

The English Experience in the Life and Work of Karl Polanyi

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My congratulations to Professors Stanley Metcalf and Ronnie Ramlogan and the Centre for Research on Innovation and Competition for organizing this conference, which to the best of my knowledge, is the first academic event dedicated to a critique of the work of my father, ever held in England. Sally Randalls was surprised to discover that there has been significantly less interest in the work of Karl Polanyi in Britain than in other regions of the world. This in itself is a topic meriting research in the sociology of knowledge. A preliminary search suggests that the work of Karl Polanyi is better known and more frequently included in required readings of courses in Political Science, Sociology, Anthropology, History and even Economics taught in North America and some Continental European countries (eg. Spain, France, Germany, the Netherlands) than in England. While all of his works feature in course readings in England, there are surprisingly few references to his best known work *The Great Transformation*, and apparently none in Economics courses. The contrast with North America, where *The Great Transformation* is the single most frequently cited work, is striking. In this contribution to your conference, I have attempted to address the significance of *The Great Transformation*, a work so obviously influenced by his re-reading of English social and economic history. This is also the work most closely related to my own academic interest in International Political Economy and Development.

He would, I think, have been delighted at the attention his work is now receiving in British academic discourse, but he would certainly have been surprised that this event is taking place in a centre devoted to research on innovation and competition located at a school of business in Manchester. Innovation in the conventional sense of product or process design was not a subject which attracted his interest, and competition, in the context of "Manchester" was a code for the "self-regulating market" of 19th century laissez-faire capitalism, central to his critique of market economy and market society. In a more profound sense, however, he was indeed concerned with innovation, not in production technology, marketing or business organization, but rather in the area of economic and social institutions. His life work was devoted to understanding the place of the economy in society.

My father came to England from Vienna in 1933 where since 1924 he was senior editor of the leading economic and financial weekly of Central Europe, *Der Oesterreichische Volkswirt*. He continued to contribute to this journal until 1938, when the journal ceased publication following the German occupation of Austria. As a working journalist he followed revolutions and counter-revolutions, the collapse of the weak succession states of Central and Eastern Europe, the World Economic Crisis of 1931-1933, the rise of national fascisms and the Russian experiment with five-year planning.

During his initial years in England he was associated with a small group of intellectuals and religious leaders who called themselves the Christian Left. He

contributed an essay on “The Essence of Fascism” to *Christianity and the Social Revolution* (Gollancz, 1935), which he co-edited with John Lewis and D.K. Kitchin. Other contributors included John MacMurray and Joseph P. Needham. To this group he brought a continental perspective and introduced them to Karl Marx’s *The Economic and Philosophic Manuscripts of 1844*, first published in Germany in 1931 and smuggled out of the country to Switzerland when the Nazis came to power.

In 1936 my mother joined him in England. In 1937, recommendations by R.H. Tawney and G.D.H. Cole assisted him in obtaining employment with the Workers’ Education Association (WEA) teaching courses on international relations and English social and economic history, a subject entirely new to him. We lived in Kingsdown and later in Shoreham, Kent, and he travelled on Green Line busses to evening classes in Bexhill-on-Sea, Tunbridge Wells, Canterbury and other towns in Kent and Sussex. His encounter with the conditions of working class life on overnight stays with the families who accommodated him was a profound culture shock. He contrasted the inferior status of the English working class in the richest country of Europe with the social and cultural achievements of the workers of socialist Red Vienna in impoverished post-1914 Austria. The lecture notes for his WEA classes, available in the archive of the Karl Polanyi Institute of Concordia University in Montreal, are the skeleton upon which he later developed *The Great Transformation* (1944), published in England as *The Origins of Our Times* (Gollancz, 1945).

For Polanyi an almost personal sense of the responsibility of his generation for the War and all its fateful consequences motivated his search for the “origins of our times” – the original title of *The Great Transformation*. The central problem addressed in this book was the ultimate cause of the collapse of 19th century civilization and the consequent dramatic events of the inter-war years. Although the book was written in Vermont in 1941 to 1943 it was here in England, the birthplace of the Industrial Revolution that he found the origins of the disasters that befell Europe from 1914 to 1945—“the great transformation” that terminated the long 19th century and eventuated in the institutional reforms of the post-World War II era.

In a concluding passage of the second chapter of *The Great Transformation* he stated that “in order to comprehend German fascism, we must revert to Ricardian England” (*The Great Transformation*, 2000: 32). His thesis was that the economic and social upheavals and political tensions resulting from the utopian attempt to restore the 19th century liberal economic order after the First World War were the essential cause of the world economic crisis and of the demise of democracy in most of the states of continental Europe.

