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Paper presented at the 13th International Karl Polanyi Conference, "The Enduring Legacy of Karl Polanyi," Concordia University, 6-8 November 2014

Fictitious Ideas, Social Facts and the Double Movement: Polanyi's Framework in the Age of Neoliberalism

(First Draft, Nov. 2014)

"Liberal capitalism was in effect man's initial response to the challenge of the Industrial Revolution. In order to allow scope to the use of elaborate powerful machinery, we transformed human economy into a self-adjusting system of markets, and cast our thoughts and values in the mold of this unique innovation. Today ... how to organize human life in a machine society is a question that confronts us anew. Behind the fading fabric of competitive capitalism there looms the potent of an industrial civilization with its paralyzing division of labor, standardization of life, supremacy of mechanism over organism, and organization over spontaneity. Science itself is haunted by insanity. This is the abiding concern" (Polanyi 1947, 109)

In the last few decades Karl Polanyi's *The Great Transformation* (hereafter, TGT) has become an important point of reference for social scientists who feel uncomfortable with the current trends of economic globalization, liberalization, privatization and deregulation. The increasing influence of the neoliberal creed on economic theory and policy since the 1980s has motivated numerous researchers to look for innovative categories and concepts in order to throw some light on the ongoing transformation of the economic and social environment. For many scholars TGT affords a promising starting point for such an endeavor. Notions such as 'the self-regulating market system', 'fictitious goods', 'protection of society', 'double movement' or 'embeddedness' have become part of the standard repertoire, and not only in the critical discourse about globalization and neoliberalism. The so-called New Economic Sociology also builds heavily on Polanyi's work.

Unfortunately, there is no consensus about how Polanyi's concepts can be used fruitfully in the current conditions. In part this may depend on the nature of the book. TGT is a complex book in which several trains of thought are interwoven and which is open to different interpretations.

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But this is only half of the truth. Too often the socialist roots of Polanyi's approach are deliberately disdained or completely neglected. And sometimes it seems as if the authors pick out the categories which fit best their own line of reasoning. Polanyi's emphasis on the *exceptional* character, the *uniqueness* of the civilization of the nineteenth century is paid little attention. The fact that Polanyi underlined that the civilization of the nineteenth century was not only fundamentally different from what the world had seen before, but that it presented also "a distinct stage in the history of industrial civilization" (Polanyi 1944/2001, 5) is ignored.

Some authors apply the idea of "the institutional separation of society into an economic and a political sphere" (Polanyi 2001, 74) to all types of market societies. At the same time, 'the concept of the always embedded economy' levels down the differences between market- and non-market societies. As the success of the recent publications of Reinhart/Rogoff; David Graeber and Thomas Piketty demonstrates, since the financial crisis long-term approaches which are based on the universalization of modern economic categories are in vogue again. Paradoxically enough, and in spite of Polanyi's well-known critique of the 'economistic fallacy', also Polanyi's categories are arbitrarily applied to other historical periods.

I do not want to say that the tactics of limiting the reading of Polanyi's oeuvre to TGT and of isolating single categories cannot be fruitful. But I doubt that these approaches do justice to Polanyi's intentions. Hannes Lacher has pointed to the paradoxical result "that we (and "critical" social theorists in particular) have come to embrace as the fulfillment of Polanyi's vision the very social order against which he warned so insistently" (Lacher 2007, 62). And I fear that important and valuable insights are lost. Therefore, I will try to discuss some categories which Polanyi developed in TGT in the wider context of his oeuvre.

The most important sentence for the understanding of the TGT seems to me the *first sentence* of the book: "Nineteenth-century civilization has collapsed" (Polanyi 1944/2001, 3). The sentence sounds trivial, but it has far-reaching consequences for the understanding of the book. It tells us that in TGT Polanyi analyzes a civilization which did not exist anymore, which had become *history*. It is the story of the *failure* of this civilization. Indeed, none of the four institutions which Polanyi considers the defining institutions of the civilization of the nineteenth century – the balance-of-power system, the international gold standard, the self-regulating market system and the liberal state – had survived the Great Transformation. And Polanyi is not alone with this judgment. If we think of Keynes, Schumpeter, Röpke or Hayek: they all regard the interwar period as the end of the liberal civilization of the nineteenth century.

The important point is: Insofar as Polanyi studies the civilization of the nineteenth century, he is doing this from the point of view of an *observer*. He analyzes it from the *outside*. This clearly is an advantageous position. He can use insights, categories and ideas which were unfamiliar or even unknown to the scholars of the nineteenth century. But it has also the consequence that he cannot hope to exert influence on the course of the nineteenth century. He can only determine the *facts*. He does not take somebody's view, not the part of economic liberalism or the side of the countermovements as such. Surly, he does not make a secret of his sympathy for the groups which suffered most. And he expresses his admiration for Robert Owen and other socialists. But at the same time he must admit that the latter had had only a marginal influence

on the course of the events. Basically he tries to analyze in objective terms the institutional transformation which had been at the roots of the breakdown of the civilization of the nineteenth century.

At the same time we have to take into consideration that the meaning of the book does not consist only in the presentation of objective facts. Polanyi wants to exert influence and to contribute his share to what he called the “reform of human consciousness” (Polanyi 1944/2001, 133). But Polanyi cannot hope to influence the consciousness of the era which he is analyzing; this is only possible for another epoch, the one which represents his present or which is in the future. As Polanyi states in the introduction, he “dwells on scenes of the *past* with the sole object of throwing light on matters of the *present*” (Polanyi 1944/2001, 3; italics added). He does so because he is convinced that after the failure of the classical form of the liberal creed, neoliberalism attempts to bring the obsolete ideas of the nineteenth century back to life.

Therefore, whoever attempts to apply Polanyi’s interpretation to the current conditions has to face the question of what today we can legitimately pick up of his analysis of a sunken age. What can we learn from the account of the transformation of the society of the nineteenth century for the understanding of our own civilization? In TGT Polanyi leaves the question without a concrete answer. And in his later works he gives only cautious hints. Which elements and categories are relevant for understanding and for exerting influence on the current conditions? Or better, *how can we justify* utilizing some of Polanyi’s categories in order to make sense of our world at the beginning of the twenty-first century?

Most authors do not discuss the question explicitly. But whether ex- or implicit, the application of his categories supposes an answer. Let’s take the popular vision of interpreting the transformation in terms of a double movement, driven by the principle of economic liberalism on the one hand and by the principle of protection on the other hand. Some authors enlarge the vision by drawing on the idea of embedding/disembedding, supposing “that disembedding the market is similar to stretching a giant elastic band. ... With further stretching, either the band will snap – representing social disintegration – or the economy will revert to a more embedded position” (Block 2001, XXV). Others model some kind of ‘pendulum’ which swings between socially dis-embedded markets and socially re-embedded markets (cf. Beckert 2007; Gills 2008, 513-522; Paul Mason 2009, 171). I do not want to go into the details here, but it is obvious that these interpretations – independent of their differences – assume that the current developments can be understood as a prolongation of the dynamics which Polanyi describes in TGT, notwithstanding the different concrete forms which make up the institutional framework. Perhaps it is not by chance that some protagonists of the ‘variety of capitalism’-project stick to this kind of interpretation. Therefore, we should not be astonished that they regard the first sentence of TGT as flawed. “We know now, of course, that he (Polanyi –CT) was wrong”, we are taught by Block/Somers (2014, 19), when he states that in the 1930s the ideas of economic liberalism were discredited.

