LHP: THE POWER OF MARKET FUNDAMENTALISM

RHP: KARL POLANYI AND THE POWER OF IDEAS

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Karl Polanyi and the Power of Ideas

It was a little more than twenty years ago that the decades-long Cold War between the United States and the Soviet Union ended. When the Soviet Union collapsed, some analysts optimistically claimed that we had reached the “end of history” because the institutions of Western societies had definitively proven their superiority over all others (Fukuyama 1992). Since then the United States has suffered the trauma of the September 11, 2001 terrorist attacks, fought extended wars in Afghanistan and Iraq, and has experienced the worst economic downturn since the Great Depression. Over this same twenty-year period, politics in the United States has become ever more polarized, stalemated, and dysfunctional. From the attempted impeachment of Bill Clinton to the deceptions and manifest incompetence of the George W. Bush Administration to the agonies of political warfare during the Obama Administration, the political system continues to careen out of control. Suffice it to say, the triumphalism expressed when the Soviet Union collapsed is now only a distant memory.

Nonetheless, however ludicrous “the end of history” may sound to us now, the proclamation cannot be dismissed as simply the hubris of a handful of overly optimistic prognosticators. After all, very little in contemporary social and economic theory prepared us for the multiple traumas of the last two decades. Economists were particularly complacent and vigorously promoted the doctrine that "deregulation," labor "flexibility," tax cuts for the wealthy, and unfettered free markets would produce unprecedented prosperity. In fact, the U.S. model was held out as an example to others as a preferable alternative to both the "Eurosclerosis"[1] that allegedly plagued Continental Europe and the "crony capitalism" that undermined the major Asian economies.

There were, of course, some important exceptions to the celebratory mood. Starting in 2000, the Nobel-winning economist Joseph Stiglitz (2000, 2002, 2003) challenged the wisdom and sustainability of the economic policies that Washington was urging on the rest of the world. The financier and philanthropist George Soros produced a series of books (1998, 2000, 2002) questioning the arguments underlying the spectacular growth of global financial markets. John Gray (2000), the British political theorist who had earlier been a supporter of Margaret Thatcher, questioned whether the bad "Anglo-American" version of capitalism was undermining the stability of the more productive type of capitalism that had flourished on the European Continent. And Mark Blyth (2002), a Scottish born political scientist, questioned the dramatic increase in wealth of the top 1% of households in the U.S.that resulted from Reagan-era policies.

Many of these dissenters and skeptics explicitly drew inspiration from the work of Karl Polanyi (1886–1964), a twentieth-century Hungarian refugee intellectual and economic historian, whose most important book, *The Great Transformation* (hereafter GT), was originally published in 1944.[2] In that work, Polanyi sought to understand the historical forces that had led to the Great War (World War I), the Great Depression of the 1930s, the New Deal, the rise of fascism, and the coming of World War II. Hedevelops what many consider to be the twentieth-century's most powerful and systematic critique of free market ideas and practices, one that has extraordinary relevance for understanding our own historical period.

Our project in this book is to show that Polanyi's thought is as critical as ever for making sense of the surprising political-economic developments of the past few decades and their contemporary social and economic consequences. Our focus is on the rebirth in the 1970s and 1980s of the same free market ideas that were widely assumed to have died in the Great Depression. Driven by this free market ideology, conservative politicians have engaged in a decades-long campaign to reverse the reforms originally introduced in the 1930s by Franklin Roosevelt's New Deal and extended in the 1960s by Lyndon Johnson's Great Society programs. Those regulations and programs had placed severe restrictions on speculative activity by financial institutions, reduced the extreme inequality of income and wealth distribution of the 1920s, provided organized labor with a stable and recognized position in both the workplace and in the polity, and created protections for citizens from the risks involved in becoming unemployed or growing old. Businessmen and right-wing intellectuals had railed against these changes for many decades, but their fortunes changed in the 1970s as conservatism again became a powerful force in United States politics. Once Ronald Reagan gained the presidency in 1980, the conservative movement began to make significant headway in dismantling much of the New Deal framework (Phillips-Fein 2009; Smith 2012).

The fruits of these efforts are now glaringly familiar. Income inequality in the United States has increased dramatically since 1981, the union movement has suffered a precipitous decline in numbers, and ordinary citizens are substantially less protected from risks that diminish their incomes (Hacker 2006; Wilkinson and Pickett 2009; Hacker and Pierson 2010). Most spectacularly, the share of income going to the top 1%—including capital gains—grew from 10% in 1981 to a peak of 23.5% in 2007 just before the crisis and the level for the most recent year—2012--was just below that peak. (Saez and Piketty 2013, Table A3).[3] Jeffrey Winters (2011) has estimated that the top 400 taxpayers in the United States exercise 10,000 times the material power of the average citizen in the bottom 90%. This differs little from the power differential in Ancient Rome between the Senators and the slaves and farm laborers who made up most of the population. This enormous imbalance of power and dominance—itself facilitated by the spectacular rise of finance and the relaxation of its regulatory framework—inexorably set the stage for the catastrophic global financial crisis in the fall of 2008 (Stiglitz 2010). The extraordinary influence of free market ideas in justifying the project of dismantling the New Deal over the last thirty years is no longer disputed. There is some dispute as to what to call them. Some use the term "neoliberalism," others "laissez-faire," and still others just plain "free market ideology." We use the label "market fundamentalism" because the term conveys the quasi-religious certainty expressed by contemporary advocates of market self-regulation. Moreover, we want to emphasize the affinity with religious fundamentalisms that rely on revelation or a claim to truth independent of the kind of empirical verification that is expected in the social sciences (see Chapter 5). But whatever the term, these free market theories and policies were successfully revived in the 1970s in response to the perceived failure of New Deal and Great Society policies to address widespread economic and social problems. Pushed by powerful interest groups, they quickly defeated the entrenched Keynesian ideas and policy prescriptions that had been dominant in the United States from the mid-1930s through the 1960s. Over the next four decades, this updated version of laissez-faire moved from the margins of influence to become conventional political wisdom with world-transforming effects that continue today (Cassidy 2009; Burgin 2012; Jones 2012).

To be sure, others have stressed the importance of free market ideas in the recent transformation of politics in the U.S. (Blyth 2002; MacKenzie 2006; Quiggin 2010; Peck 2010). Valuable work also traces out the history of these ideas and the elaborate networks that disseminated these ideas and assured their influence over critical political elites (Krugman 2009b Fein-Philips 2009; [Crouch 2011; Frank 2011; Burgin 2012). Our focus, however, is somewhat different. We are seeking to explain what it is about these free market ideas that gave them such extraordinary command. What, we ask, is the source of this power? How was it that ideas once marginalized and seemingly defeated in the 1930s and 1940s again became this society's conventional wisdom?

We approach these questions using theoretical tools we derive from our engagement with Polanyi's work. We recognize that despite Joseph Stiglitz's observation that "… it often seems as if Polanyi is speaking directly to present day issues" (GT, ii), Polanyi's ideas have never achieved the broad public circulation of those of John Maynard Keynes, Milton Friedman, and Friedrich Hayek. Yet in a way that differs from much of what we read today GT's account of the origins of the crises of the 1930s and 1940s, written seventy years ago, reveals a profound understanding of the very same free market ideas that have loomed so large in transforming our recent world. In fact, the target of Polanyi's critique—the early nineteenth-century classical political economy of T. R. Malthus and David Ricardo—is credited proudly as their theoretical inspiration by the two intellectual figures most closely associated with the revival of free market ideas in the second half of the twentieth century—Friedrich Hayek and Milton Friedman. Indeed, it is the very success of his theoretical opponents in reestablishing the moral and political authority of free market doctrine that has made Polanyi's analysis ever more relevant for understanding the present era. It is for this reason that we seek to introduce his ideas to a wider audience.