The exposition of the narrative of *The Great Transformation* was underpinned by three concepts: the fictitious commodities of land, labour and money; the disembedded economy; and the “double movement.”

We recall the remarkable passages in *The Great Transformation* which greeted the ideology of the English political economists of the early 19th century as the real innovation, more revolutionary than the simple mechanical inventions in the textile industry or the steam engine.

For Polanyi, the extension of price-making markets to embrace the fictitious commodities of land, labour and money was the truly revolutionary innovation. They are “fictitious” because commodities by definition are produced for sale. But natural resources including land, are God-given; humans do not reproduce to provide workers for the labour market, and money is a social convention. While commodities like cattle, cowry shells, gold and silver have been used as money, modern money is

essentially a book-keeping entry validated by the sanctity of contract and embodied in law. Historically money was the first to be “liberated” from regulations prohibiting usury, for centuries deemed sinful by Christian doctrine. The commercialization of land, including the enclosures, extended over centuries, but the threat of social instability created by the dispossession of peasant cultivators was moderated by measures to protect the poor and to maintain standards of workmanship and quality of craft.

In Polanyi’s account it was the positive rejection of poor relief and the introduction of a price-making market for the fictitious commodity of labour by the new Poor Law of 1834 that was the truly revolutionary innovation. It gave legal sanction to the degradation of working men and women, forcing them to choose between work, however miserably remunerated, and the stigma of the workhouse. It was instituted by the reform parliament of 1832, which subordinated the landed oligarchy to the urban and industrial bourgeoisie. The majority of the population had no voice and no vote. The effective absence of democracy or trades unions was a triumph of economics over politics, of “improvement” over “habitat.”

The result was the unleashing of productive forces and capitalist accumulation on a scale never before experienced in human history. This was accompanied by massive dispossession, displacement, unemployment, and the destruction of social relations in which economic livelihood, social status, pride in craft, and cultural expression were embedded. The economy was thus disembedded from the social matrix in which it was traditionally embedded. As the nexus of market relations expands and becomes ever more dense, social relations of community and extended family are subordinated to the logic of the market, and the market economy assumes a life of its own, governed by economic laws, whether neo-classical or Marxist. Polanyi insisted that these so-called laws are neither natural nor historically inevitable. He rejected all varieties of economic determinism.

Polanyi’s view of the economy as an instituted process is central to his discussion of the relationship of economy and society. In his view, market economy was instituted. The creation of a self-regulating market by the commodification of land, labour and money required nothing less than the subordination of society to the requirements of the market economy. In a seminal article on the economy as an instituted process entitled “Aristotle Discovers the Economy”¹ Polanyi returned to a central theme of *The Great Transformation*: “The conceptual tool with which to tackle this transition from namelessness to a separate existence (of the economy) we submit, is the distinction between the embedded and the disembedded condition of the economy in relation to society. The disembedded economy of the nineteenth century stood apart from the rest of society, more especially from the political and governmental systems. In a market economy the production and distribution of material goods in principle is carried on through a self-regulating economic system of price-making markets. It is governed by laws of its own, the so-called laws of supply and demand, and motivated by fear of hunger and hope of gain. Not blood-tie, legal compulsion, religious obligation, fealty or magic creates the sociological situations which make individuals partake in economic life but specifically economic institutions such as private enterprise and the wage system.”

The economy was now organized in specific institutions based on the assumption of economic motives and “propensities” and society had to be re-engineered to enable the economy to function according to its own laws. “This is the meaning of the

¹ Karl Polanyi, Conrad M. Arensberg, and Harry W. Pearson, editors. *Trade and Market in the Early Empires*. (Glencoe, IL: Free Press, 1957).

familiar assertion that market economy can function only in a market society.” (*The Great Transformation*: 60).

A price-making market economy is a complex mechanism which requires specific institutions, to constrain and guide the behaviour of individuals to conform to market behaviour as producers, consumers, savers, investors, etc. It requires legal institutions of enforcement of contract; financial institutions to safeguard the interests of savers and investors; industrial relations to ensure that the wage contract is honoured by labour and employers; civil society institutions to monitor transparency and protect economic activity from arbitrary state intervention; and above all the rule of law. In this sense the economy is always embedded in institutions. Attempts to introduce instant capitalism in post-Soviet Russia failed because they were not underpinned by the essential legal and social institutions of civil society. The lesson of Russia and more generally the instability and insecurity associated with globalization in the 1990s, has led scholars and policy-makers, including the World Bank, to embrace institutional reform and good governance, and the “embedded economy” has gained currency in policy discourse.

