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## Karl Polanyi and the Political Economy of Influence

By all rights, Karl Polanyi should be the pre-eminently influential prophet of the fragilities of capitalism. His historical analysis has now been grimly vindicated twice, first by the run-up to World War II, and now again by the resurrection of economic liberalism and its consequences. These conequencews include the financial collapse of 2007-08, the post-collapse enforcement of austerity to fulfill the imperatives of laissez faire, a prolonged period of economic stagnation; the capture by financial elites of the political center and the prevailing narrative, and the all too predictable reaction in the alarming rise of rightwing populism in both Europe and America. Polanyi did not need this sort of vindication. It would have been far better if more people had heeded his warnings.

Drill down into the details of Polanyi's analysis, and it becomes even more prophetic. Polanyi believed that the only way, politically, to temper the destructive influence of organized capital was to have highly mobilized and politically sophisticated worker movements, as he observed in Red Vienna in the 1920s. For a time in the postwar era, we had a mixed economy and a stabilized form of capitalism built on the strength of the social democratic state underpinned by a strong labor movement. But since the era of Thatcher and Reagan and the revival of the power of finance, that countervailing power has been crushed, and with predictable results. We have a return of all of the pathologies that Polanyi described. We don't have full-blown fascism yet, but things are going in the wrong direction and unlike in the New Deal America of the 1930s, there is hardly any social democratic pushback.  I will return to that in a moment.

In his masterwork, *The Great Transformation*, Polanyi emphasized at several points that the core imperatives of classical liberalism were free trade, the idea that labor had to find its price on the market, and enforcement of the gold standard. Today, we have an ever more intense push for free trade, the better to destroy the remnants of managed capitalism and the welfare state. We have deregulation of what remains of labor market safeguards, the better to increase profits for multinational corporations. And in the place of the gold standard--whose 19th century role was to force nations to put "sound money" and the interests of bondholders ahead of real economic well-being—we have the Euro, the European Central Bank and the austerity policies as enforced by the EC, the IMF and Chancellor Merkel.

The Euro forces 17 nations to lock currency parities, much as the gold standard once locked exchange rates by tying them to the price of gold. With financial deregulation, the resurrection of the bond market as overseer and the role of the ECB as the bond market's champion, each nation must pursue austerity to reassure investors. As a further whip hand, we have the EU as led by Mrs. Merkel extracting penalties if any nation such as Italy or France or Greece should have the effrontery to run deficits during recessions. Greece is paying the equivalent of reparations. Not surprising, Greek democracy is being destroyed and the far right and far left both are gaining. This unholy trinity of economic policies that Polanyi identified as the core of classical liberalism is not working now, any more that it did in the 1920s. The policies are practical failures, as economics, as politics, and as social policy. We should not have to learn that lesson again. This should be the right sort of Polanyi moment; instead it is the wrong sort.

With history repeating the tragedy of the interwar period, though one hopes with a more benign end, it is surely time for a broad rediscovery of Polanyi. One would think that Polanyi, in this, the 75th anniversary of *The Great Transformation* and 50the anniversary of his death, would be enjoying new prestige, and not just at conferences such as this one. Though *The Great Transformation* was the book that would not die, and Polanyi is beloved by people such as ourselves who have found our way to his work, he is not quite one of the celebrity public intellectuals whom undergraduates are automatically assigned in order for them to be educated adults, unless they happen to get very lucky and have one of you as their teachers.

Why not? I have titled my talk and paper Polanyi and the Political Economy of Influence. I can offer two broad reasons why Polanyi is not more influential. One has to with whose interests scholarly analysis serves. The other reflects the logic of academic disciplines.

Consider first what we might call the demand side — which forces in a capitalist economy prize what intellectuals, and for what purposes? If you look at things from that perspective, you can understand why the orthodox narrative has been dominated by the likes of Hayek and Friedman, the rational expectations theorists, the cost-benefit quantifiers, the promoters of the theory of the efficient market hypothesis and of maximizing shareholder value, and so on.

Despite the wide variety of plumage and algebra, these people have two big things in common. First, their theories add up to the counsel that government should leave corporations and owners of wealth alone. Second, just about everything they wrote has been thoroughly discredited by events.

Financial markets are evidently not self-regulating nor do they price things accurately, witness global climate change and the financial collapse. The price of labor does not reflect its marginal productivity, but is deeply contoured by the relative balance of political power. Public spending in a period of depressed demand is not inflationary but is necessary to prevent secular stagnation, and so on. But these mistaken theories and theorists remain highly congenial and convenient to economic elites, so they persist despite their unreality, while our cherished Karl Polanyi does not have the broad influence that he deserves.