<A>Introducing Karl Polanyi

As we elaborate in the next chapter, Karl Polanyi was a European refugee intellectual who was repeatedly displaced by war and social conflicts. Born in the Austro-Hungarian Empire in 1886, he was a founder of the Galilei Circle, a club of Hungarian intellectuals that included Karl Mannheim and Georg Lukacs. He fought in World War I and supported the October 1918 Aster Revolution that overturned the landed aristocratic regime. Just months later in 1919, Polanyi went into exile when the Communist Bela Kun revolution sought to establish a Soviet Republic in Hungary. He left for Vienna, where he was a witness to its fifteen-year "socialist municipality"—an urban laboratory of working class co-operative life, from housing to health care, from work to education. He later described this period as one of the formative experiences of his intellectual development: "Vienna achieved one of the most spectacular cultural triumphs of Western history … an unexampled moral and intellectual rise in the condition of a highly developed industrial working class which, protected by the Vienna system, withstood the degrading effects of grave economic dislocation and achieved a level never reached before by the masses of the people in any industrial society" (GT, 299).

The rising tide of fascism, however, ultimately brought this socialist and democratic experiment to a brutal end in 1934. Warned that he was personally in danger because of his strongly anti-fascist views, Polanyi departed for England in 1933 where he made his living by teaching adult education courses to British workers through the Workers' Educational Association. His direct encounter with English workers and the English class system had a deep impact on him. Comparing the English working class with Central European workers, he was shocked by the former's political views and ignorance of their own past struggles. His experience with England's working people became central to his analysis in GT, which he wrote with the support of a fellowship from the Rockefeller Foundation after leaving England for what he expected to be a brief visit at Bennington College in Vermont. After World War II, he taught in the Economics Department at Columbia University before retiring to Canada, where he died in 1964. In 1986, both Karl and his wife Ilona Duczynska were welcomed back posthumously by the Hungarian Academy of Arts and Sciences for a full-fledged academic celebration of the centennial of Polanyi's birth.[4]

His multiple homelands and a nontraditional academic career that bridged history, economics, sociology, classics, and anthropology contributed to Polanyi's tenuous place in both scholarly and policy discourse. He was initially invited to teach at Columbia because his work was compatible with the institutional economists then dominant in that department. But by the end of the 1940s, institutionalism had gone into sharp decline in mainstream economics (Yonay 1998), and he was left without a disciplinary home. In the political climate of the Cold War, moreover, Polanyi's complex and unique understanding of different economic systems had little purchase for an intellectual world highly polarized between East and West. His vision of a moral social democracy supported by vigorous democratic participation from civil society did not fit neatly into either of the dominant categories of the 1950s and 1960s. With a few critical exceptions, his work had little impact on mainstream scholarship in the social sciences until the late 1970s.[5]

With the rise of Thatcher and Reagan at the end of the 1970s, however, Polanyi's influence began to grow, as his critique of their free market ideas and policies became ever more relevant.[6] As the crisis of socialism deepened with the 1989 fall of the Berlin Wall, a number of scholars who were searching for a non-Marxist alternative to the triumphalist celebration of the *status quo* discovered Polanyi's work. As the world began to seem more and more like "Everything For Sale" (Kuttner 1996),his powerful analysis of how the unchecked dominance of the market would inevitably devastate social solidarity and the foundational institutions of civil society was increasingly illuminating and convincing.Polanyi's argument that markets are invariably embedded in social relationsalso challenged the ascendant precept that freedom and individual rights depended exclusively on an economy driven by a system of self-regulating markets and severely diminished government spending on social and economic provisioning and protection. His work also critiqued the ideology that associated prosperity, choice, and efficiency exclusively with the free market, while attributing inefficiency, corruption, and coercive power entirely to government. He insisted that the economic sphere is as much a site of power as the state, and that a robust human freedom depends on a coalition of state and civil society that has the power to protect society against the destructive forces of marketization.[7]

Perhaps most influentially, Polanyi's work challenged the idea that the market and the state are separate and autonomous entities, a premise that was built into the assumptions of classical and neoclassical economy theory alike. He demonstrated that underneath the claim that only a self-regulating autonomous market can produce optimal results was the conviction that the laws of the market are no different from the biological self-regulatory organisms of nature—a claim that throughout this book we call *social naturalism.* By deconstructing these assumptions that had long passed as proven truths, Polanyi undermined the claim that protecting people against some of the market's worst inequalities was tantamount to tampering with nature itself.

Even today, however, Polanyi's writings defy easy classification. He was an expansive social theorist and social democratic thinker who still believed in the indispensable role of markets: "… the end of market society means in no way the absence of markets" (GT, 252). He was dedicated to social protection, but from a government held accountable by the democratic participation of an active citizenry (GT, 264–265). He held tenaciously both to individual rights and to an enlarged idea of freedom—which, like that found in FDR's "Second Bill of Rights," included not just civil and political rights but also economic justice and freedom from want.[8] And while there are others equally dedicated to democratic theory and economic justice, Polanyi is unique in his understanding of both the vitality, endurance, and appeal of free market ideas, as well as the profound threat they pose to human civilization.

Most importantly, Polanyi's writings defy the main intellectual traditions of his era and of our own. As we have noted, he was fiercely critical of the tradition of economic liberalism in both its nineteenth and twentieth century variants. But while he described himself as a socialist and was deeply influenced by the Marxist tradition, he expressed great disagreement with other strands of socialist and Marxist thought. He was particularly cynical about the "economistic fallacy" that he attributed in part to Marxist theory (GT, 158–159; Polanyi 1977). He was also unique in insisting that the idea of a self-regulating market was nothing short of "utopian"—a term that had previously been reserved by conservatives to use against leftist critics of market societies (see Chapter 4). Moreover, he also saw the world very differently from the twentieth century's most important theorists of political liberalism because he was, above all, a theorist of social discontinuities. His analysis of the three centuries previous to the twentieth emphasized radical breaks and reversals rather than slow and relentless progress.[9]

Precisely because of his distance from these other more familiar traditions, understanding Polanyi's arguments calls for significant interpretive work. It requires the reader to bracket some of the more recognizable assumptions that he or she has about how the world works. In fact, one cannot make sense of Polanyi's arguments without a willingness to at least suspend belief in those very assumptions. To facilitate this kind of work, our book is an exercise in interpretative social science—digging beneath the words on the printed page to uncover the deeper structures of meaning and argument that gives Polanyi's analysis its remarkable ability to make sense of recent events.

We are not, however, claiming to adjudicate definitively what Karl Polanyi "truly" meant when he used a particular concept or developed a specific line of argument. The work of the canonical figures of social thought, whether it be Adam Smith, Marx, Weber, Freud, or Keynes, is full of complexities and ambiguities and open to multiple interpretations. Karl Polanyi is no different, and our interpretation is only one of many possible readings (for other recent readings, see Burawoy 2005; Bugra and Agartan, eds. 2007; Gemici 2008; Dale 2010). Our purpose is instead to elaborate an emergent inventory of concepts that provides leverage for illuminating and explaining the complex socioeconomic and political developments that have brought us to the crisis we find ourselves in today.

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<A>Polanyi's Conceptual Armature

To guide the reader through the substantive breadth of the chapters that follow, we have devised a three-pronged conceptual armature to unify our analysis. Polanyi's writings are so multidimensional that different interpreters would certainly emphasize different themes than these. But these are the themes that have captured our attention over our years of engaging with his work, and they serve as a foundation for the arguments of this book.

First, while markets are necessary, they are also fundamentally threatening to human freedom and the collective good. They are necessary, as we learned from the tragic experiment in Communism in Soviet Union and Eastern Europe, because they are mechanisms through which individuals exercise choice. At the same time, most of what makes life possible is not actually produced to be sold on the market and will be endangered by being treated as such. These are the necessities of social existence that, along with material sustenance, make it possible for us to be full members of the social world we all inhabit interdependently—above all, education, health care, a sustainable environment, personal and social security, and the right to earn a livelihood. It is when these public goods are turned into commodities and subjected to market principles that social life is threatened fundamentally and major crises ensue. According to Polanyi, these necessities of social life have to be protected from the market by social and political institutions and recognized as rights rather than commodities or human freedom will be endangered.