The question remains: Can the negligence of the differences between the civilization of the nineteenth century and today be justified? And if yes, how can it be vindicated? Are there good

reasons for criticizing not only Polanyi, but also Schumpeter, Keynes and others of deeply misinterpreting the course of events in the 1930s and 1940s? Is it sufficient to refer to the advancement of market fundamentalism since the 1980s? Or is the fruitfulness of such an endeavor a sufficient criterion for applying some of Polanyi's categories to the current conditions?

The following paper is subdivided into three broad parts. In the first two chapters I will reconstruct Polanyi's interpretation of the double movement. Chapter three focuses on the very heart of Polanyi's analyses, 'the problem of an industrial civilization' or, simply, 'the problem of society'. In the chapters four and five I will come back to the question of how to use Polanyi's categories in order to bring light to the post-war era and our society today.

I. Polanyi's interpretation of the double movement in the nineteenth century

In TGT the advancement and the breakdown of the market society of the nineteenth century is described as the outcome of a double movement. It is no surprise that the idea of a double movement is one of the concepts most employed in the current debate. "Polanyi's double movement thesis is intricately crafted and magnificent in scope. Its considerable influence is deserved", affirms Dale (2012, 9). Nevertheless, we are far away from a consensus of how to understand and apply it to the present conditions.

Therefore, let us start with an attempt to answer some basic questions: What are the roots of the double movement? What (or who) are the driving forces? Who are the principle actors? What are their motives? Is double movement a category which describes a particular feature of the historical period under scrutiny? Or can it justifiably and profitably applied also to other periods?

In order to answer these questions it is helpful to recall that the picture of a double movement is not Polanyi's discovery. He does not make a secret of the fact that he took it over from liberal authors. "Liberal writers like Spencer and Sumner, Mises and Lippmann offer an account of the double movement substantially similar to our own", Polanyi (1944/2001, 148) explains. According to the liberal view, impatient and shortsighted protective movements against progress and the achievements of the industrial revolution were driving for reforms in the direction of social utopias, while the liberals defended reality against harmful and damaging projects such as the Speenhamland system which until the 1830s prevented the establishment of a competitive labor market.

It seems to me essential to understand that the liberal interpretation does not simply refer to two opposing movements – one in favor and the other against the extension of the market logic – but to a *utopian* claim against the defense of social *reality*. From the beginnings Malthus, Ricardo, Say and their followers fought against the vision which since the Age of Enlightenment had, at the same time, motivated and disturbed social thinking in the Western world, i.e. the idea that human wellbeing can be increased by a conscious transformation of the institutions of society. From Polanyi's point of view the appearance of economic liberalism in form of a new

science which pretended to be able to determine the limits of the creative power of man was ground breaking. Ricardo discovered, he underlines in TGT, “the existence of a society that was not subject to the laws of the state, but, on the contrary, subjected the state to its own laws” (Polanyi 1944/2001, 116). The industrial revolution had unleashed new potentials which were incomparable with everything humans had previously invented. Technical possibilities seemed to be infinite. Did this mean that ‘anything goes’? What would be the effects on society? If not, what kind of limits had to be recognized?

From his early years in Budapest Polanyi is concerned about the influence of the industrial revolution on western culture and society. The issue which troubles Polanyi is not a technical problem, but a cultural and, in a certain sense, an ethical or moral question. Polanyi welcomes the increase of productivity and technical progress. But he is worried about the moral implication of mass production and mass consumption. In his younger years in Hungary he is concerned primarily with the question of the influence of the machine on man’s consciousness. He concentrates on social and cultural change, ethical and moral transformation and the reform of human consciousness. The increasing division of labor and large scale industrial production requires standardization of life and discipline. He fears that, under the conditions of organized industry, conformity gets the upper hand over spontaneity and control over self-determination. He is afraid that human consciousness becomes uniformed and standardized, that bureaucratic management dominates over personal initiative and that critical states of mind are regarded first as superfluous, then as repulsive and finally as immoral (cf. Polanyi 1909).

The western civilization had to find an answer to the challenges of the new epoch. The emergence of the social sciences was regarded as a *chance* to increase human self-consciousness. The political economy could and should contribute to a better understanding of the possibilities and the limits which the industrial revolution had created. David Ricardo in England as well as Jean Baptiste Say in France were among the first who were looking for the limits of accumulation and social wellbeing. And they found them in terms of *natural* boundaries. In England Joseph Townsend’s ‘dissertation’ (1786) and Thomas Malthus’ ‘Essay on the Principle of Population’ (1798) had paved the way, pointing to the limits of the means of subsistence. Both had opposed the idea that institutional reforms could improve and perfect society by pointing to natural limits. The conflict between increasing population and limited means of subsistence would necessarily have the consequence that “the actual population kept equal to the means of subsistence, by misery and vice” (Malthus 1798, 44). By accepting the framework, Ricardo built his formulation of the laws of distribution, “the principal problem in Political Economy” (Ricardo 1817, 3), directly on the inexorable laws of Nature, i.e. on two biological laws, the fertility of man and the fertility of the soil. It is crucial to understand the particular character of this argument and of its influence on the consciousness of the nineteenth century. Two aspects are critical.

1) The first aspect we may call *naturalism*. Ricardo had discovered the existence of an industrial society. Society, as he assumed, was governed by natural laws. This line of reasoning reinforced the position economic liberalism vis-à-vis its antagonists enormously. Institutional reforms were powerless compared to the laws of Nature. “The circumstances under which the existence of this human aggregate—a complex society—became apparent”, Polanyi underlined, “were of

the utmost importance for the history of nineteenth-century thought” (Polanyi 1944/2001, 121). It seemed as if political norms could be immediately (and without further evaluation) derived from economic facts. What contradicted nature had to be avoided or abolished. If something was in conflict with the laws of nature it could have been introduced only because of a lack of understanding or ignorance. The knowledge of the economic laws was regarded as a straight guidance on what kind of social reform would be necessary if society pretended to advance. Drawing on alleged natural laws and natural rights gave them a considerable advantage in relation to their opponents. Defining the economic laws in terms of insuperable laws of nature discarded every proposal for social reform other than for market solutions. All plans to raise living standards, to limit market forces or to redistribute property could be rejected a priori on the grounds that such policies were impracticable because they contradicted what was natural. Economic determinism was the result, i.e. the idea that society is principally constrained by economic laws which can be attributed to Nature. The protagonists of economic liberalism used this new insight to attack whatever demand for protection. Thomas Carlyle appropriately characterized the liberal economic theory of the nineteenth century as a ‘dismal science’.

