript of 1937, also circulated as a cyclostyled sheet for the activities of a group of the Christian Left, besides showing the relevance of the First Chapter of *Capital* in Polanyi’s theory, opens by a quotation from Marx’s *Eleven Theses on Feuerbach*. Here Polanyi finds the idea that human nature is social; that is, human beings are made by their social relations, by a social reality that, in turn, is socially-historically produced by themselves. The transition from traditional to modern society implies the explicit acknowledgment of “collective being” as a human task, and of the need for a social organization where this task could be accomplished by free and conscious individuals – not by would-be natural laws and price formation.

Tawney (1947 [1926]) connects the freeing of the economic activity from pre-modern constraints to a so great social mutation as the shift from an organic and hierarchical society to a society that is, on the contrary, individualistic and equalitarian.

Society becomes more complex because it is wide, industrialised, individualistic, composed of relatively independent subsystems, continuously changing. Robert Lynd defines growing complexity as the lengthening of “chains of causation” (1964 [1939], p. 212). Control can no longer be committed to traditional cultural-theological norms. A purposeful organization is necessary, concerning individuals’ relationship with their own needs, other individuals, and their natural and social environment. This implies a further conceptual level to which the problem of society is to be raised, corresponding to the fact that the social system has to include reflexions on itself and plans concerning its own organization. The “discovery of society” is a consequence of its increased complexity, and, in its turn, makes complexity increase.

In this situation, an improved and diffused information is needed, as a means of democratic control – in order to pursue “social productivity” (see Polanyi 1922 and 1925): that is, efficiency conceived not in terms of profit, but of human-social good life.

In the last chapter of *Man and Society in an Age of Reconstruction*, Karl Mannheim raises the “philosophical question” of freedom in the third stage of human history. Now the problem is to control “the entire social environment”, he writes (1940, pp. 376-77); purposeful regulation “will make man freer than he has been before”, since “an unjust or badly organized society” would be changed through democratic planning into “a healthy society which we ourselves have chosen”.¹⁴ Polanyi in his turn, in the last chapter of *The Great Transformation*, says that “knowledge of society” – the “discovery of society” – comes third in the constituents of “the consciousness of Western man”, after knowledge of death, at the origin of human history, and knowledge of freedom (Polanyi 2001, p. 267). A third level of freedom can thus be attained, that of “the social freedom of human beings” (Polanyi 1927, p. 143). This freedom would

¹⁴ Many years after, Adolph Lowe maintains that an “intelligent” democratic planning could lead to “a superior level of emancipation” (Lowe 1988, 14).

presuppose the overcoming of “a social formation in which the process of production has mastery over man, instead of the opposite” (Marx 1977, p. 175).

The “revolution” instituting the labour market and the unique traits of the capitalist society also implied a cultural change, a political and epistemological revolution, characterizing the modern epoch: the “discovery of society”. Polanyi’s political philosophy of “social freedom” or “freedom in a complex society” is rooted in his analysis of that discovery. We have considered his critical theory as the premise supporting his philosophy, with which, however, it is impossible to deal here more extensively¹⁵. And something more than the hint made above, in the Introduction, would be needed to show how urgent, but at the same time difficult, seems presently to adopt, as a basis for our political theory and practice, his conception of socialism as the “tendency inherent in an industrial civilization” to “consciously subordinating” the economy “to a democratic society” (Polanyi 2001, p. 242).

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¹⁵ For a wider treatment of this subject, see Cangiani 2012-13.

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