Our second theme is that the free market celebrated by economists and political libertarians has never—and cannot ever—actually exist. For Polanyi, the human economy is always and everywhere embedded in society (see Chapter 3 below). By this he means that even "free" market economies consist of cultural understandings, shared values, legal rules, and a wide range of governmental actions that make market exchange possible. Economists deny this fundamental reality by conceptualizing the economy not as embedded but as an autonomous self-governing entity . They argue against government involvement in everything from innovations to protecting the environment and advocate a self-regulating system of interconnected and unfettered markets. Polanyi surprisingly calls this conservative and libertarian vision "utopian," because it cannot possibly be realized. Like all utopias, it is both doomed to fail and destined to produce dystopian consequences.

Polanyi's argument here is subtle and complex; he argues that free market ideologues claim that they are disembedding the market from all kinds of destructive controls and constraints. They deny that their favoredpolicies—rolling back welfare provisions, dismantling regulations, and shrinking government—will leave people dangerously exposed to market forces. In reality, however, they are not setting the market free from the state but are instead *re-embedding* it in *different* political, legal, and cultural arrangements, ones that mostly disadvantage the poor and the middle class and advantage wealth and corporate interests. Polanyi's paradigmatic example of this process is the 1834 Poor Law Amendment Act ("New Poor Law"), which dismantled the centuries-old system of poor relief. The political economists who justified this legislation claimed it wouldfree the labor market of an archaic set of rules and practices that only encouraged laziness and economic irresponsibility. In reality, they simply created a new and different set of coercive institutions—a centralized Poor Law Commission and local work houses—designed to make the rural poor “responsive” to the signals of the market (see Chapters 5 and 6).

Similarly, what has frequently been described as the “deregulation” of the financial sector in the United States should actually be understood as “reregulation.” In place of an older set of rules that were designed to protect the public from fraud and excessive risk-taking by financial institutions, politicians established a new set of rules that provided government protection for the financial sector to engage in predatory lending and a huge expansion in dangerous speculation. During the real estate boom of the 2000s, for example, a number of state governments sought to pass legislation that would outlaw some of the most dangerous mortgage lending practices. But the financial institutions appealed to their federal regulators, who told the states—in no uncertain terms—that their proposals conflicted with federal rules that had priority in this area (Tabb 2012, 165). As these examples of what we dub the “always embedded economy” demonstrate, Polanyi is using “embeddedness” as a placeholder term for politics, social relations, and institutions. For Polanyi, an always embedded market economy means that markets are *always* organized through politics and social practices.

Polanyi's "always embedded economy" leads directly to his concept of the double movement. As market fundamentalists and their allies attempt to construct their ideal world of a self-regulating market system, the destabilizing consequences set off countervailing movements by other groups in society who recognize the need to protect themselves and others from exposure to unmediated market forces. These counter movements are just as likely to be conservative, even populist and fascist, as market destabilizations will mobilize the Right no less than the Left, as we illustrate in Chapter 7. But in Polanyi's framework, these ongoing and polarizing conflicts are more complex than the Marxist idea of class struggle between the bourgeoisie and the proletariat; rather, particular policy ideas create shifting constituencies of groups that favor or oppose expanding or constraining markets. And since the project of creating a self-regulating market is ultimately impossible, there will be times that even the largest businesses will defect and openly embrace the use of government for protection against market turmoil.

Our third theme is that the seductive persistence of free market ideology is rooted in its promise *to reduce the role of politics in civic and social life.* Since politics inevitably entails conflict over the scope and character of government,as well as morally unsatisfying compromises among competing interest groups, the wish to narrow its scope is understandable. The desire to eliminate the tyranny and ugliness of politics was part of the historical appeal of movements inspired by a Marxism that anticipated the "withering away of the state." And one sees this just as clearly in the libertarian rhetoric of Tea Party activists in the United States as they express their intense distaste for Washington's bail out in 2008–2009 of Wall Street banks (Skocpol and Williamson 2012).

Polanyi argues that in a complex society we cannot escape the necessity of politics and governmental coordination of economic and social life. Utopian calls from either the Right or the Left to end politics as we know it are likely only to end up expanding the scope of politics. But this insight did not lead Polanyi to despair. While his eyes were open to all of the ugliness of the political realm, he believed that an expansion of political democracy was the only guarantee against both government coercion and market tyranny. In the final pages of GT, he lays out his still-persuasive argument that recognizing the inevitability of politics and political conflicts could be the foundation for a society with a greater degree of freedom than ever before: "Uncomplaining acceptance of the reality of society gives man indomitable courage and strength to remove all removable injustices and unfreedom. As long as he is true to his task of creating more abundant freedom for all, he need not fear that either power or planning will turn against him and destroy the freedom he is buiding by their instrumentality" (GT, 268).

<A>*The Great Transformation* and the Hundred Year's Peace

This book is being published in 2014—the centennial of the outbreak of World War I. Polanyi began GT with an analysis of the One Hundred Year's Peace that preceded the outbreak of World War I a century ago. To be sure, Polanyi acknowledges that this peace had been disrupted by smaller wars between European powers such as the Crimean War, the Franco-Prussian War, and an almost continuous series of military encounters between the European powers and local populations in Africa and Asia. Nevertheless, he views it as remarkable that these wars were limited and that Europe successfully avoided a larger conflagration for a full century. For Polanyi, both the durability of the peace and the abrupt outbreak of a general European war were not accidental. He views World War I as marking the end of nineteenth century civilization; it was the consequence of a terminal crisis of the institutions that had maintained the long peace.

Polanyi identifies four institutions on which nineteenth century civilization rested: the balance of power system in Europe, the self-regulating market, the liberal state, and the international gold standard. By the balance of power system, he means the system of changing alliances among the European powers, which prevented any single power from gaining a dominant position. Polanyi argues that these shifting alliances helped maintain the peace through deterrence, as the high probability of retaliation by a group of opponents made armed aggression within Europe too costly.

The other three foundational institutions share a common history; they were all interconnected products of England's early industrial success and they all contributed to the dramatic economic growth of Europe's long nineteenth century of peace. The first was the idea of the self-regulating market, elaborated by the newly invented nineteenth-century political economy—especially Malthus and Ricardo--and built on Adam Smith's idea of the "invisible hand."[11] Although there were significant differences between Malthus and Ricardo, they both asserted that only the price mechanism and other incentives built into the market economy could effectively bring supply and demand into balance and assure the optimal use of economic resources. For this to happen, it was essential that government power be used only to legally reinforce these market processes, not to try to override them or alter them in any way. Governments must protect property rights and enforce contracts, but politicians had to resist the temptation to intervene with market outcomes lest perilous results ensue.[12] The self-regulating market gave rise to the liberal state, the third of Polanyi's four pillars. It was the liberal state that enforced the doctrine of "laissez-faire," embraced the orthodoxy of free trade, and consistently campaigned against the protectionist measures of the previous mercantilist regime. Pursuing free trade, the politicians claimed, would expand the market internationally and assure more rapid advances in the division of labor.

The international gold standard was the final piece of Polanyi's puzzle. It required each nation-state to fix its national currency to the value of gold and allow market forces to drive the movement of gold, trade, and capital flows across national borders. In combination with the previous policies of free trade and laissez-faire, an international gold standard regime was supposed to achieve an automatic system of global adjustment.[13] Nations that spent more than they earned in foreign transactions would experience an outflow of gold that would diminish their money supply; this in turn would slow economic activity and bring them back into international balance. Nations that earned more abroad than they spent would have gold inflows that would expand the money supply and accelerate economic activity, which also would help their economies move back to a position of international balance. England had adopted the gold standard in the last part of the eighteenth century and restored it after the Napoleonic Wars. Other European nations gradually followed the English model and by the 1870s, it was the standard for developed nations and widely seen as a critical pillar of global prosperity.[14]

Polanyi argues that the triad of the self-regulating market, the liberal state, and the gold standard were central to the growing prosperity of nineteenth century Europe. He insists, however, that these arrangements represented a radical and dangerous break with previous institutional patterns and set off countertrends that would ultimately lead to crisis and war. His argument here is complex and multifaceted, but it is possible to trace out a few of the critical causal chains in his argument.

