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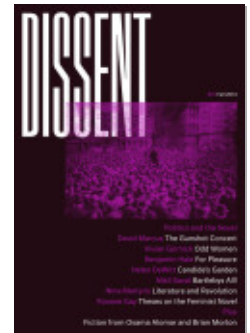
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# The Return of Karl Polanyi

MARGARET SOMERS AND FRED BLOCK

*In the first half century of Dissent's history, Karl Polanyi almost never made an appearance in the magazine's pages. On one level this is surprising, because Polanyi was a presence in socialist circles in New York City from 1947 through the mid-1950s, the period of Dissent's gestation. On another level it is unsurprising, in that Polanyi was a heterodox thinker—even among fellow socialists. With some significant exceptions, it has taken decades to recognize the extraordinary theoretical contributions to socialist thought that he made in his masterpiece, *The Great Transformation: The Social and Political Origins of Our Time*, first published in 1944.*

Some of Polanyi's relative obscurity can be traced to choices he made early in his youth in Budapest. Unlike his Hungarian colleagues and contemporaries, Georg Lukács and Karl Mannheim in particular, he did not start out on an academic track. He instead obtained a law degree and pursued a career in reformist liberal politics. From 1915 to 1917 Polanyi served as an officer in a cavalry regiment of the Austro-Hungarian army on the Russian front. After serving as general secretary of the Radical Citizens Party, he left Budapest for Vienna at the time of Béla Kun's Soviet Republic. In Vienna Polanyi wrote for the leading central European financial paper, *Österreichische Volkswirt*, until he was forced to leave for England in 1933, where he found work in the Workers' Educational Association teaching adults at night. He then held a visiting research position at Bennington College in the early 1940s funded by the Rockefeller Foundation. But he was already sixty when he began his most important academic post: a visiting professorship in economics at Columbia University. Polanyi never had the stable foothold in academia that

made it possible for some other refugee intellectuals to get their ideas in broad circulation.

Over the last two decades, however, things have changed dramatically. Karl Polanyi has gained belated recognition around the world as one of the most important thinkers of the twentieth century. He is regularly invoked by both scholars and activists who challenge unfettered free-market globalization, and his writings are increasingly part of the core canon for sociologists, political scientists, historians, and heterodox economists. Last November the *Atlantic* invoked Karl Polanyi, not Karl Marx, as the social thinker most relevant to Pope Francis's widely circulated moral injunction on the evils of social inequality and the limits of unregulated markets—just one sign of Polanyi's recent fame. In our book, *The Power of Market Fundamentalism: Karl Polanyi's Critique* (Harvard 2014), we argue that his innovative theoretical framework could be central to the project of revitalizing the democratic socialist tradition.

Karl Polanyi's ideas took form in Vienna in the 1920s in direct opposition to the free-market orthodoxy of Ludwig von Mises, the contemporaneous avatar of market fundamentalism. Both thinkers were deeply influenced by the "Vienna experiment," the post-First World War period of democratic, worker-led municipal socialism. While Polanyi saw in the experiment the very best that socialism had to offer, it motivated von Mises's lifelong effort to prove that socialism and "planning" were economically disastrous and morally corrupt.

Von Mises had little success in the short term, and most thinkers on the left simply dismissed him as a reactionary apologist for big business. But a half century later, his more famous student—Friedrich von Hayek—became the inspiration for both Margaret Thatcher and Ronald Reagan, as market fundamentalism and neoliberalism became the ruling ideas of our time. Fortunately,

Karl Polanyi did take von Mises's ideas seriously. In fact, *The Great Transformation* is an analysis of the enormously destructive and seductive nature of the market fundamentalist worldview that has been so influential over

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the last three decades.

Right from the start of the book, Polanyi attacks market liberalism for what he calls its "stark Utopia." Conservatives had long deployed the "utopianism" epithet to discredit movements of the left, but Polanyi was determined to turn the tables by showing that the vision of a global self-regulating market system was the real utopian fantasy. Polanyi's central argument is that a self-regulating economic system is a completely imaginary construction; as such, it is completely impossible to achieve or maintain. Just as Marx and Engels had talked of the "withering away of the state," so market liberals and libertarians imagine a world in which the realm of politics would diminish dramatically. At the same time, Polanyi recognizes why this vision of stateless autonomous market governance is so seductive. Because politics is tainted by a history of coercion, the idea that most of the important questions would be resolved through the allegedly impartial and objective mechanism of choice-driven, free-market competition has great appeal.

Polanyi's critique is that the appeal has no basis in reality. Government action is not some kind of "interference" in the autonomous sphere of economic activity; there simply is no economy without government. It is not just that society depends on roads, schools, a justice system, and other public goods that only government can provide. It is that *all* of the key inputs into the economy—land, labor, and money—are only created and sustained through continuous government

action. The employment system, the arrangements for buying and selling real estate, and the supplies of money and credit are socially constructed and sustained through the exercise of government's coercive power.

In this sense, free-market rhetoric is a giant smokescreen designed to hide the dependence of business profits on conditions secured by government. So, for example, our giant financial institutions insist that they should be free of meddlesome regulations while they depend on continuing access to cheap credit—in good times and bad—from the Federal Reserve. Our pharmaceutical firms have successfully resisted any government limits on their price-setting ability at the same time that they rely on government grants of monopolies through the patent system. And, of course, the compliance of employees with the demands of their managers is maintained by police, judges, and an elaborate structure of legal rules.