The belief in naturalism explains the otherwise astonishing feature that the classical theory was not interested in institutions, not even in the institutional features of the market system. The value-theory, the theories of distribution and of accumulation can be understood without referring to the institutional characteristics of the market. The alleged economic laws which the theories of the nineteenth century discovered were not the laws of the market. They were not laws of any particular institution. Malthus, Ricardo or Say were looking for natural boundaries which could be traced back to biological laws. In the classical theories the market was taken for granted. Its properties remained in semidarkness. Supply and demand were considered as the driving forces behind the daily fluctuations of prices around the exchange value. But the focus remained on value theory, not on the short-term fluctuations. The core of classical theories – the theories of value of exchange, of distribution and of accumulation etc. – could be elaborated without taking into consideration the features of markets in any detail.¹

From today’s perspective it may be difficult to imagine what the influence of naturalism on the consciousness of the nineteenth century really meant. We have difficulties conceiving what it means if you are convinced that *money is gold*. We have difficulty imagining an economic world in which the notion of price stability has yet not been developed and where categories such as inflation and deflation were unknown. Nevertheless, this was the case in the nineteenth century. It was taken for granted that the price level was dependant on the relative value of gold. And it was regarded as self-evident that central banks should take over their part in order to assure the stability of the financial system. As long as the central banks guaranteed convertibility of coins and notes in gold, it would have seemed absurd to hold the central banks liable for the increasing or decreasing price-level. The monetary authorities learned to follow

¹ This remains true even for the founding fathers of the theory of marginal utility. The whole approach of Walras, for example, is about the price relations which are necessary in order to achieve the maximum of utility. But he is not interested at all in the institutional conditions which are more or less favorable for reaching this goal. Walras’ maximum of utility is consistent with any degree of government intervention.

'the rules of the game'. But the 'belief in gold' was the indispensable tacit assumption on which the International Gold Standard rested. As we saw later in the 1920s: When the 'belief in gold' had vanished, political will was unable to replace it. It is too easy to explain the proposals and decisions of the English economists of the nineteenth century pointing to class interests and personal advantages. They acted by conviction. When Ricardo fought for the abolishment of the old poor law, he was convinced that he would contribute to the improvement of the living conditions of the capitalists, but also of the poor.

2) Secondly, we have to understand that the alleged natural laws first of all were used in order to demonstrate what is *not* possible. I will, therefore, call this dimension the *impossibility theorem*. In the twentieth century Karl Popper would make of the impossibility theorem one of the founding stones of 'critical rationalism': "Every 'good' scientific theory is a prohibition. It forbids certain things to happen. The more a theory forbids, the better it is" (Popper 1963/2006, 48). Classical political economy used the reputation of the natural sciences to demonstrate that certain social reforms such as the 'old poor law' or the disentanglement of the Pound Sterling from gold could not be maintained because they were 'against nature'. The logic of the impossibility theorem is irresistible. If it can be scientifically proved that certain measures are unachievable, only misunderstandings and ideational misconstructions can motivate the resulting proposals for reform. Their supporters can be denounced as dreamers which believe in the reality of utopian dreams. The impossibility theorem is more than a rhetoric figure. It depends on the belief in social laws which can be established scientifically. The perversity thesis, the futility thesis and the jeopardy thesis which Hirschman (1991) describes so vividly in his book 'Rhetoric of Reaction' are based on the consciousness that the proposals for social reform brought about by the countermovements could be excluded on purely scientific grounds.

Why is it important to take a look at the consciousness of the nineteenth century? Why does Polanyi dedicate several chapter of TGT to the analysis of the liberal creed, even if he understands its flaws and weaknesses? The reason is that the liberal worldview was the main driver of the institutional transformation of the civilization under scrutiny. "People's strivings are", as Myrdal (1956, IX-X) underlines, "among the most important social facts and they largely determine the course of history". As I have demonstrated on another occasion (Thomasberger 2012/13) Polanyi did not accept the juxtaposition of being and thinking, of material life-process and consciousness which is taken for granted by the conventional theory of knowledge. Polanyi regards the liberal creed as part of social reality. It was the driving force behind the institutional transformation of the nineteenth-century civilization. The belief in economic laws which determine the limits of the possible improvement of society was a constitutive element of the liberal creed. In Polanyi's explanation of institutional change, ideas do play an indispensable role. "Not the material world, but the *idea* of this material world is the driving force, however wrong and erroneous this idea may be" (Polanyi 1919, 461; translation by the author), he stresses as early as 1919. When Polanyi characterizes the civilization of the nineteenth century as an *economic society*, the reason for this particular feature lies in the dominating worldview, the liberal creed. The nineteenth century believed in economic laws. The belief in economic determinism was the corner stones on which the society of the nineteenth century was

grounded. The belief had real consequences. The market system expanded and it produced a fervent dynamic unknown to earlier generations, a new way of life which spread over the planet.

The belief in the economic laws which could be traced back to natural conditions had eminent consequences. The first was Laissez-faire. Laissez-faire was the logical consequence of the belief in naturalism and, therefore, an indispensable part of the consciousness of the nineteenth century. If social and economic progress is regarded as a natural development, human intervention can only hamper the advancement of society unless it promotes what is natural. The laws of nature are beyond human control. They cannot be changed by political decisions. They are also a norm. The philosophy of natural law implies that teleology and causality are identified. The economic laws had to be understood and accepted as a guideline for political action.

Another important consequence of the belief in naturalism was the particular dichotomy which characterized nineteenth-century civilization. Society decomposed into two spheres, the 'economic sphere' which was determined by the natural laws of production and natural rights on the one hand; and a 'higher sphere' encompassing the 'rest' of society where manmade laws prevailed on the other hand. Polanyi calls this separation *disembedding* of the economy from society. The rule of property and contracts were regarded as natural laws originating in the nature of things. Polanyi obviously refers to this division when he states: "As regards man, we were made to accept the heresy that his motives can be described as 'material' and 'ideal', and that the incentives on which everyday life is organized spring from the 'material' motives. Both utilitarian liberalism and popular Marxism favored such views. As regards society, the kindred doctrine was propounded that its institutions were determined by the economic system" (Polanyi 1947, 110). The liberal economists of the nineteenth century took for granted the existence of an economic sphere which was controlled by natural laws and, therefore, free of the jurisdiction of the state.

At this point it should be obvious why the notion of the "always embedded economy" can be misleading. The question of whether the term self-regulating market system should be regarded as a utopian experiment doomed to failure or as an existing system, an 'ontological reality', is missing the point. A utopia is only a utopia because it is unachievable. This is self-evident. Insofar the assertion that the economy even in the nineteenth century was not completely disembedded can be taken for granted. But this is clearly *not* Polanyi's point. His emphasis is on the particularity of the society of the nineteenth century. *Never before* in human history had the idea prevailed that human destiny depends on economic laws detached from any moral and ethical consideration. *Never before* was the institutional transformation of society driven by a belief which separated the faith of society so completely from the moral world. Polanyi calls the economy disembedded because the *belief in economic determinism* was a constitutive factor of the consciousness of the nineteenth century.

II. From the interwar period: looking back to the future

From the point of view of the interwar period (or even today) naturalism was obviously a fallacy. After World War I and the bolshevist revolution it is taken as self-evident that there had never been economic laws which determined the faith of society. Naturalism was wrong and the ideas of economic determinism had proven to be misleading. After the war, Polanyi sustains, economic determinism “proved to be bare economic superstition and blank chimera” (Polanyi 1919, 461; translation by the author). Not only for Polanyi, but also for Mises, Lippmann, Hayek and other ‘new’ liberals it seems obvious that Ricardo and his followers had misinterpreted the existence of an industrial society. They had failed miserably because they mistook the social for natural laws. The “lapse into naturalism”, as Polanyi (1944/2001, 121) suspects, might have been the consequence of what to the nineteenth-century consciousness appeared as the “apparently insoluble problem of pauperism”. But whatever the origins of the naturalist interpretation of laws which turned out to be essentially social in character, a misbelief had haunted the human consciousness for the greater part of the nineteenth century.