Polanyi argues first and foremostthat the goal of creating a self-regulating market and a liberal state is ultimately unachievable—hence "utopian." He states unequivocally on the first page of the book: "Our thesis is that the idea of a self-adjusting market implied a stark utopia. Such an institution could not exist for any length of time without annihilating the human and natural substance of society; it would have physically destroyed man and transformed his surroundings into a wilderness" (GT, 3). Our entire book could be seen as an extended effort to explicate these two sentences.

Polanyi's thesis can be illustrated through the experience of unemployed urban workers in market economies. Market economies go through economic cycles that alternate periods of prosperity and high demand for labor with periods of crisis and elevated unemployment. What are the unemployed to do during these crisis periods when there is no demand for their services? Free market economists advise that the unemployed must adjust to the situation by accepting reduced wages. But even the unemployed who hold up signs saying "will work for food" usually find little interest in their services during an economic downturn. Absent unemployment insurance or other forms of welfare, these displaced workers and their families are at risk for starvation. If political authorities were bound by laissez-faire principles during period of mass unemployment or failed harvests, there would be mass starvation.[15] This is what Polanyi means by "such an institution could not exist for any length of time without annihilating the human … substance of society." Under pressure from their citizens, even undemocratic governments had little choice but to move away from strict laissez-faire principles during the course of the nineteenth century.

This nineteenth century resistance was part of Polanyi's "double movement." The movement to impose laissez-faire on society generated a countermovement to protect society from the devastating consequences of markets—not only from the threat of mass starvation, but also from environmental degradation and destructive economic cycles. The newly emergent working class was often the main force of this countermovement for protection, but it often had other powerful allies. In England, for example, parts of the old landed elite fought to constrain market forces and supported a series of Factory Acts designed to constrain the most horrific consequences of rapid industrialization (Somers 1992, 1995, 1997). Polanyi goes on to argue that these protective countermovements successfully organized to win government assistance to the unemployed, regulation of the length of the working day, Bismarck's pioneering welfare policies in Germany, and an enormous expansion of regulatory actions designed to offset the many negative consequences of market competition.

Polanyi then complicates his historical argument with a paradox. Just as governments were under increasing pressure to buffer their citizens from mass unemployment and other market shocks, the spread of the gold standard system magnified the impact of market forces on national economies. In particular, the gold standard's automatic economic adjustments created new and deeper outbreaks of mass unemployment. In the 1870s, governments abandoned the orthodoxy of free trade by embracing protective tariffs to cushion their citizens from the global market. Indeed, in Polanyi's view the rush to empire in the last decades of the nineteenth century was a direct response to the pressures created by the gold standard. The profits and protected markets available in overseas colonies buffered nations from the disastrous consequences of the gold standard. For example, nations could avoid painful domestic deflation by drawing down gold and other foreign exchange earned by their colonies.

Polanyi observes the dramatic irony of these developments. One of the core claims of the economic liberals was that the universal embrace of free trade and the gold standard system would usher in a period of international peace and harmony, since all nations would benefit from expanded global flows of trade and capital. But exactly the opposite happened. Since governments had no choice but to protect their citizens from the disruptions caused by market processes, the protective shell surrounding nations hardened. He writes: "The new crustacean type of nation expressed its identity through national token currencies safeguarded by a type of sovereignty more jealous and absolute than anything known before" (GT, 211). This crustacean nationalism was expressed in the heightened Anglo-German global rivalry in trade and arms that began in the 1890s and which ultimately allowed the assassination of a Serbian archduke to escalate into World War I.

The core impossibility of entrusting society to a self-regulating market meant that from the 1870s onward nations were caught in a vise between the logic of the protective countermovement on the one side and the pressures of the gold standard mechanism on the other. This vise exacerbated internal domestic tensions: citizens found it impossible to win many of the protections that they needed, as the gold standard obstructed governmental concessions at every turn. Mounting internal tensions, in turn, translated into growing global tensions as political leaders blamed the machinations of foreign leaders for their domestic difficulties. For Polanyi the outbreak of World War I and the continuing high levels of global tensions in the 1920s and 1930s was the inexorable result.

<A>The Interwar Years, Bretton Woods, and the Return of the Gold Standard Mechanism

Polanyi wrote GT during World War II as an effort to influence the postwar settlement. He wanted to avoid a replay of the post-World War I Treaty of Versailles, where the great powers agreed to restore the gold standard system of 187–1914. Polanyi saw this as inevitably placing nations in the same internally contradictory position that they had been in before the war—caught between the legitimate demands of citizens for protection from the market and the economic logic of the gold standard system. In the aftermath of World War I, workers—often inspired by the example of the Russian Revolution—demanded both higher wages and greater protection from income insecurity caused by unemployment, illness, and old age. As Beverly Silver (2003) has documented, the result was one of the greatest strike waves in history. Yet the logic of gold standard restoration in the 1920s made it virtually impossible for employers or government to offer concessions to this mobilized working class. Since wartime expenditures had driven up price levels, stabilizing currencies in relationship to gold required a heavy dose of deflation and government budgetary discipline (Maier 1975). Gold standard orthodoxy required strict austerity for both wages and government expenditures.

This was the structural backdrop to the crises of democratic governance symbolized by Mussolini's seizure of power in Italy in 1922. Since a compromise between the demands of workers and the pressures of the gold standard was impossible, the strains led to the collapse of democratic institutions in country after country. Moreover, in the 1920s radicalization within countries interacted dangerously with the complex system of reparations, war debts, and external financing from the United States. When the stock market crashed in the United States in 1929, cutting off American capital flows to Europe, the result was a string of European bank failures in 1931. Europe's capacity to manage this crisis was severely compromised by the growing political polarization within nations. The result was an accelerating economic downturn with no agreement as to how to reverse it. Moreover, the logic of the gold standard demanded that nations take actions that only strengthened the deflationary pressures. It was in this context that Hitler came to power in Germany, repudiated the gold standard, and began the rearmament program that put Germans back to work and made World War II inevitable.

Polanyi's indictment of the role that the restoration of the gold standard played in the crisis of the Interwar Years was widely shared in the 1940s. William Adams Brown, Jr., of the Brookings Institution had published his monumental book *The International Gold Standard Reinterpreted, 1914–1934* under the prestigious imprint of the National Bureau of Economic Research in 1940. Brown's analysis dovetailed with Polanyi's. Even more importantly, John Maynard Keynes and Harry Dexter White, the two men given the primary responsibility for reconstructing the global financial system by the United Kingdom and the United States, identified the gold standard as playing a central role in these tragic events. On the one side, the pressure on nations to maintain the currency's gold price trumped democracy and made it impossible for societies to respond to the demands of working people. On the other, the system of free capital movements meant that governments were effectively powerless to pursue national objectives such as higher levels of employment or improvements in real wage levels (Block 1977).

Over the course of World War II, this diagnosis of the dangers of the gold standard produced broad consensus over reconstructing the global financial architecture to increase the capacity of governments to pursue domestic policy objectives. While there were serious disagreements between Keynes and White—the two major architects of the Bretton Woods agreements—they were in accord on the fundamental idea of overcoming the deflationary bias of the previous system. They both wanted an international monetary regime that was consistent with the goal of pursuing full employment for the world's labor force. While the Bretton Woods system was not fully operational until the late 1950s, the new policy environment of fixed exchange rates and strict regulation of global capital flows facilitated full employment policies for almost three decades after the end of World War II. This was the "Golden Age" when both developed and developing nations experienced rapid economic growth (Marglin and Schor, eds. 1990).