This is not, however, the only sense in which Polanyi employed the conceptual tool of the distinction between the embedded and the disembedded condition of the economy. His concern was less with the evident necessity of market economy to be embedded in institutions, than with the larger issue of the relation of economy to society. In Polanyi’s account of the rise of market economy the embedding of the market economy in specific economic institutions subordinates the substance of society to the laws of the market. The economy is thus *disembedded* from society. “Instead of economy being embedded in social relations, social relations are embedded in the economic system.”(*The Great Transformation*: 60). The widespread discontent with economic globalization is precisely because of its disintegrating effect on the diverse societies, North and South, under international pressure to conform to institutional reforms favouring investors and creditors over the well-being of populations.

The self-regulating market, according to Polanyi was a utopian project. It “...could not exist for any length of time without annihilating the human and natural substance of society; it would have physically destroyed man and transformed his surroundings into a wilderness. Inevitably, society took measures to protect itself...”. Interestingly, the text continues with “but whatever measures it took impaired the self-regulation of the market, disorganized industrial life and thus endangered society in yet another way.” (*The Great Transformation*: 3-4).

According to Polanyi, laissez-faire liberalism intent on the spread of the market system, was met by a protective countermovement of legislation regarding public health, factory conditions, social insurance, public utilities, municipal services, and trade union rights. In Germany, France, and Austria governments of widely different political complexions enacted similar measures. The monumental increase in the production of food, raw materials and manufactured products associated with the revolution in overseas communications and the opening of new land to cultivation resulted in a world crisis of overproduction. The Great Depression of 1873-1895, which was in effect a deflation of prices and profits, was an economic earthquake which dislocated the lives of scores of millions in rural Europe. Within a few years, with the singular exception of Britain, free trade was a matter of the past. The continued expansion of market economy took place under new conditions set by the “double movement” of expansion of trade accompanied by protectionist institutions designed to check the social dislocation of the market (cfr. *The Great Transformation*:

223). Intensified national competition and imperialist rivalries brought this first globalization to a precipitous end in 1914.

Europe emerged from the war impoverished, burdened by reparation and war debts, fractured by the creation of small and fragile states carved out of the derelict Hapsburg Empire, with civil war and famine in post-revolutionary Russia. Following the attempt to restore the pre-1914 order, including the international gold standard, Europe leapt from crisis to crisis until an unsustainable pyramid of debt collapsed in 1931. In Polanyi's view the Great Depression was the final act in a series of financial and economic crises and failed stabilization programs imposed by the victorious Western powers. Resources were insufficient to satisfy the claims of the competing economic interests of *rentiers*, industrialists, workers, and agricultural producers. In vulnerable open economies under pressure to defend their currencies, domestic class conflict was resolved by the abandonment of the gold standard, suspension of constitutions, and the imposition of regimes of national fascism. In the Western democracies of Europe the left was thrown out of office. In Polanyi's account the ultimate cause of the rise of fascism and the appeal of Soviet five-year planning was the unbearable social dislocation required by the rules of the game of the restored liberal economic order. This is the explanation of his statement that "in order to comprehend German fascism, we must revert to Ricardian England" (*The Great Transformation*: 32). In the United States society protected itself against financial and economic breakdown by the extraordinary emergency measures of the New Deal.

"In the early thirties, change set in with abruptness. Its landmarks were the abandonment of the gold standard by Great Britain; the Five Year Plans in Russia; the launching of the New Deal; the National Socialist Revolution in Germany; the collapse of the League in favour of autarchist empires. While at the end of the Great War nineteenth-century ideals were paramount, and their influence dominated the following decade, by 1940 every vestige of the international system had disappeared..." (*The Great Transformation*: 24)