In other words, we must distinguish clearly between the self-consciousness of the actors of the nineteenth century and the world-views which prevail in the interwar period (including Polanyi’s reasoning). For the contemporaries of the nineteenth century, naturalism seemed real. From the point of view of the interwar period naturalism is considered a misleading story of the past. Polanyi is not alone with his critique of the naturalist belief. The ‘new’ liberals of the twentieth century do not only share Polanyi’s critique of naturalism, but also the political implications, i.e. the repudiation of *laisser-faire*. Here I do not have the space to discuss the question of why in the interwar period the naturalist fallacy broke down. Certainly World War I and the bolshevist revolution exerted a strong influence on the consciousness of the interwar period. But for our argument it is sufficient to take the breakdown of naturalism as a datum.

What does this shift in consciousness mean for the understanding of the liberal creed and the double movement? The liberals of the nineteenth century were convinced that they defended the reality against utopian movements which aimed at social protection. From the point of view of the 1920s and 1930s it is self-evident that, regarding the nineteenth century, the juxtaposition between *realistic* liberalism and *utopian* countermovements cannot be maintained. Ricardo and his followers had not defended reality against utopian claims, but they had fought for a fiction, the naturalist fallacy. In reality, the countermovements which opposed economic liberalism were the ones who defended social reality against a utopian project. The roles are reversed. Polanyi adheres to the impossibility theorem, but – as we will see later on – not to naturalism.

Polanyi accepts the idea of a double movement, but he inverts the argument and turns it against the liberal creed. “While in our view the concept of a self-regulating market was utopian, and its progress was stopped by the realistic self-protection of society, in their view all protectionism was a mistake due to impatience, greed, and shortsightedness, but for which the market would have resolved its difficulties” (Polanyi 1944/2001, 148). Up to this point Polanyi’s reasoning seems obvious. Indeed, from the point of view of the interwar period the inversion of

the argument does not call for any particular justification. It is more plausible than the liberal case!

The more interesting aspect is perhaps that Polanyi does *not* invert the model completely. He never argues that the countermovements “would have resolved its difficulties”. He never pretends that the countermovements offer a solution of the problem of society. And more than that, he points out the limited character of the countermovements. The factors of production – or the ‘fictitious commodities’, as Polanyi calls them – are the obvious starting points of the countermovements. Insofar as they are not produced, labor, money and nature do not have a supply function comparable to ‘ordinary’ commodities. Markets for the factors of production cannot be established without political intervention . Therefore, the countermovements have good reasons to oppose the liberal initiatives. But this does not mean that they develop answers to the question of how to organize an industrial civilization. The countermovements are mainly concerned with the problems of capitalism, not with the problems of society. They struggle against exploitation, social injustices, economic crises etc., but they do not have a plan, an idea, a real solution to the problems which society has to face.

When Polanyi states in TGT that “while laissez-faire economy was the product of deliberate State action, subsequent restrictions on laissez-faire started in a spontaneous way. Laissez-faire was planned; planning was not” (Polanyi 1944/2001, 147), he does not only oppose the liberal interpretation. He also underlines the limited character of the countermovements, i.e. the fact that during the nineteenth century protection was for the most part defensive and isolated. The greater part of the English countermovements did not have an idea of the true character of the laws of society. They did not have a plan for how to adapt to these laws. Right on the second page of TGT he warns of the negative and disruptive side effects of the countermovements. They “impaired the self-regulation of the market, disorganized industrial life, and thus endangered society in yet another way. It was this dilemma which forced the development of the market system into a definite groove and finally disrupted the social organization based upon it” (Polanyi 1944/2001, 4). And at the beginning of the last chapter of TGT he underlines once more the co-responsibility of the countermovements for the disintegration of the nineteenth-century civilization. In other words: According to Polanyi’s interpretation, the countermovements were mainly a reaction to the liberal utopia which made them an *integral* part of this civilization. They were born with the civilization of the nineteenth century, and they were destined to die with it.

The tragedy of the civilization of the nineteenth century was that neither economic liberalism nor the countermovements were able to develop an adequate understanding of the problem of society – economic liberalism failed because of its lapse into naturalism, the countermovements because of their limitedness and spontaneous character. This explains why in TGT Robert Owen is Polanyi’s hero. Owen tried to understand and to adapt to the laws of a complex society. Owen neither fell back into naturalism nor did he seek refuge in a world without social limits. He was one of the few socialists of this period who really transcended the limits of the nineteenth century civilization. What made Owen outstanding was his aspiration to find creative answers for how to combine the recognition of an industrial society with the pretense of maintaining personal freedom and responsibility.

The interpretation that countermovements should be, in whatever sense, progressive and in open opposition to the market, has little to do with Polanyi's description of the countermovement. Surely, it is correct to criticize some sociologists of the ending twentieth/beginning twenty-first century who, drawing on Polanyi, "tend to idealize social protection" (Fraser 2012, 5). But you cannot blame TGT or other writings of Polanyi for the same fallacy. Under the conditions of the nineteenth century, social protection was unavoidable. But at the same time it was a rather limited endeavor.

To sum up, the double movement cannot be depicted as some kind of a metaphysical development or as a historical tendency. It was the outcome of a particular political struggle – a utopian project referring to the alleged laws of nature on the one hand and realistic, but limited, countermovement on the other hand. It cannot be generalized without more closely examining the concrete conditions. Polanyi applies the notion double movement only because in the nineteenth century a utopian creed, masked as alleged realism and opposed by defensive counter movements, became the powerhouse of institutional transformation. Polanyi never uses these terms to describe, for example, the conditions in Austria in the 1920s with its strong socialist movements. He was well aware of the fact that the double movement had come to an end in the interwar period. The end of the belief in naturalism induced also the end of countermovements. As Polanyi makes clear not only in the last chapter of TGT but also in numerous articles during the 1920s and 1930s: Fascism and socialism cannot be regarded as countermovements. Both represent alternative models of society which aspire to supersede and to take the place of the civilization of the nineteenth century.

The breakdown of the naturalist fiction during the interwar period opens a chance to overcome both, the liberal creed and the limitedness of the countermovements, and to discover the laws of an industrial civilization which the western world has to adapt to. From Polanyi's point of view the breakdown of naturalism is regarded as a chance insofar as it opens the possibility of a reform of human consciousness which is based on a true understanding of the problem of society. "Much of the massive suffering inseparable from a period of transition", he states in TGT, "is already behind us. In the social and economic dislocation of our age, in the tragic vicissitudes of the depression, fluctuations of currency, mass unemployment, shiftings of social status, spectacular destruction of historical states, we have experienced the worst" (1944/2001, 258-259). But he is also well aware of the fact that there is no automatism which leads to a socialist and democratic society.

When Polanyi drafts TGT he knows that in the interwar period naturalism, the fiction which had dominated the thinking of the nineteenth century was passé. He regards the breakdown of the naturalist fiction as progress insofar as it opens up the chance to substitute a more realistic vision of society for the liberal utopia. But at the same time Polanyi is skeptical concerning the future development, not only because fascism was a serious danger which threatened western civilization, but also because economic liberalism was still alive. The protagonists of economic liberalism did not acknowledge defeat and abandon the field. Instead, they were trying to develop new justifications for the market system which would be able to take the place of the naturalist fallacy.