Polanyi, like Kenyes, did battle with Hayek, but Hayek had more influence on events and prevailing views. Keynes was valued for a time, but his insights about political economy were neutered into a footnote on the standard model. You can see the origins of how this works by going back to the *privatseminar* in Vienna, run by Mises and his protégé, Hayek. As Kari Polanyi-

Levitt explains in her most recent book, *From the Great Transformation to the Great Financialization,* Mises, with no academic position, conducted the influential seminar from his post as Secretary of the Austrian Chamber of Commerce. The seminar became a center of the ultra-laissez-faire Austrian school of economics, and Hayek was Mises' prime student. The Austrian Chamber of Commerce underwrote and incubated the latest twist on classical liberalism. Mises, as a laissez-faire theorist financed by organized business, anticipated the Heritage Foundation by three quarters of a century. Karl Marx could not make this stuff up.

As early as 1920, Polanyi was challenging the Mises-Hayek view. Polanyi lambasted Hayek and Mises both for commending the conditions that led to fascism, and even apologizing for fascism's discipline of popular democracy's interference with the market. "The fascist solution to the impasse of liberal capitalism," Polanyi wrote, "can be described as reform of the market economy achieved at the price of extirpation of all democratic institutions." But Hayek ends up at the LSE of all places, the Austrian School gets dignified by being considered a formal school of libertarian economics, and Hayek later wins the Nobel Prize in Economic science. Meanwhile Polanyi is fortunate to get a quasi-academic post in an extension program, and later, finally in his 7$^{th}$ decade, lands a real job in an economics department at Columbia.

In *The Road to Serfdom*, published in 1944 within months of *The Great Transformation*, Hayek famously contended that even social-democratic forms of state intervention were bound to end in the totalitarianism of a Stalin or a Hitler. But seventy years later, there is not a single case of social democracy leading to dictatorship, and countless tragic episodes of market turbulence overwhelming democracy, just as Polanyi kept warning. Polanyi surely had the better of the argument. But Hayek, whose book was condensed in the *Reader's Digest*, became a best-seller while *The Great Transformation* sold just 1,701 copies in 1944 and 1945.

In researching an article about Polanyi that I wrote for *The American Prospect* earlier this year, I was intrigued to learn about the politics of how Hayek's book became a best-seller and Polanyi's did not. When *The Great Transformation* appeared, the *New York Times* reviewer, John Chamberlain, was savage: "[T]his beautifully written essay in the revaluation of a hundred and fifty years of history adds up to a subtle appeal for a new feudalism, a new slavery, a new status of economy that will tie men to their places of abode and their jobs." If that sounds curiously like Polanyi's nemesis, Hayek, it was for good reason. Chamberlain had just written the introduction to *The Road to Serfdom*. And Chamberlain was one of Hayek's chief promoters.

The second main reason why Polanyi doesn't have the broader influence that he has so clearly earned has to do with the logic of academic disciplines. He was more a journalist and polemicist and self-taught economic historian than a real academic. That meant, of course, that no tradition could quite claim him, that he had relatively few graduate students, and that his followers come from diverse disciplines. This is good in the sense that he has an interdisciplinary appeal, but not so good in that his work tends not to be assigned in the standard courses of either economics, political science, sociology, or history.

As someone who is more a journalist, editor and agitator than a true academic, I recognize the type and I prize Polanyi as a member of a familiar outlier tribe. Like many of you, I stumbled on Polanyi fortuitously. By a happy coincidence, my favorite professor as an undergraduate at Oberlin in the 1960s was George Lanyi, a Hungarian émigré and protégé of the great Oscar Jaszi, Polanyi's close colleague and friend who had found a home at Oberlin over three decades. Later, when I began writing seriously about international political economy, I found my way to John Girard Ruggie's now classic 1982 essay on embedded liberalism, and re-read Polanyi with new appreciation. In my course on IPE at Brandeis, I always make sure to assign both Ruggie and Polanyi. But I'm not a certified economist. I'm trespasser, in the wonderful metaphor of self-description of Albert Hirschman—another great figure esteemed by many but not claimed by any discipline.