From the end of the 1960s through the beginning of the 1970s, the Bretton Woods regime faced mounting strains, primarily because the U.S. was unable to bring its balance of payments deficit under control. Under the weight of mounting problems, there was international agreement in 1973 to move from fixed exchange rates to floating exchange rates. While the proponents of floating rates had argued that market-determined exchange rates would adjust smoothly and gradually, the reality was the opposite. With exchange rates now shaped by the actions of financial traders and speculators, they became much more volatile after 1973 (Krugman 1989). As exchange rate movements became more pronounced, a growing number of governments dismantled controls over international capital movements, producing even greater volatility in both exchange rates and capital movements. During the course of the next three decades, there was a spectacular increase in both foreign exchange trading and in the growth of various derivative instruments that were intended to allow investors to hedge against increasingly disruptive and unpredictable movements in exchange rates, interest rates, and other variables that might impact their portfolios.

The cumulative impact of these post-1973 changes effectively undid what had been attempted in the Bretton Woods agreements. In a world of floating exchange rates and instantaneous movements of global capital, governments in developed countries lost much of the policy autonomy that they had gained in the Bretton Woods system. If a government attempted to pursue expansionary policies to increase employment, it would once again risk crippling outflows of capital. Even Scandinavian social democracies that had aggressively pursued full employment policies through the mid-1970s faced periods in which unemployment was reported at 8%, 9%, or even higher. And from 2010 to 2012, as recovery from the worst economic slowdown since the Great Depression was just getting underway, pressures from the global financial markets were forcing countries such as Greece, Portugal, and Spain to pursue austerity policies that would ratchet up unemployment and leave more people unprotected from the economic impact of the global economic downturn.

<A>The Global Economy Today

Tragically, the world economy today has returned to the kind of dangerous conflict between democracy and the pressures of the global financial system that characterized the 1920s (Streeck 2011). Despite the Greek government having been duly elected in 2010 with strong popular support and with millions of people engaged in ongoing mass demonstrations to protect existing levels of government spending, the Greeks have been under relentless pressure from the more powerful members of the European Union. They were given only two bad choices, and both of them involved imposing austerity on their own people. The government could have defaulted on its debt, withdrawn from the European common currency, and then imposed extreme austerity measures. The less unpleasant alternative has been to rely on an aid package from the European community to meet its debt obligations and remain in the Eurozone, but the price has been to impose ever greater degrees of austerity that continue to be strongly opposed by the Greek electorate.

The problems that have been facing Greece, Ireland, Spain, and Portugal since 2010 replicate those that developing nations have been facing for many years. Starting particularly during the 1980s debt crisis, countries that had been encouraged by international bankers to borrow during the 1970s suddenly faced a reckoning.[16] Unable to keep up with their debt payments and yet unable to borrow new funds in the private market, governments had to turn to the International Monetary Fund and the World Bank. These institutions imposed "structural adjustments" as the price for new assistance. Structural adjustment dictated a large dose of austerity—especially reductions in state spending on social programs—as well as much higher levels of unemployment. Again, the preferences of voters in these countries were suddenly irrelevant; democratic outcomes were trumped by the inexorable demands of the global financial institutions. Remarkably, the world had once again effectively restored an out-of-control financial mechanism quite similar to the nineteenth century gold standard.

This is what makes Polanyi's arguments so relevant to the current problems of the global economy. The world is, in effect, struggling with the unfinished business of the 1920s and 1930s. The most obvious sign of this was the almost instantaneous diffusion of global deflationary pressures from the fall of 2008 through early 2009. To be sure, government initiatives to prop up financial institutions and add demand to the global economy contained the worst of the crisis and narrowly averted even more catastrophic levels of global unemployment or even a second Great Depression. But even as we write in 2013, five years later, there seems to be no end to widespread unemployment coupled with an ongoing deluge of foreclosures. The depth of the resulting suffering it wrought makes it more critical than ever to understand the policy choices that ultimately culminated in the global financial crisis.

<A>Suppressing the Lessons of History

When he wrote GT, Polanyi believed that the experience of the 1930s had finally discredited the ideas of his free market opponents. We know now, of course, that he was wrong; in the 1970s those ideas returned from the dead and once again reshaped the world. But the way in which this happened still vindicates Polanyi's emphasis on the extraordinary role that ideas play in justifying certain policy choices that, in turn, can have catastrophic social and economic consequences.

As both the United States and the global economy experienced growing strains in the 1970s, the free market ideas that had been the target of Polanyi's critique experienced an extraordinary revival. Friedrich Hayek and Milton Friedman, working with a network of well-funded organizations and think tanks, had kept those ideas alive since the 1940s.[17] Yet until the 1970s, free market orthodoxy had little traction in political debates, and economics continued to be dominated by scholars who identified as Keynesians.

This changed in the 1970s, as much of the U.S. business community made a sharp rightward turn (see Chapter 7) and as Keynesian economists proved unable to respond effectively to the double challenges of slow growth with high inflation and mounting criticisms by Milton Friedman and his followers. When Ronald Reagan won the presidential election in 1980 he announced, in effect, that the age of Keynes was over and the age of Friedman had begun. But contrary to popular myth, "big government" did not suddenly disappear; instead, government expenditures continued to rise with Reagan's massive military buildup. Moreover, under the guise of "deregulation" and "small government," the Reagan Administration accelerated the processes of what we are calling reregulation, which had begun under Jimmy Carter. By the term reregulation, as we suggested earlier, we aim to push back against the belief that the success of neoliberal ideology since the mid-1970s has been matched by markets being increasingly freed from regulations and government management. On the contrary, regulations did not go away; they simply changed. Those that had previously been written to protect employees or consumers were systematically rewritten to support business interests and reduce previous restrictions on business practices. Similarly, the tax code was rejiggered to shift the burden from high-income households to middle class and working class earners.

Reagan's reregulative policies started a dramatic shift of income in favor of the top 1% of households (Hacker and Pierson 2010). As noted earlier, the share of income going to the top 1% increased from 10% in 1981 to 23.5% in 2007 (Saez and Piketty 2013). Much of this shift can be traced to the bold new opportunities that Reaganite reregulation created for Wall Street. Under the new rules, employment and profits in the financial sector grew spectacularly (Krippner 2011). Dozens of new billionaires suddenly appeared, who had built their fortunes simply by making deals or trading pieces of paper including newly authorized derivatives such as credit default swaps and collateralized debt obligations.

Moreover, this shift of income and wealth created a powerful feedback mechanism. Some of the new wealth flowed back to Washington to fund right wing think tanks and to finance the campaigns of market oriented politicians in both parties. With learned studies coming from these think tanks and the promise of more campaign funds, Congress was eager for new rounds of free market reregulation. By the 1990s, Republicans and Democrats alike were singing the praises of the free market and celebrating the extraordinary energy and dynamism of the financial sector. In fact, it was during the Clinton Administration that free market ideas moved from being a partisan weapon to becoming the new ideational regime (Chapter 6). In the late 1990s, Clinton officials such as Robert Rubin and Larry Summers were among the most enthusiastic celebrants of financial markets that were growing rapidly and allegedly regulating themselves.