Is it true that Polanyi is overoptimistic concerning a socialist future after World War II? In his writings he never excludes or underestimates the dangers of a restoration of economic liberalism. And more than that: If he really had fallen victim to false optimism, the writing of TGT which was directed mainly against the liberal utopia would have had little sense. And even if in the first years after World War II he detects a general tendency in direction of regional planning, he warns of the exceptional influence ensuing from the United States. "The United States has remained the home of liberal capitalism and is powerful enough to pursue alone the utopian line of policy involved in such a fateful dispensation ... the United States has no alternative. Americans almost unanimously identify their way of life with private enterprise and business competition – though not altogether with classical laissez-faire. This is what democracy means to them, rich and poor alike ... the stupendous achievements of liberal capitalism appear to Americans as the central fact in the realm of organized society" (Polanyi 1945, 87). And, as we will see in a moment, Polanyi was right: Based on the dominant position of the United States in the Western World, economic liberalism witnessed resurgence after World War II. But before we continue our journey with a comparison between the condition of the postwar-era and the conditions of the nineteenth century it is helpful to take a closer look at the 'problem of society' which is at the very heart of Polanyi's reasoning.

III. The problem of society and the reform of human consciousness

The question of the consequences of the industrial revolution on the *human consciousness* can be regarded as the main thread running through all his work. What are the effects of the industrial revolution on human society? What is the character of the social laws to which man has to adapt? Where are the limits of human self-determination and freedom? Polanyi asks these and similar questions over and over again. He already addresses these questions in Hungary. But he finds a precise definition of the issue only after World War I while participating in the 'socialist accountancy debate' and the Austro-Marxist discussions about the possibility of a socialist reorganization of society.

What is the issue? Ludwig Mises launches the 'socialist accountancy debate' in 1920 with the article "Economic calculation in the socialist commonwealth". Also for him it is self-evident that the naturalist fallacy was a story of the past. Mises poses the question of the *institutional* organization of the economic relations in a complex society. Indeed, after the breakdown of the naturalist fiction, economic theories become interested in the institutional features of the economy.² Superficially, the issue seems to be 'capitalism versus communism' or 'market versus central planning'. But essentially Mises' article and the following book 'Gemeinwirtschaft' (later published in English under the title 'Socialism') do not only attack central planning. The real

² Cf. Cangiani 2000, 130: "La mia tesi è che la prima guerra mondiale segni una cesura profonda e permanente anche nel campo della scienza economica. ... La guerra rende obsoleto tale liberalismo, dando luogo a due alternative. La prima è l'approfondimento dell'analisi storico-istituzionale, in relazione con il mutamento della realtà, fino a mettere in questione il sistema capitalistico o almeno il suo assetto istituzionale ottocentesco. La seconda alternativa, che prevale sulla prima e costituisce la norma, consiste nel rendere la teoria più astratta e formale, e quindi indipendente dalla trasformazione istituzionale".

importance of the debate is that Mises points toward the problem of an industrial society in order to criticize the 'communist fiction'.³ Mises understands that the latter is the cornerstone of both, of the idea of central planning *and* of the notion of 'social value' which is essential for the welfarist schools. Indeed, even if at first glance Mises contributions seem to attack the proposal of Otto Neurath (1919) for 'planning in kind', they are no less directed against Friedrich Wieser's notion of a "simple economy" (cf. 1914/27, 9), the Lausanne school (Walras, Pareto) and welfarism in general. Mises realizes that all these models had a common ground, insofar as they start from the assumption that society is essentially the result of human will aiming at social wellbeing.

The starting point of Mises' argument is the distinction between a household economy and a complex modern industrial civilization. Under the conditions of "the narrow confines of a closed household economy, it is possible throughout to review the process of production from beginning to end", Mises explains. "This, however, is no longer possible in the incomparably more involved circumstances of our own social economy" (Mises 1920/1935, 12-13).⁴ The analysis of an industrial civilization cannot be based on the model of a community or household because modern society has to face a problem which in a household does not exist. Under the conditions of a modern society, rational economic planning is impossible because no single person and no central authority is able to have the *oversight* and knowledge which would be necessary for rational economic planning.

Mises' reasoning is quite simple but fundamental; it consists of two steps. Firstly, he defines the problem of an industrial civilization, arguing that in a complex industrial society human relations are necessarily intransparent. Under these conditions, it is impossible for a single person to oversee the consequences of his/her decisions and to take responsibility for his/her actions. Therefore, the model of a household or a community, even if it seems attractive, is totally misleading. The problem of oversight cannot be resolved by reverting to a communist fiction. Rational economic planning is unachievable because nobody can have the knowledge which would be necessary. This is a principle problem which cannot be resolved by whatever technical device. An alternative solution has to be found. In other words: Mises draws on the impossibility theorem but, in opposition to Ricardo, not on natural laws. In his line of reasoning the problem of a complex society is substituted for the laws of Nature.

In the second step of his reasoning, Mises offers the answer. If in a complex society oversight and direct human relationships are impossible, the *market system* provides the solution! The *market* achieves what community is unable to accomplish. Mises' contributions to the socialist calculation debate are relevant until today not because he teaches anything about economic calculation, but because he lays the foundation for a new meta-theoretical belief, the *neoliberal fiction*. Just as the naturalist fiction (or the communist fiction), the neoliberal fiction also has

³ I use the term 'communist fiction' in the same way in which Myrdal (1930) has introduced the notion in order to describe the idealizing assumption that an entire nation can be seen as a massed unit, a household or a community directing its forces to a common goal.

⁴ In the German original text Mises uses the verb 'übersehen' (to survey, to overlook) instead of 'review'. I mention this difference because Polanyi uses in his articles not only the same verb 'übersehen', but also the nouns 'Übersicht' and 'Übersichtsproblem'. See below.

the character of an assumption, a prejudice or a superstition. Mises never explains *how* the market accomplishes this task.⁵ He simply assumes that there are only two alternatives: household/community *or* markets. And he takes for granted that the second is the only possible answer, if it can be proven that the first is a false and misleading analogy. If under modern conditions a worldwide human community is inconceivable, it is assumed that only the market accomplishes the task. The market system, he sustains, achieves what central planning is striving for in vain. Markets are regarded by Mises as a substitute for oversight.⁶

Karl Polanyi is one of the first who understands the crucial importance of the line of reasoning brought forward by Mises. Polanyi publishes a paper in which he exposes his own position and a rejoinder in the same journal in which Mises' article had been released. He accepts the question which Mises poses. He recognizes that a complex society cannot be understood in terms of a community and that a "solution of the problem of accountancy in a centrally planned economy is impossible" (Polanyi 1922, 478). But he rejects the idea that the market provides a solution. In other words, Polanyi accepts the first step of Mises' reasoning, *but not the second*. He accepts the impossibility theorem as well Mises' rejection of naturalism. But he regards Mises' defense of the market system as no less utopian than the naturalist fallacy.

So as to outline his alternative, Polanyi explores the possibilities of a guild-socialist solution which goes beyond the alternative 'central planning or market'. He adopts a broader perspective than Mises insofar as his concern is not mainly the problem of economic rationality, but the problem of freedom, i.e. the difficulty that in a complex industrial society the single actors do not have the possibility to oversee and understand the consequences of their actions and, therefore, to decide freely and responsibly towards others.⁷ He discusses at length not only the problem of *external*, but also *internal* oversight (human needs, work-sufferings). Oversight, he argues, cannot be substituted by a soulless mechanism like the market system, but only by organizational reforms which help to *increase oversight in reality* (Polanyi 1922/2005, 1925/2005, 1925-30a/2005, 1925-30b/2005). Participating in the discussions on the fringes of Austrian Marxism he explores how the organizations of the socialist and the labor movements – labor unions, associations, socialist municipalities, direct democracy – can contribute their share to an expansion of oversight in an industrial society.