*Polanyi effectively* brings the role of government and politics into the center of the analysis of market economies. And in doing so, he opens up possibilities that are often obscured in other currents of left thought. If regulations are always necessary to create markets, we must not discuss regulation versus deregulation but rather what *kinds* of regulations we prefer: those designed to benefit wealth and capital, or those that benefit the public and common good? Similarly, since the rights or lack of rights that employees have at the workplace are always defined by the legal system, we must not ask *whether* the law should organize the labor market but rather *what kind* of rules and rights should be entailed in these laws—those that recognize that it is the skills and talents of employees that make firms productive, or those that rig the game in favor of employers and private profits?

Implicitly, Polanyi offers an alternative to what he sees as the property-centric analysis of Marxism. Ownership of the means of production is the basic defining feature of a mode of production in the Marxist framework; legal rules can make some modifications but only at the margins. As long as private actors

own the means of production, any concessions to working-class mobilization will simply be taken away when circumstances require that employers be given a freer hand.

Polanyi, in contrast, insists that since the economic order is constituted through political decisions, politics can effectively redefine the meaning of ownership. So, for example, in Germany's current system of industrial relations that combines co-determination, works councils, and collective bargaining with unions, the relative power of employers and employees is very different than in comparable firms in the United States. Polanyi recognizes that these legal arrangements will periodically be contested as some employers yearn for more power and autonomy. But there is nothing that assures that such contestations will be successful; the outcome will depend on which side is able to mobilize more effectively in the political arena.

In the title of her 2006 book, Sheri Berman dubbed Polanyi a theorist of the "primacy of politics." Politics can trump the prerogatives of property both by redefining the bundle of rights that property holders exercise as well as by altering the relative bargaining power between owners and non-owners. We all know this intuitively; for example, there are some communities where it is almost impossible for a landlord to evict a tenant because of tenant-friendly legislation. But Polanyi elevates this everyday insight into a theory of historical change by defining socialism as "the tendency inherent in an industrial civilization to transcend the self-regulating market by consciously subordinating it to a democratic society."

Three important points follow from this unusual definition. First, Polanyi offers us no *telos*, or predefined endpoint, for this process. Perhaps private ownership will ultimately disappear and be replaced by various forms of collective ownership, but we simply do not know. Second, since there is no end to history, there will be no end to struggles and conflicts, and there is no guarantee that democratic gains will not be reversed, as they were with the triumph of European fascism. Finally, the core of the socialist project is to extend and deepen democratic governance of the economy; this is the only way to make sure

that democratic gains will not be reversed.

Polanyi was unequivocal in defending what some derided as "bourgeois democracy"—parliamentary government and the related bundle of political rights. But he also believed adamantly that measures to expand democracy through political rights would amount to little without an equal foundation in social and economic rights. In the 1920s he was drawn toward G.D.H. Cole's vision of guild socialism, in which an elected parliament would share ultimate power with representatives of the various workers' councils that would own and direct enterprises. By the 1940s he was more in tune with expansive versions of U.S. industrial democracy, in which employees would share power with managers through a system of collective bargaining that did not recognize managers' prerogative to make certain decisions on their own.

All of this suggests that Berman's notion of Polanyi as favoring the "primacy of politics" is not exactly right. Politics is not simply his preferred pole of the traditional dichotomy between state and market. Polanyi, for example, consistently defends the presence of regulated markets in a just society. Even more important, Polanyi sees politics and government as components of his larger concept of *the social*, which also includes civil society, social relations, and cultural practices. It would thus be more precise to call Polanyi a theorist of the "primacy of the social."

*Since the world* has changed markedly since Polanyi's time, we have to imagine for ourselves what form economic democracy should take in the twenty-first century. Our view is that it would be some combination of workplace democracy, reforms that would democratize the financial sector, and an expansion of participatory democracy at the local level that reinforces the social solidarities necessary for robust civil society institutions. Municipal experiments with participatory budgeting, particularly in Latin America, suggest that when people are given a genuine voice in making key decisions, they take advantage of it. Expanded democracy at the local level could be the start of a process

through which parliamentary democracies are revitalized, as citizens become more effective in holding their representatives to account.

This revitalization is a pressing task. In our own country and too many others, the divide between the political class and “the people” increasingly appears as an unbridgeable divide marked by hostility and deep distrust. Polanyi knew very well that this kind of divide is greatly exacerbated by the policies that we now call market fundamentalism. When people are told for a generation that government must make no decisions that interfere with the autonomous logic of the market, and when international bond markets can dictate national policies, it is inevitable that people will start to lose faith in democratic governance and its capacity to help them solve their problems.

There is too much public discourse, even within the Democratic Party, that accepts and even propagates the right-wing propaganda that a restoration of economic growth requires

austerity and greater deference to the needs of business. The reality is that austerity usually results in rent-seeking behavior, with the consequence of further stagnation and crises rather than productive investment. Polanyi teaches us that periods of prosperity and rising living standards, by contrast, were a direct result of democratic gains in politics and civil society. The greatest prosperity in living memory in Europe and the United States came during the social democratic moment—in the 1950s and 1960s—when the constraints on business were the greatest. In short, more democracy and more economic justice are the necessary foundations for the path to socialism and a more vibrant, prosperous, and sustainable economy.

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