To be sure, from the 1980s onward, almost every step of reregulation that eliminated previous restrictions on what financial firms could legally do was challenged by powerful voices who warned that the new measures could well lead to a financial disaster. Their warnings, however, were systematically ridiculed and marginalized as pessimistic “Chicken Little” anxieties of those not sophisticated enough to understand how effectively modern financial markets manage and diffuse risk. Even those who were shouting at the top of their lungs that the rise in prices in the U.S. housing market was dangerous and unsustainable were drowned out and ultimately ignored (Tabb 2012). What happened, of course, was that billions worth of subprime mortgage loans were packaged together and resold to financial institutions around the world. When prices in the U.S. housing market turned down, the default rate on those loans skyrocketed, and the consequence was that financiers woke up to the realization that they were holding hundreds of billions of dollars of toxic assets that nobody wanted. In the resulting rush to safety, long-established financial firms collapsed, credit dried up around the world, and economies went into free-fall (Baker 2008; Johnson and Kwak 2010; Stiglitz 2010). **[** As the crisis was unfolding, Alan Greenspan, who had presided over decades of irresponsible financial reregulation as Chair of the Federal Reserve Board, was called to account.[18] After four decades on the national stage as a philosopher of free markets and the cheerleader for tax cuts, he testified to Congress in October 2008 by saying: "Those of us who have looked to the self-interest of lending institutions to protect shareholders' equity, myself included, are in a state of shocked disbelief." Congressman Henry Waxman probed: "Do you feel that your ideology pushed you to make decisions that you wish you had not made?" Greenspan's humbled reply was: "Yes, I've found a flaw. I don't know how significant or permanent it is. But I've been very distressed by that fact … I made a mistake in presuming that the self-interest of organizations, specifically banks and others, were such as that they were best capable of protecting their own shareholders and their equity in the firms … [the] flaw in the **[AU: is this italic here for a reason?]** model that I perceived is the critical functioning structure that defines how the world works." (Andrews 2008). Waxman was clearly prodding Greenspan to acknowledge that the decisions he took at the Fed were not simply dictated by obvious and objective economic science. And Greenspan did not dissemble, but stated unambiguously that it was his ideology that told him how the world worked. What others called a dangerous bubble in the housing market he perceived as merely surface disturbance not worthy of interference. He was simply acting according to his dominant creed that because of the "self-interest of organizations," markets will always self-correct.

Greenspan exemplifies the point that when public officials take actions that in retrospect appear wildly irrational, it usually is the case that they were engaging in sober calculations based on mistaken premises derived from theories of how the world works.[19] The politicians and government officials who so carelessly unwound an entire system of financial regulations did so from their fealty to free market assumptions that unleashing finance would pay off mightily. So foundational was this model in sculpting collective perceptions that financial engineers, banking economists, and politicians justified their actions by its authority. The model limited their vision in such a way that made their choices the only rational ones. They were, in short, both constrained and enabled by these ideas.

<A>Keynes and Polanyi

In the aftermath of these catastrophic events, it has become clear that the lessons of the 1930s were suppressed. It is now imperative to return to the insights of Keynes and Polanyi, the thinkers who developed the most cogent analyses of that earlier period of economic crisis. Here we can gain considerable appreciation of Polanyi's unique approach by comparing him to Keynes, his much more famous contemporary. Keynes developed his thinking in opposition to the austerity policies imposed by mainstream economic orthodoxy in the 1920s and 1930s, and he fiercely opposed reduced public spending and draconian wage cuts as solutions to the catastrophic crisis of the global depression. As early as the 1920s, Keynes developed a positive sum solution to the economic problems of modern societies. He envisioned a class compromise between workers and employers so that societies could have significant gains in the standard of living at the same time that business firms flourished with rising productivity. A better educated, better housed, and healthier working class could make enterprises more productive, while also providing the growing demand needed to stimulate new investment and new industries (Skidelsky 1994)

Keynes, like Polanyi several years later, believed economic orthodoxy to be a complex system of illusions; he defined his mission to replace this stifling orthodoxy with a new and expansive economic perspective. Equipped with this superior set of economic understandings, political party competition would be freed of the kind of stalemates that had dominated European politics in the 1920s. Parties would draw on skilled government officials who understood how to use a toolkit of government practices to sustain economic growth. Together, this new positive sum economy and a system of pragmatic policy making that learned from its own mistakes would generate continuous economic advance. In the early 1930s, Keynes confidently anticipated that in about a hundred years economies would be so productive that human beings would be free of the age old struggle for subsistence (1963 [1931]).

The General Theory (1936) was enormously influential, and Keynesian ideas dominated economics and government policy in the first three post-World War II decades. All were characterized by strong growth, nearly full employment, and low inflation. Ironically, it was the apparent success of Keynesian policies in these three postwar decades that led both scholars and the public to forget the intense debates of the interwar period. Across most of the political spectrum, there was agreement that Keynesian policies had demonstrated the path to continuous prosperity. Even Milton Friedman acknowledged in 1965: “We’re all Keynesians now.”(cited in Krugman 2012, 101).[20]

Skidelsky (2009) has observed that Keynes’s critique of economic orthodoxy was informed by a deep moral sensibility. But as Keynes’s ideas were transformed into Keynesianism,[21] they gradually became a set of administrative and bureaucratic routines that were framed in a language that was primarily technocratic. John F. Kennedy’s Council of Economic Advisors in the early 1960s, for example, insisted that Keynesian ideas were so powerful that, under the guidance of skilled economists, governments could set unemployment and inflation at appropriate levels. They described this as a question of fine-tuning, not unlike adjusting the pitch produced by a piano’s keys. But the problem with this technocratic adaptation of Keynes was that it meant jettisoning his critically important focus on uncertainty and instability in market economies (Minsky1986).[22]

As Keynesian government policies were cut off from their moral underpinnings, the ideas themselves became increasingly vulnerable to conservative assault. To be sure, some of this vulnerability can be traced back to Keynes himself. His pragmatism overwhelmed the moral commitments that he brought to his original enterprise. His biographer, Robert Skidelsky, has confirmed this disjuncture between Keynes's deepest views and the arguments that he made to convince other economists: "Deep down, he was not an economist at all. Of course, he could 'do' economics—and with the best. He put on the mask of an economist to gain authority, just as he put on dark suits and homburgs for life in the City. But he did not believe in the system of ideas by which economists lived, and still live; he did not worship at the temple; he was a heretic who learned how to play the game" (Skidelsky 2009, 59–60). Skidelsky insists that Keynes's insights "… were never—could never be—properly integrated into the core of his discipline, which expelled them as soon as it conveniently could" (Skidelsky 2009, 55–56).

In a view that he shared with Karl Polanyi, John Maynard Keynes's unacceptable heresy was his belief that the economy was a means to an end, not an end in itself. He had an abiding suspicion of crass materialism, of money-making, and especially of the "love of money." Skidelsky drives home this point by quoting a speech Keynes gave in Dublin in 1933, in which he said that the system of economic calculation made "… the whole conduct of life … into a sort of parody of an accountant's nightmare. We destroy the beauty of the countryside because the unappropriated splendors of nature have no economic value. We are capable of shutting off the sun and the stars because they do not pay a dividend" (146). In fact, by the end of the 1930s, Keynes (1982 [1939]:500) explicitly argued for "liberal socialism," despite his continuing rejection of Marxist ideas. He wrote in *The New Statesman and Nation:* "The question is whether we are prepared to move out of the nineteenth century laissez-faire state into an era of liberal socialism, by which I mean a system where we can act as an organized community for common purposes and to promote social and economic justice, whilst respecting and protecting the individual—his freedom of choice, his faith, his mind, and its expression, his enterprise and his property."[23] But no matter how radical the prescriptions he offered, when Keynes "put on the mask of the economist," he conformed to the discipline's core assumption that the economy is autonomous from other social institutions. In a word, Keynes's pragmatism and desire to influence other economists meant that he could not embrace Polanyi's heretical view that actual market economies are embedded in society. The irony, however, is that granting the claim that the economy is autonomous set the stage for the successful free market counterattack against Keynes's influence.

In their subsequent assault on Keynesianism, Milton Friedman and his followers adopted the strategy of resurrecting the orthodox tenets of Malthus and Ricardo. Because the economy is autonomous, they asserted, it must be allowed to govern itself by its own laws. Since it is autonomous, moreover, it must also be shielded from “outside” impositions such as moral views that favor equality, “social agendas,” or the particular preferences of elected officials. As we elaborate in our discussion of welfare policies in Chapter 5, the Friedmanites evoked a lost Eden of uninterrupted prosperity that thrived precisely because the economy was allowed to self-regulate. By insisting that only a return to those earlier practices would restore prosperity, they were able to defeat deeply entrenched Keynesian ideas.