⁵ Hayek feels the weakness of Mises' reasoning. He undertakes several attempts – ultimately without success – to bridge the gap (cf. Hayek 1937, Hayek1945).

⁶ It is important to recognize that in this article for the first time a liberal economist recognized the problem of a complex society in order to demonstrate the superiority of the market as *compared* to another *institutional* arrangement.

⁷ In a lecture which he gave some years later exploring the relationship to Marx' analysis of the Fetishism of Commodities and the philosophical implications of the loss of oversight in a complex society (Polanyi 1925-30b/2005), he raised the question in more philosophical terms: How can a person be free when in conditions of modernity he/she has no possibility to comprehend the consequences of his/her actions? How can he/she take over responsible for his/her decisions, if in a complex industrial society he/she is unable to oversee what the outcome for other people is? And how shall a society look like which can really be called a free society? I do not have the possibility in this context to discuss all the implications of what Polanyi called 'the problem of freedom in a complex society'. But it should be obvious that in Polanyi's reasoning the question of personal freedom is linked directly to the problem which he later calls the problem of society.

Polanyi never accepts the alternative 'market or community'. And he never agrees to the idea that an institution can be seen as a solution to the problem of society. In Polanyi's view oversight, freedom and responsibility are human *values*, not *facts*. They have to be defended against whatever soulless mechanisms. Even if it is true that in society institutions are unavoidable, no institution can be expected to solve the problem. Human norms and ideals can be made true as far as we consider them as a task, as our mission. But he is convinced that no institution can be regarded as a solution to the problem of a complex society.

During the later years Polanyi realizes that the problem which the industrial civilization had laid bare is not limited to the liberal age. It is the far more fundamental problem of human society as such. In his later work, instead of the terms 'problem of oversight' or 'problem of an industrial civilization', Polanyi uses different notions examining the question from several perspectives. In the discussions with the Christian left he underlines the importance of the distinction between *community* and *society*. In the last chapter of TGT he underlines the necessity of recognizing the *reality of society*, i.e. the reality of economic *value* and *power*. And in his later writings he focuses on different *institutions*. The most general notion which he applies is perhaps the term 'problem of society'.

In the debates in Vienna with the protagonists of Austro Marxism, Polanyi underlines that institutions which develop 'a life of their own' are unavoidable in human society. He considers the institutions a third realm beneath nature and human will. "In each larger society based on the division of labor", he states in the manuscript 'On freedom', "a direct socialization of man is not possible. Under these conditions the unity of the total can be ensured only if certain social occurrences persist and mediate between man and man. These social occurrences form a kind of third realm, which stands between the realm of being and the realm of consciousness. ... It is the real subject of sociology. Its richness of occurrences is not smaller than that of nature or of the human soul. Beneath almost bodily organs like state and market we find ... for example the laws which determine the price formation in capitalism." (Vol. III, 168; translation by the author). Polanyi has been characterized as one of the most important institutionalists of the twentieth century beneath John K. Galbraith, Karl W. Kapp, Adolf Löwe, Gunnar Myrdal, François Perroux and J. Ron Stanfield as well as some Marxian scholars (Cangiani 2011). This classification is, I think, completely correct. Institutions are and remain at the center of Polanyi's research in the following decades. Polanyi focuses on institutions because, notwithstanding their variety in human history, they are indispensable for the life in society. Even if it may sound paradoxical, they gain center stage of Polanyi's research because he considers them to be problematic and to threaten personal freedom and autonomy.

Obviously the most important institutions in modern societies have to do with power and economic value. "Power and value" he maintains in discussions with the Christian Left, "are inherent in society; political and economic coercion belong to every and any form of human cooperation. It is part of the ineluctable alternative of human existence that we can chose only between different kinds of power and different uses to which to put them but we cannot chose *not* to originate power and *not* to influence its use once it is created" (Polanyi 1937/38, 271). Social institutions are unavoidable, even if they put limits to human freedom and self-determination. We cannot live without them. In TGT he comes back to this argument when he

speaks of a necessary “reform of human consciousness to be reached through the recognition of the reality of society” (Polanyi 1944/2001, 133). “No society is possible”, he stresses, “in which power and compulsion are absent, nor a world in which force has no function” (Polanyi 1944/2001, 266). And finally, at the end of the 1950s he recapitulates: “Society’s invisible tissue did not truly come to light before it had been dyed through contact with machinery. Technology thus partly created, partly revealed the existence of an interpersonal structure around us that had a consistence of its own – not any more an aggregate of persons, nor even a Hobbesian Leviathan built of human magots but reality, not in its changing forms but in its abiding existence as unshakable as death” (Polanyi 1957, 1). One of the key insights of Polanyi’s work is that society, i.e. the existence of an institutionalized, interpersonal structure of human relations which develops ‘a life of its own’, is a *reality* that can only be recognized. No technical progress and no institutional innovation can overcome the limits which are defined by the human condition. Therefore, a new consciousness is required which recognizes the fact that power and economic value can never be removed completely, but only limited so as to increase personal freedom.

It is an irony that Polanyi, who since his days in Budapest and until the end of his life opposed the communist fiction vehemently, was accused by several reviewers after World War II of romanticizing and idealizing community in his writings. Polanyi is not only familiar with the distinction made by Tönnies (1887/1957) between *Gemeinschaft* und *Gesellschaft*, he is interested in the institutional particularities of ancient societies exactly for the opposite reason, i.e. because he knows that “no society can be the realization of community” (1937/38, 271). It is true that he uses the idea of community as a regulative idea and a point of reference.⁸ Oversight, personal freedom and responsibility are norms he strives for. But in his writings he keeps norms and facts, community and the reality of society separated.

IV. Post-war era

What can we learn from Polanyi’s analysis for the post-war era? Can we use his approach to cast light on the development after World War II? Indeed, it did not take much time to realize that Polanyi’s fears were justified. The United States exerted their dominant influence on the Western World with the consequence that economic liberalism resurged in the 1950s in an apparently new splendor.

If the fate of society is not determined by natural laws, what else should it be than the outcome of human will and intentions? After the breakdown of the naturalist fallacy, the communist fiction returned with a new livery. From the beginning welfare economics had the problem of how to determine objectively and scientifically the principle goal which society should strive for. The idea of social welfare (or the principle of the greatest happiness of the greatest

⁸ From this point of view Polanyi’s approach shows striking similarities with G. Myrdal’s remark that “there is no way of studying social reality other than from the viewpoint of human ideals. A ‘disinterested social science’ has never existed and, for logical, reasons, cannot exist. ... It is ... on account of scientific stringency that these valuations should be made explicit” (Myrdal 1956, 336). Compare Thomasberger 2014.

number) had been reduced to absurdity by Myrdal (1930) and Robbins (1932). The means-end-scheme proved to be rather disappointing. Initially the communist fiction in its skeptical, defensive form got the upper hand. Keynes had paved the way during the interwar period focusing on price stability (1930), employment (1936) and external balances (1943-44). After the war his followers did not care about the theoretical difficulties in determining an ultimate end of society. They were more realistic in the sense that they made their aim the avoidance of the economic disasters of the interwar period. By attacking inflation/deflation, unemployment and external imbalances they were even able to integrate the main claims of what in the nineteenth century had been the countermovements. It was accepted that the market system could not be left to itself and that it had to be completed by macroeconomic policy. The central authorities (government, central banks) should take over task for steering the economy so as to overcome the deficits of the market. In the 1950s and 1960s in the industrialized countries of the Western World, Keynesianism was able to resolve – or at least reduce considerably – some of the most pressing problems of capitalism which the interwar period had revealed. But Keynesianism never attempted to tackle the problem of society.