In researching the piece that I wrote for the *Prospect*, I sought to trace Polanyi's intellectual influence, not by looking up citations but by exploring which thinkers in a variety of disciplines credit him as having influenced their work. What's so interesting is who is on the list and who is off the list, and who takes Polanyian insights in directions that seem counter to the spirit of Polanyi's own work,

You can begin with people who were in a sense Polanyians before Polanyi. That list has to begin with the great debunker of free-market cant, Thorstein Veblen. A generation before Polanyi wrote in *The Great Transformation* that a system dominated by a self-adjusting market "could not exist for any length of time without annihilating the human and natural substance of society," Veblen, a Polanyian *avant la lettre,* had ridiculed the *homo economicus* model in similar terms. Veblen wrote, "If every economic transaction were subject to perpetual, rationalized, calculating revision," as market theory commended, "it is not conceivable that the institutional fabric would last overnight." I have no evidence that Polanyi read Veblen, but they were kindred souls. Like Polanyi, Veblen was self-taught, a brilliant social scientist, empiricist, and pamphleteer without portfolio. And as with Polanyi, the academy doesn't know quite what to do with Veblen.

As most of you know, that 1982 article by Ruggie in the journal International Organization, helped rekindle interest in *The Great Transformation*. Ruggie, paying homage to Polanyi, refers to the great postwar social compromise as "embedded liberalism," meaning that it squared the circle of a basically capitalist (liberal) economy with plenty of social protections (embedded). The term embedded liberalism is Ruggie's but the concept is Polanyi's.

A few social scientists of the first rank in diverse disciplines, including sociologists and political scientists Daniel Bell, Ira Katznelson and Jacob Hacker, and economists Joseph Stiglitz, Dani Rodrik, and Herman Daly, explicitly cite their intellectual debt to Polanyi. Polanyi was basically a social democrat. Yet as someone who wrote about capitalism's devastation of traditional society, Polanyi also appeals to some Burkean conservatives, with their regard for the social order. John Gray, a recovering Thatcherite and author of the bestselling critique of neo-liberalism, *False Dawn: the Delusions of Global Capitalism*, is effusive in his praise of Polanyi. Martin Anderson, advising Ronald Reagan on welfare reform, drew extensively (if misleadingly) on Polanyi to warn that the wrong sort of poor relief backfires. The Yale political scientist and anthropologist James C. Scott, who I would count as a Burkean conservative, author of notable books on the failures of grandiose state projects, said in a 2010 interview that he read *The Great Transformation* the summer before starting graduate school, "and I think it is, in some ways, the most important book I've ever read…The struggle that Polanyi points to is a struggle that we're still engaged in."

At the same time, many public intellectuals working in the tradition of Polanyi don't even have him on their conceptual maps. Michael Walzer's classic *Spheres of Justice*, on necessary boundaries between market and non-market institutions, is quintessential Polanyi, but Walzer never mentions him. Elinor Ostrom, was a political scientist whose work on the modern tragedy of the commons made her only second non-economist to win the Nobel Prize in Economics in 2009 (the first was psychologist Daniel Kahneman in 2002). Ostrom's work echoes Polanyi but she doesn't invoke him. In reading Galbraith, the consummate historical and institutional economist of the 20th century, one searches in vain for Polanyi.

Another truly prophetic—and marginalized--figure within economics, Hyman Minsky, wrote about the chronic instability of financialized capitalism. There was a brief rediscovery of Minsky, at the time of the financial collapse of 2008, to which commentators referred as a Minsky moment, but then the profession put Minsky back in his box. So trespassers, in Hirschman's sense, pay a price. Yet the most important and original work is done by trespassers. As the editor of a journal, I get to read work by people in many different disciplines and it is one of the joys of my life. I suspect this is why many of us are drawn to Polanyi—not just the aptness and brilliance of the critique, but the synthesis, the crossing of disciplinary silos. We cherish Polanyi as broad-spectrum intellectuals and as educated citizens, not as narrow disciplinarians.

Two other comments about academia and the political economy of Polanyi's influence: To the extent that Polanyi has a home discipline, it is economic sociology. Yet if you look at the contemporary use if the idea of embeddedness, ever since Mark Granovetter's landmark 1985 article, on the problem it is not quite what Polanyi himself had in mind, nor the way Polanyi worked. To the extent that economic sociology has almost defined itself as the study of embeddedness, there is the risk of a kind of scholasticism, of a sort more technical, far less rich and vital than Polanyi's own writing. To read Polanyi himself is to be exhilarated and energized by an original mind at work. To read some of the glosses on glosses of the meaning of embeddedness is to appreciate that Polanyi's work cannot be carried forward to a broader public by entombing him.