There was, moreover, yet another problem that contributed to the eventual delegitimation and defeat of Keynesian economic practices in the 1970s. Even though Keynes had once insisted that “The republic of my imagination lies on the extreme left of celestial space” (cited in Clarke 2009, 68), the reality is that he shared the skepticism of the British upper class towards political democracy. While he was fervent in insisting that laissez-faire be replaced by an active state directing the economy, he wanted that role to be carried out exclusively by economic experts and highly trained civil servants. As Sabeel Rahman writes about Keynes in the 1930s: “Indeed, part of Keynes’ unease with the more social democratic vision of the Labour Party was precisely that if political agency is invested in a broader democratic public rather than insulated bureaucracies, 'too much will always be decided by those who do not know what they are talking about.'" (Rahman 2011,6]). In the end, this failure to give his economic solutions a democratic grounding proved fatal to Keynes's intellectual legacy and legitimacy. When it was most vulnerable to unyielding conservative assault in the crises of the 1970s, Keynesianism had no popular democratic foundation of support to defend it.

<A>Polanyi's Alternative to Keynes

Like Keynes, Polanyi rejected a zero-sum approach to politics in which working class gains would inevitably come at the expense of businesses profits. He based this conviction on his experience with "Red Vienna" in the 1920s. There he had witnessed a democratic socialist movement successfully create a prototypical welfare state in which a healthier, more educated, and better housed labor force brought benefits to workers and employers alike (see McRobbie and Levitt, eds. 2006 []; and GT, 298–299). This experience gave Polanyi confidence that there was a way out of the stalemate between labor and capital. However, as with Keynes, Polanyi recognized that opening up this path required a different set of rules for governing the global economy than those that had prevailed between the two World Wars.

At the same time, there are important differences between Keynes and Polanyi. Keynes, to gain credibility among established economists, was willing to cede his critique of market autonomy. Polanyi devotes an entire book to debunking that stark utopian thinking, as well as showing the catastrophic destruction it inflicted on the world. His insistence that the human economy is embedded in social, political, ideational, cultural, and moral structures is designed to preempt the logic of free market theorists who move from the conceit of an autonomous self-activating economy to the normative claim that human freedom depends upon the market being the governing mechanism for all of society.

Polanyi also understood the risks and dangers of Keynes's more technocratic approach to politics. He recognized that a pragmatic politics shorn of moral purpose would inevitably become frail; policies that are legitimated simply on the instrumental grounds of short-term success will be vulnerable as soon as conditions change, as we show in Chap. 6. This belief motivated him to make democratic politics an essential cornerstone of his political economic vision. Only active participation from below could counteract the tendency of politics to degenerate into a cynical contest for power between rival factions. It is not that he was naïve about the limitations of existing forms of democratic governance; it is rather that he took the long view of democratization as a process developing over many decades to bring government under popular control.

While Polanyi was a strong defender of parliamentary democracy, he believed that the democratization of society had to go beyond citizens choosing their leaders in periodic competitive elections. In the 1920s, Polanyi had been drawn to the ideas of "guild socialism" proposed by G. D. H. Cole (Dale 2010). Cole (1920) sought to avoid the twin dangers of state socialism on the one side and anarcho-syndicalism on the other by envisioning a separation of powers between a system of worker representation that would own and manage the production process and a parliamentary state that would continue to represent the population on a territorial basis.

There are no explicit references to guild socialism in GT, but Polanyi's belief in expanding democracy to include the economy is expressed in his idiosyncratic definition of socialism: "Socialism is, essentially, the tendency inherent in an industrial civilization to transcend the self-regulating market by consciously subordinating it to a democratic society" (GT, 242–243). Implicit in this definition is a critique of the Marxist stipulation that the coercive power of the state would "wither away" once the socialist revolution ended class exploitation. Polanyi sees this claim as a parallel utopian fantasy to that of the self-regulating market. Indeed, he explicitly follows Weber in recognizing that political authority and power would inevitably continue into any future social order, especially as a countervailing source of power to that of the economy.

Two fundamental points follow. First, socialists could not ignore the difficulties entailed in imposing democratic accountability on governmental power. Second, Marxists were guilty of imagining that a shift in property relations would—by itself—usher in a new and better society (see Chapter 2). According to Polanyi, Marx mistakenly had accepted the claims of the classical economists, especially Ricardo, that property relations can and will determine the entire shape of the social order.

Polanyi's view here is based on his unique insight that market society was imposed in the nineteenth century through political means. What we think of as "modern capitalist society" was, for Polanyi, not the result of underlying inevitable economic mechanisms, but rather the consequence of a series of political choices and explicit government policies. The pretense now stripped away of the economy as a "force of nature," it follows logically that these arrangements can be undone and reversed through the same mechanism—the use of political power. While Polanyi is usually not explicit on this point, his argument is consistent with those who have argued that private property represents a bundle of different rights that owners had at one particular moment in time (Berman 2006, 168).[24] It follows that political and legal changes introduced over time can change that bundle of rights until many of the most important structural inequalities in labor markets, capital markets, and product markets are effectively eliminated.

For example, like Keynes and Harry Dexter White (Block 1977), Polanyi argued that limiting the right of property owners to move capital across national boundaries would eliminate one of the most powerful devices by which the wealthy are able to bypass democratic constraints by forcing governments to pursue their own policy preferences. . For Polanyi, moreover, that markets and property rights are fundamentally political constructs is an historical claim not just a theoretical one. In GT he explains the history of the previous century as a series of partially successful efforts to transform market relationships through political means. So, for example, Bismarck's social welfare measures in the 1870s not only provided workers with insurance against illness, disability, and old age; they also transformed the labor market by politics. In the same way, trade unions winning rights on the shop floor politically reorganized class and property relationships (GT, 210–217).

In sum, one of Polanyi's most essential arguments concerns political democracy. Only a profound commitment to democratic practices could assure that economic activity was constrained within a framework that meets the shared needs of the citizenry. Because he also recognized the importance of global institutions, Polanyi was convinced that successful democratic governance at the local and the national level required supportive global arrangements that worked in the same direction. Subordinating the economy to democratic governance was for Polanyi a global imperative.

<A>Polanyi's Distinctive Ideas

Up to this point, we have provided a general introduction to Polanyi's main arguments and sought to place him in historical context as well as in relation to other important intellectual traditions. Now we turn to some of the more specific arguments that make Polanyi such a distinctive and generative thinker. We have identified seven key ideas that correspond to the remaining seven chapters of this book. Our exposition of these seven ideas are not intended as introductions or summaries of the later chapters, but rather to clarify and bring to attention the fundamental theoretical issues at stake in each chapter.

In this task we face a problem that was identified by Karl Polanyi’s brother, the philosopher Michael Polanyi. The relationship between these two extremely gifted brothers is a fascinating story in itself. While the two were very close at times in their adult lives, they found themselves during the Cold War on opposite sides of the era’s polarized politics. In fact, Michael Polanyi attended the initial meeting of the Mont Pelerin Society in 1947, the organization through which Friedrich Hayek and Milton Friedman worked tirelessly to move free market ideas from the margins of discourse to global dominance. Yet despite his alliance with his brother’s key theoretical opponents, Michael offered effusive praise when his brother sent him GT in manuscript (Fleming 2001).

Michael began his career as a scientist working in England, where he came into direct conflict with a group of scientists influenced by Marxism, who believed that the progress of science, like that of the economy, would be improved through a regime of planning. In order to challenge this idea, Michael developed a theory of scientific development that emphasized the tacit and personal elements of scientific knowledge. He insisted that neither individual scientists nor the scientific community could ever enumerate all of the ideas that were incorporated into a specific scientific theory. Scientific theories were like icebergs; the textbook version of the theory was what appeared above the surface, but it was supported by a huge structure of invisible assumptions and implicit claims that only became visible through the spontaneous and unplanned efforts of individual scientists to make sense of data (M. Polanyi 2009).