Keynesianism never made a secret of his conservative intentions. In his opera magnum, “The General Theory of Employment, Interest and Money”, Keynes admitted that his “theory is moderately conservative in its implications” (Keynes 1936, 377). He was (and considered himself) a member of the English upper class; and his main goal was to safeguard the role of England and of the status of his class. And indeed, he did not attack the market system head-on. “I see no reason to suppose that the existing system seriously misemploys the factors of production which are in use. There are, of course, errors of foresight; but these would not be avoided by centralising decisions” (1936, 379). Keynes could argue that his proposals were in favor of the majority of the people, but he was not directly interested in democracy. The goals were established by experts, not by majority vote.

When at the end of the 1960s the disasters of capitalism seemed to be successfully resolved, the limits of the Keynesian project could no longer be neglected. The question of what society should strive for appeared again on the agenda. When welfare and economic growth were substituted for avoidance of the interwar disasters, the communist fiction of a society which could be compared to a huge household embracing millions of persons was back. Society was increasingly modeled as some kind of welfare system in which a group of experts had the task of steering the market system so as to achieve the predefined goals. Democracy was accepted, but minified. A well-trained group of technicians working in central banks and finance ministries of national governments and in international institutions was regarded as sufficiently able to regulate the market system appropriately and to achieve the goals of the social community.

If our analysis is correct, the question: ‘Why is welfarism essentially unstable?’, can be easily answered: Welfarism was not sustainable because it did not offer an answer to the problem of society. By limiting itself to the problems of capitalism while ignoring the more fundamental problem of society, welfarism was no less utopian than naturalism had been. The idea of equating society with community may be fascinating from a liberal point of view, but it does not offer an answer to the question of how oversight and freedom can be increased. Polanyi’s concern about the return of the market utopia after World War II under the guidance of the

United States proved to be true. The '68 *generation* can be considered a rather helpless attempt to revisit in critical terms the question of society which welfarism had neglected.

When in the 1970s the appearance of stagflation laid bare the fictitious assumption on which welfarism was erected, it turned out to have dominated only during a transitional period. We cannot be surprised that the analogy between society and a household/community was rejected as an 'abuse of reason' and as a 'fatal conceit' by Mises' scholars. In the 1970s neoliberalism was prepared while the political left was not. As we have seen above, Mises had laid the foundation of neoliberalism in the 1920s. In the meantime an army of economists, organizations and research projects from Hayek to Friedman and from the 'Mont Pelerin Society' to the 'Free Market Study Project' had refined the approach. But the basic idea was still the same: In whatever form the communist fiction appeared – whether as bolshevism, Keynesianism or welfarism – the impossibility of reviewing the economic process from beginning to end in an industrial civilization based on a global division of labor offered an explanation of why the goals had been missed. Welfarism was doomed to failure, according to the neoliberal diagnoses, because without offering a solution for the problem of an industrial society its promises were empty. The governments do not dispose of the oversight which would be necessary to reach its goals.

The position of the protagonists of welfarism was further weakened by the fact that, by integrating social protection, the flexibility was undermined which was necessary to make the market system work. Nevertheless, the basic reason for the failure of welfarism was that it was unable to offer an independent answer to the problem of society. In the end it was defenseless against the neoliberal attacks. In the duel between welfarism and neoliberalism it was irrelevant that the neoliberal answer to the problem of society was as fictitious as the welfarist utopia. The weapons were unequally distributed. On the one hand, neoliberalism had no difficulty in criticizing the communist fallacy underlining welfarism. On the other hand, since it surrendered itself to the market, welfarism could not counterattack neoliberalism for proposing the market as the solution of the problem of society.

V. The institutional transformation today

If we try to benefit from Polanyi's analysis of the nineteenth-century civilization in order to shed light on the institutional transformation which is taking place today, we have to take into consideration the fundamental difference of such an endeavor compared to Polanyi's analysis in TGT. We are not focusing on a civilization which has collapsed, but on *our* society, not on history, but the *present*. We do not have the possibility to explore our society from the outside, but we are insiders. We are observers and actors *at the same time*. We want to exert influence on what we are studying. Research and participation cannot be separated. At the focus of our studies are the social forces and movements of which we want to support some and weaken others. Therefore, our concern with the social movements is completely different from Polanyi's relationship with both, economic liberalism of the nineteenth century and the countermovements. And we are not in the advantageous position of being able to use insights

and categories which may be invented when our civilization has become history. We have to base our reasoning on the current ideas and world views. Or we can make use of ideas and insights of the past, i.e. as far as we refer to TGT, Polanyi's ideas of the interwar period.

Now, even if we should not neglect our involvedness in the current social and political affairs, the latter aspect seems to me the most striking. Could it be that in the interwar period insights and notions had been developed which in the last decades got lost again? Is it possible that the scientific discourse in sociology and economics during the neoliberal epoch has flattened and become superficial, so that Polanyi's analysis allows for bringing back depth and meaningful understanding? Can we really rule out the possibility that the neoliberal fiction is hampering scientific thinking, similar to how the naturalist fallacy misguided classical political economy? If we refer to Polanyi's work today, we are obviously convinced that he has to teach us something which contemporary theories do not offer.

What are the most important insights? At the beginning of the twenty-first century Polanyi's analysis is topical first of all because these days a utopian belief, masked realist insight, has become the main driving force of social change again. And again this fiction is used so as to favor market solutions and reject (as far as ever possible) the claims of social protection. As much as the nineteenth century considered self-evident the alleged economic laws, today's consciousness believes in the market as the only solution of the problem of society which is compatible with personal freedom. Today the neoliberal fiction is as real as the naturalist fallacy was in the nineteenth century. It motivates political reforms and, therefore, determines the direction of the institutional transformation. Neoliberalism has real consequences. It is the real driver of social change. And it threatens man, nature and the future of the Western civilization no less than earlier forms of economic liberalism in Polanyi's times.

And again the protagonists of the neoliberal fiction refer to the impossibility theorem and the limits of human reason so as to justify their refusal of social protection. Again social reality and fiction are turned upside down. The interpretation of the market system as a realistic solution of the problem of society is no less utopian than the classical invocation of the laws of nature. Again the fiction is veiled behind the mask of alleged realism and supported by contemporary economic sciences. And both employ an analogous rhetoric. The protagonists of neoliberalism draw on the problem of society so as to reject claims for institutional reform and social protection in a similar way to which Ricardo used the indeclinable laws of nature. While classical liberalism taught: protection is against nature, neoliberalism declares: protection is against the laws of the market, the only institution which offers an answer to the problem of society without destroying personal freedom and falling back on dictatorship over needs. Hirschman (1991) points to these similarities in his book on the 'rhetoric of reaction'.

And last but not least: Polanyi directs our attention to the fundamental problem which the industrial revolution has aggravated and revealed: the problem of society. It may be seen as a paradox that up to now economic liberalism refers to and abuses the problem without making any serious attempt to resolve it. It exploits the problem of society so as to strengthen its own position, but at the same time it obscures the challenge and the possible solutions. Polanyi is a contemporary witness of the birth of the neoliberal fiction. He discovered and laid bare the

fallacy while it was still under construction. He understands the relevance of the impossibility theorem and turns it against the neoliberal reasoning. And he shows how the problem can be faced, if we strive for the safeguard of personal freedom and democracy.