When the world emerged from the Second World War to construct the international institutions which dominated the post-war era it was generally accepted that the market economy would have to serve national objectives of full employment and be complemented by progressive taxation and the welfare state. Only the United States, it seemed, maintained its belief in universal capitalism. The long nineteenth century was history. The economy it seemed would now serve the social objectives of nations. The tide, it appeared, had turned against the unrestricted domination of the economy by capital. The historical swing of the pendulum had restored social control over the economy. This was the "great transformation" which closed the book on the disembedded economy of the English classical political economists of the early 19th century. From 1945 to the mid-1970s Europe and North America experienced high growth, full employment, rising productivity, rising wages and extensive programs of social security. As Polanyi reminded us, however, the measures taken by society to protect itself could impair the functioning of the market and set in motion a counter-attack by capital to free itself from social constraints. This indeed is what has happened since the early 1980s when the Reagan and Thatcher administrations reversed the historical pendulum to dismantle gains made by labour in the first three post-war decades. The "double movement" is not a self-correcting mechanism which moderates excesses of market fundamentalism but a contradiction in the Marxian sense of the word. Although historical analogies are always dangerous, there are widespread fears that the neo-liberal tide is sweeping the world toward disasters possibly more devastating than the breakdown of the economic and financial system of the nineteen-thirties.

The Great Transformation was published in England in 1945. It received few reviews and attracted little attention. It was the wrong place and the wrong time for this book. Forty years had to pass before the pioneering role of Britain in instituting policies of deregulation and privatization in the 1980s and more generally the Anglo-American attempt to impose the market principle on the world under the rubric of globalization brought fresh relevance to his work.

In the United States *The Great Transformation* met with a more favourable reception. It attracted the attention of American sociologists and institutional economists in the tradition of Thorstein Veblen, John R. Commons, Wesley C. Mitchell and others. A remarkable introduction was written by Robert M. MacIver and the book was widely reviewed. American Universities are more forgiving-perhaps more imaginative-regarding formal academic qualifications than is the case in Britain. My father's only formal qualification was a degree in Law from the University of Budapest from 1912. When he was appointed to Columbia University as a visiting Professor of Economics in 1947, he was 61 years old, one year past the then prevailing age of retirement. In his courses on general economic history, attended by a brilliant generation of graduate students, for the most part returned veterans of the war, he was able fully to develop material on economic life in primitive societies and archaic civilizations. In his persistent search to rid the analysis of economic activity of a market bias, he posited three general patterns of integration of economic activity: reciprocity, redistribution and exchange. Although exchange was not necessarily market exchange, local markets have of course existed in all societies. Not until the industrial revolution, however, was individual gain raised to the organizing principle of the economy.

On retirement from teaching in 1953, he co-directed, with Conrad M. Arensberg, an interdisciplinary research project on the economic aspects of institutional growth, financed by the Ford Foundation. The project terminated in 1957. In this context, he directed a number of studies by graduate students including Paul Bohannon, Walter C. Neale, Harry W. Pearson, Rosemary Arnold, Daniel B. Fusfeld, and Charles S. Silberman. The results of the project were published as *Trade and Market in the Early Empires*. The book includes Polanyi's celebrated contribution on "The Economy as Instituted Process," "Aristotle Discovers the Economy," and (with Arensberg and Pearson) "The Place of Economics in Society." In 1957 he retired from Columbia University to Pickering, Ontario, where he continued to work until his death in 1964.

A useful collection of his writings was edited by George Dalton and published as *Primitive, Archaic and Modern Economies* (New York, Doubleday, 1968). A posthumous volume, *Dahomey and the Slave Trade* with the assistance of Abraham Rotstein, was published in 1966 (Seattle and London, University of Washington Press). The publication of Polanyi's posthumous manuscript, *The Livelihood of Man* was the product of many years of laborious work by editor Harry W. Pearson (New York, etc., Academic Press, 1977), who constructed the text from Polanyi's lecture notes of his Columbia University courses on general economic history. It also contains three previously unpublished essays.

For many years, academic interest in the work of Karl Polanyi was almost exclusively directed to his work on economic anthropology, where his rejection of formal economics as a useful tool in anthropological research was challenged and hotly debated. *The Great Transformation*, however, continued to have a life of its own. It is now translated into fifteen languages. In the 1970s World Systems Theory in sociology attracted new interest in *The Great Transformation*, which became essential reading in international political economy. In recent years critics of economic globalization, including environmentalists, have found in Polanyi a

trenchant critique of market fundamentalism, while people engaged in community development are attracted to the concept of reciprocity in support of not-for-profit economic activity.

The socially embedded economy and Polanyi's approach to the role of economic and social institutions in shaping modern economic life is also receiving increasing attention. The market is not a natural phenomenon and the rapidly changing technology in an evermore interdependent world gives rise to complex sets of institutional change. If the work of Polanyi has contributed to elevating the institutional approach in British academic discourse, we welcome the delayed return of Karl Polanyi to England, the source of so much of his creative thinking. For this I congratulate and thank the organizers of this conference.