It's also instructive to compare Polanyi with Marx and the Marxists. I consider myself more a Polanyian than a Marxist. Yet the world today looks rather more Marxian than it did in the 1960s when I first read Polanyi. At the apex of the postwar boom in the United States and Europe, Marx's bleak prediction of capitalist self-destruction seemed almost silly. A contented bourgeoisie was huge and growing. The proletariat enjoyed steady income gains, thanks to strong trade unions and public regulation. The political energy of aroused workers that Marx imagined as revolutionary instead went to support social democratic and progressive parliamentary parties. These built a welfare state, to housebreak but not supplant capitalism. Nations that celebrated Marx, meanwhile, were bleak economic failures that repressed their own working classes.

Half a century later, the middle class is beleaguered and insecure. A global reserve army of the unemployed batters down wages and marginalizes labor's political power. Even elite professions are becoming proletarianized. A *lumpenproletariat* of homeless vagrants and stateless migrants rends the social fabric. The globalized market weakens the reach of the democratic polity, undermining the protections of the mixed economy. Ideologically, the neo-liberal view that markets are good and states are bad is close to hegemonic. With finance still supreme despite the disgrace of the 2008 collapse, it is no longer risible to use "capital," Marx-style, as a collective noun. Goldman Sachs alums provided four of the last five U.S. secretaries of the treasury. If the state is not quite the executive committee of the ruling class, it is doing a pretty fair imitation.

Though some Marxists invoke Polanyi, I consider a Polanyi a better guide to the dynamics of capitalism than Marx. Polanyi's study of history convinced him that there were propensities but not iron rules. He believed, hopefully, in the power of human agency. However, neo-Marxism, because of its formalism, is more of a discipline than Polanyiism. Marxism has its journals, its professors in a few heterodox departments, and its graduate students. So Marxism has some systematic scholarly influence. We Polanyians are freer spirits.

Meanwhile, the second crisis of laissez faire is grimly following the script of the first.
Many of us grew up thinking of the postwar era as the norm, the baseline; but it turns out that the post war era social settlement and the *Trente Glorieuses*, the thirty years of energized democracy, a mixed economy, and broadly shared prosperity, was very much the exception in the history of capitalism.

Looked from 2014, one has to appreciate that the rise of a social democratic mixed economy required a quite exceptional harmonic convergence of events. It took the fortuitous election of Roosevelt in the United States, the increased prestige of the state in relatively libertarian America to cure the Depression and win World War II, a rare alliance of the state with worker political mobilization via Roosevelt's support for the labor movement both in the 1930s and even more emphatically during the war, when executives of military contractors were arrested for refusing to recognize their unions; and what Reinhardt and Rogoff have called the repression of finance – tight regulation of finance and government setting of interest rates on government borrowing, rather than letting speculative financial markets dictate something as fundamental as the terms of public debt. All of this not only produced social democratic policies but weakened capital as a political force, for a generation.

In Europe, we had a similar harmonic convergence. Not only were the Nazis defeated, but business and financial elites who had been collaborators were largely discredited. For the postwar generation of statesmen, there were two lessons. European union was necessary to prevent a third fratricidal European war. But even more importantly, the imperatives of laissez faire must never again create the austerity and mass unemployment that led to fascism. In the 1950s, there was the Christian Democratic and Social Democratic versions of the social market economy, but hardly any defenders of laissez faire. Fortuitously, too, the Red Army was on the outskirts of Western Europe and Communists were the leading party in Italy and France--which meant that Americans, despite the shift to the right after Roosevelt's death, could support European social democrats as a live vaccine against communism.

On both sides of the Atlantic, this was quintessentially the Polanyi moment, even though too few people recognized it as such. But the social democratic brand of capitalism lasted barely a generation. And when economic liberalism came roaring back, it was Polanyi's old nemesis, Hayek, who was among the key architects.

As John Ranelagh tells the story in his book on the rise of Maggie Thatcher, *Thatcher's People: An Insider's Account of the Politics, the Power, and the Personalities,* the Institute of Economic Affairs arranged a meeting between Hayek and Thatcher in London soon after Thatcher was elected leader of the Conservative in February 1975. During Thatcher's only visit to the party's research department in the summer of 1975, a speaker had prepared a paper on why the "middle way" was the pragmatic path the Conservative Party should take, avoiding the extremes of left and right. Before he had finished, Thatcher reached into her briefcase and took out a book. It was Hayek's *The Constitution of Liberty*. Interrupting the pragmatist, she held the book up for all of us to see. 'This', she said sternly, 'is what we believe', and banged Hayek down on the table".