But we cannot simply 'take over' the results of Polanyi's analysis to our times. There are significant differences between the nineteenth-century civilization and our own era which we have to take into consideration. First of all, neoliberalism recognizes the problem of society as a *social problem* (instead of treating it as natural condition). This difference is crucial insofar as neoliberalism accepts with this confession that society is a *human* product. Society is regarded as being based on human action and not on laws which are beyond human control. Human action means to realize purposes and intentions. Therefore, from the neoliberal point of view it would be nonsense to attack social movements because they have an agenda. As Robbins recognized: "All economic life involves planning. To plan is to act with purpose, to choose; and choice is the essence of economic activity ... The issue is not between a plan and no plan, it is between different kinds of plan" (Robbins 1937, 3-6). Laissez-faire has lost its grounding. As long as the naturalist fiction prevailed liberalism could polemicize against the idea of aiming at human goals with the simple argument that this was against the nature of things. Since the defeat of naturalism the conditions for the defense of liberal principles have changed profoundly. Laissez-faire has been replaced by 'planning for the market' or "planning for competition" (Hayek 1944...).

Now the protagonists of neoliberalism have to question whether the goals and the instruments proposed are compatible with the alleged solution of the problem of a complex society, i.e. if they are in conformity with the logic of the market system. Hayek is well aware of the fact that at the end of the twentieth century the conditions for the defense of liberal principles have changed profoundly. Arguing "against the welfare state" he explains, "we shall see that some of the aims of the welfare state can be realized ... others can be similarly achieved to a certain extent, ... and that, finally, there are others that cannot be realized in a society that wants to preserve personal freedom" (Hayek 1960/2009, 225-226). If planning for competition is regarded as necessary, a strong state is needed in order to organize markets. And they accept that the markets for the fictitious commodities have to be planned because they do not emerge spontaneously. In order to stabilize the labor market even Hayek proposes the introduction of a state guaranteed "equal minimum income for all" (Hayek 1960, 226, cf. also Hayek 1944/2001, 120). And the question of how to create a global monetary system becomes one of the most discussed and most controversial issues not only between Keynesians and their opponents, but also between the Austrian and the Chicago currents of the neoliberal creed.

And a further difference between the conditions in the nineteenth century and the neoliberal age is important: As we have seen earlier, in the nineteenth century the naturalist fiction had the consequence that society was divided into two spheres: an economic sphere which was governed by natural laws and natural rights and the rest of society where human decisions prevailed. If, as in the case of the neoliberal creed, the problem of society and not the laws of Nature are regarded as the essential limit of the scope for human decision-making, the division collapses. Society *as a whole* is regarded as a result of human will under the constraint of the coordination problem of an industrial society. The necessity of coordination is not limited to a

specific sphere. The problem of how to deal with the fact that in a complex society the actors are unable to oversee the consequences of their actions touches all areas of human activity. That means: If competition is proposed as the solution, it applies to human behavior as such.

In other words, if the market is presented as a solution to the problem of society, the vision presupposes certain assumptions concerning human behavior. Maximization of income, wealth or utility is part of the story. But as far as there is no reason to limit these behavioral assumptions to any specific sphere of society, it can, and it has to be (in order to be coherent) applied to all forms of human activity. The imperialist aspirations of economic sciences towards other social sciences is based on the idea that the juxtaposition of economy and society on which the liberal creed of the nineteenth century was built must be left behind. Gary Becker expresses the idea of an all-encompassing market society when he states: "I am saying that the economic approach provides a valuable unified framework for understanding *all* human behavior ... The heart of my argument is that human behavior is not compartmentalized, sometimes based on maximizing, sometimes not, sometimes motivated by stable preferences, sometimes by volatile ones, sometimes resulting in an optimal accumulation of information, sometimes not. Rather, all human behavior can be viewed as involving participants who maximize their utility from a stable set of preferences and accumulate an optimal amount of information and other inputs in a variety of markets" (Becker 1978, 14). When Habermas (1981/87 vol. 2, 318-331) refers to the 'colonization of the life-world', when he criticizes the invasiveness of the instrumental rationality of market-forces, he clearly discusses a problem which is the consequence of the neoliberal as distinct from the liberal creed of the nineteenth century. From the neoliberal point of view, the market is the model for an ever increasing area of social relations outside the economy. Exploitation turns up as one aspect of the far vaster problem of commodification and commercialization of life which appears not only as a menace to economic wellbeing, but also as a threat to the cultural legacy of the western world.

Polanyi characterizes the society of the nineteenth century as one in which the economy was *disembedded* from society. This was certainly a particular feature of that society compared to all earlier societies. Disembedding was the consequence of the influence which was exerted by the naturalist fiction. Under the current conditions the situation is worse. If we want to apply Polanyi's notion, we have to speak neither of disembedding nor of any kind of reembedding of the economy in society. To the contrary, today society runs the risk of being embedded into the economy. The neoliberal fiction includes the claim that society as a whole is subordinated under the rules of the economy.

This means that the negative consequences of the market fiction are more encompassing than in the nineteenth century. The area where the neoliberal fiction exerts its influence is not limited to the fictitious commodities. Economic rationality and institutional reforms seeking to implement new forms of markets and competition are not limited to the economic sphere as they were in the nineteenth century. The commodification of life does not spare culture, education, family and other personal relations. The institutional transformation driven by the neoliberal creed encompasses *society as a whole*. Conflicts emerge on different fronts. And also the range of the countermovements broadens. The movements become more heterogeneous than in nineteenth-century England and encompass new conflicts which have their roots in the

increasing commodification of life as such. This helps to overcome the economic blinders, but at the same time it makes it more difficult for the countermovements to comprehend the common ground. And it does not guarantee that the movements overcome the confinedness which characterized the countermovements of the nineteenth century.

Today the countermovements against economic globalization and the neoliberal creed are again directed first of all against the problems of capitalism, neglecting the fact that behind the questions of a market society lurks a far bigger challenge, the problem of society. Nevertheless, it is not sufficient to denounce power, coercion and oppression in all spheres of society and call for broader and more ambitious goals so as to overcome them. It is also essential to recognize the limits which are determined by the reality of society and to search for possibilities to defend personal freedom under these conditions.

It is this point where the involvedness in current social and political affairs can turn out to be an obstacle to a realistic vision of the questions which have to be faced today. Whoever is engaged in a social movement wants to discover, above all, how to achieve the predefined goals. He or she does not develop the same enthusiasm for a study of the obstacles and the limits of the endeavor. An attentive reader will notice a difference not only in style but also in the line of reasoning between the writings which Polanyi drafted during the period of his active participation in the social struggles in Red Vienna and his later works in America. Studying the transformation of society from the outside makes it less problematic to focus on the obstacles and limits of what could or can be achieved. Therefore, today a certain distance in order to comprehend the weakness of welfarism can be advantageous. The “reform of human consciousness to be reached through the recognition of the reality of society” (Polanyi 1944/2001, 133) which Polanyi calls for is understood more easily from the point of view of the observer than from the perspective of the activist. The grandeur of TGT lies in Polanyi’s capacity to combine both, a recognition of the reality of society together with the upholding of the claim to freedom in an industrial civilization.

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