Thatcher was a forceful personality, as was her contemporary and counterpart Ronald Reagan. But Thatcher and Reagan represented deep structural forces of the influence of organized finance regaining its usual power as the elements of the postwar compromise unraveled. Thus ended the first Polanyi moment.

In Thomas Piketty's account of why the middle third of the 20$^{th}$ century offered an exception to what appears to be an iron law of wealth tending to concentrate in a capitalist economy, Piketty emphasizes the historical accident of a lot of wealth being destroyed in two wars. Since wealth is disproportionally owned by the wealthy, wipe out a lot of wealth and you get a more egalitarian distribution. I admire Piketty as a virtuoso historical statistician, but he misses a lot of the political story.  Polanyi is the more reliable social historian and political economist.

Today, social democratic Europe is not playing the role of opposition party to the dominant neo-liberal consensus. Europe, home of the postwar social settlement, has become home to a social model that looks more like Hayek than like Polanyi.

At the time of the Delors cabinet of the 1990s and the push for a more solidaristic and stronger EU and a common currency, both Europe's admirers and Europe's detractors saw in the run-up to the Maastricht Treaty a kind of fortress Europe. The detractors meant an inward looking Europe, one that would protect its home industries and be a continent-wide expansion of Deutschland A.G. The admirers meant a Europe large enough to defend a social democratic, solidaristic model of managed capitalism against the sort of neo-liberalism that the Anglo-Saxons were seeking to export to the world, as the only possible model of capitalism. Mrs. Thatcher's famous TINA – There Is No Alternative.

But then something strange happened. Somewhere between Delors and the financial collapse, Maastricht mutated into an instrument of neo-liberalism. The legacy elements of the stronger welfare state continue, though they are on the defensive. Europe's income distribution is on track to equal that of the U.S., with a lag of ten or fifteen years. If anything, neo-liberalism is at least as potent in Europe as it is in the U.S.

How did the EU become a prime agent of neo-liberalism? You can look at this question constitutionally, ideologically, and geo-politically. Ideologically, key leaders of the Left rebranded themselves as center-left, and embraced many of the elements of laissez faire, most notably Tony Blair and Gerhard Schroeder. As a constitutional matter, we ended up with a weak continental government, but a regime that weakened nation states as well – a victory for markets over political democracy. If you look at the history of European confederation, you appreciate that the defender of social democracy was the nation-state, while the agent of market liberalization was the EEC, then the EC, then the EU. There was a rough balance until Maastricht. But then Europe replicated the dilemmas of the US Articles of Confederation—a weak continental government with multiple veto points—too weak to govern capitalism—and the rules of the EU also served to weaken nation states.

With a stronger EU, which of the architects of Maastricht would have thought the European Court of Justice would issue rulings weakening basic social protections as inconsistent with fundamental European law? But take a close look, and Maastricht privileges free movement of capital, services and persons over national or continental social protections. So at a time of market resurgence, we have a weakened state as counterweight to the market. We also have a democratic deficit. If broad members of the European electorate hate austerity, there is no practical way to vote it out office.

Was this predicable? In 1939, an enthusiast of a federated Europe wrote that with European federation, "Certain economic powers, which are now generally wielded by the national state, could be exercised neither by the federation nor by the state." The author was Friedrich Hayek. It was the truest thing Hayek ever said; maybe the only true thing. A weak state serves the libertarian purpose.

A further complication is coalition politics. There are fully 20 social democratic parties as coalition leaders or partners in the 28 E.U. member states. But with the exception of France, every one is either a junior partner as in Germany and the Netherlands, or depends on a center or center-right party, as in Denmark and now Sweden. This tends to seriously blunt the role of social democrats as an ideological or political opposition, to say the least. The more the center erodes, due to the increasing influence of the far right and far left, the more that social democrats feel compelled to participate in center or center-right governments—which locks them all the more into defending the hated austerity consensus.

But it doesn't have to be like this. Though wealth does tend to concentrate, and though concentrated wealth tends to produce concentrated political power, history also displays exceptions, such as Red Vienna in the 1920s and social democratic Europe in the decades after World War II, and the United States the era that spanned Franklin Roosevelt and Lyndon Johnson's Great Society.

Polanyi, besides being the great analyst of capitalism and society, was also a prophet of hope. He was the prophet of learning from history. In the political economy of influence, we need the wisdom of Polanyi more than ever.