Michael's insight is particularly relevant for his brother's theoretical corpus. Karl Polanyi's thinking was complex because his concepts are intertwined with the historical experiences that he was seeking to explain, and his framework included various tacit assumptions that are never stated explicitly. It is tempting to try to develop a systematic, step-by-step, exposition of his key ideas. The effort, however, would be easily defeated by the interconnectedness of Karl Polanyi's theoretical framework. Each of Polanyi's key ideas is connected and dependent on other key ideas, so it is impossible to work one's way up from the foundational ideas.

To be sure, each chapter is far more complex in its argument than one single key idea. Still, we think this is the best way to introduce readers to the richness and complexity of Polanyi's intellectual project. Read through the prism of our own interpretations, each of these Polanyian ideas challenges familiar assumptions about how the world works. Together, they add up to a powerful critique of existing social and economic arrangements and a vision of a real alternative.

<A>The Economy Is an Instituted Process (Chapter 2)

Karl Polanyi defined himself as an institutionalist—both to distinguish himself from conventional mainstream economics and to make clear that rather than the "laws of the market," social, political, and cultural institutions shape how economies actually work. He made the critical distinction between the formal and the substantive view of the economy; the former focuses on the economizing of scarce resources while the latter centers on how human beings organize and allocate the pursuit of the things needed to sustain human life. This distinction makes clear that the lens used by most economists is not wide enough to capture the complexity of actual substantive economies—both historically and in the present.

This substantivist view of the economy is grounded in Polanyi's understanding that society and its institutions make up the foundation upon which an economy is built. Aristotle insisted that humans are fundamentally political animals; they realize themselves only living in a polis—a political community. Polanyi would modify this and say that humans are social animals; they define and realize themselves in relation to others. It is collectively through social arrangements that human beings work out how they will secure their livelihood. It follows from this argument that market exchange is only one of the institutional arrangements by which humans organize economic activity.

Polanyi stressed the continuing role of three other institutional complexes—redistribution, reciprocity, and householding. Redistribution is the pattern in which goods are accumulated at a central point and then distributed out to households. Reciprocity is the pattern associated with gift-giving, through which items are passed along to others with the expectation that the giver will also be a receiver. Householding is the pattern in which families provide for their own needs. The role these institutions play in modern society is invisible to those who focus only on markets and processes of economizing.

These are the foundations for Polanyi's profound rejection of what he terms the "economistic fallacy"—the belief that human society is fundamentally shaped by the needs of the economy. His view is that Western societies are as much shaped by culture as are tribal societies; it is just that the *content* of our cultural beliefs now reflect the core ideas of Western liberalism—belief in the sovereignty of the self-interested, materially motivated individual, and the sacred status we effectively attribute to a rapidly developing economy (Sahlins 1976; Thomasberger 2013). Just like any tribal individual who finds it difficult to think outside of the framework provided by his or her own culture, we are ourselves prisoners of modernity's culture of the market's natural inviolability. The consequence is that we understand ourselves and our social relationships in ways that are radically incomplete.

Polanyi argues that, in the nineteenth century, Western societies came to be organized in a way that made the pursuit of individual self-interest *appear* to be the innate motivation of human nature. Yet, like Durkheim, who emphasized the "non-contractual bases of contract," Polanyi recognized that this utilitarian notion of self-interest was far too brittle and socially corrosive to ever forge any kinds of deep solidarities (Somers 2008, ch.2). Were it to be an accurate description of the social world, we would be living in a Hobbesian universe of constant war of all against all. And wars and social conflict notwithstanding, it is clear we do not live in that kind of world—in large part thanks to the fundamental role played by the government provisioning, legal power, our social bonds, the normative constraints of our political culture, and our institutions of civil society. All of this, however, is obscured by the economistic fallacy. Our taken-for-granted cultural framework is one that makes us think that we do not actually have a culture and that the state's growth in size and importance is a threat and a coercive antagonist, rather than a constitutive support for the actual functioning economy.

<A>Challenging the Concept of the Autonomous Economy: The Always and Everywhere Embedded Economy (Chapter 3)

Polanyi directly challenges the conventional view that the Industrial Revolution and the rise of the bourgeoisie ushered in an historical epoch in which the economy became an autonomous and self-regulating entity, separated entirely from government and society. He was painfully aware that the classical economists aimed to turn this view into orthodox "common sense," and he also knew that they had been extraordinarily successful in creating broad legitimacy for laissez-faire and free trade policies. England in the nineteenth century did become "the workshop of the world" and its embrace of free market and free trade policies was accepted by conventional wisdom as the explanation for its industrial primacy. But while Polanyi acknowledges the unprecedented influence of T. R. Malthus, David Ricardo, and classical political economy, he also insists that there was a huge discrepancy between their ideas and the actual policies that governments adopted.

The conceptual tool that Polanyi uses to show the incoherence of classical political economy and its later neoclassical intellectual heirs is his theory of fictitious commodities. At the core of the vision of a self-regulating and autonomous economy is the idea that the price mechanism coordinates the supply and demand for both key economic inputs as well as for final products. The economy consists of many decentralized producers who compete with each other and continuously take account of price signals in the market. If, for example, a particular raw material becomes scarce and significantly more expensive, firms that ordinarily rely on that input will search for substitutes and suppliers will increase the supply. The combination of more supply and the substitution of alternatives will soon bring those prices down to a more reasonable level that will readjust supply and demand. Through this constant adjustment process, the price mechanism assures that the decentralized economic actors make the best possible use of available resources.

This vision of a self-equilibrating economy was still just an abstract ideal for the classical political economists. By the mid-twentieth century, however, economists worked out the mathematics of a general equilibrium model which, under restrictive conditions, will demonstrate the optimal outcomes that the classical economists expected. Yet even before this model was fully developed, Polanyi recognized that there was a fundamental flaw in this entire way of thinking. The capacity of the market mechanism to balance supply and demand works for commodities—those things that are actually produced for the purpose of being sold in the market. But Polanyi argues that while land, labor, and money are all critical inputs into the production process, they do not meet the definition of a commodity. Labor is simply organized activity of human beings, land is nature that has been subdivided, and money is a unit of accounting and a way of storing value.

Polanyi insists that land, labor, and money should be understood as fictitious commodities; they cannot behave or be treated in the same way as true commodities because they were not produced to be sold on a market. The opportunities to substitute for these economic inputs are distinctly limited, moreover. The idea of the self-regulating market economy, however, requires that land, labor, and money be treated "as if" they were real commodities.[25] The vision of a self-regulating market economy thus rests on a fiction; it describes something that cannot actually exist.

The only way to bridge the gap between the pretense and the reality of actually existing market economies has been to use the powers of government to manage the markets for these fictitious commodities in ways that produce over time the illusion of their commoditization, and thus some rough balancing of supply and demand. So, for example, governments always need to structure the market for labor in order to produce the particular skills that employers need and to mitigate the extremes of labor scarcity on one side and mass unemployment on the other. Even before the birth of the modern welfare state, governments used such tools as emigration and immigration policies to achieve some balance in the labor market, and public agencies dispensed relief to assist the unemployed. To be sure, the effectiveness of this governmental management of the labor market varies over time and usually leaves some groups with no protection from the deprivations caused by lack of earnings.[26]

The case of land is quite similar. Governments create markets in land in the first place by establishing property rights, conducting land surveys, creating localities with specific boundaries, and enhancing the value of certain plots of land by building appropriate infrastructure such as roads, canals, parks, and other urban amenities. And most importantly, predictability in the market for land requires sets of rules as to what types of economic activity are permitted or prohibited in particular localities. One would not expect the supply and demand for suburban real estate to reach some kind of equilibrium level if residents were each allowed to begin smelting coal in their backyards.

As for money, Polanyi argues that during the course of the nineteenth century, most nations created central banks in order to mitigate the disastrous alternation between rapid expansion and rapid contraction of the supply of money and credit. When management of money and credit is left in the hands of the private sector, the historical experience has been boom-bust cycles—inflationary credit cycles followed by crashes. As we know from recent experience, even with the creation of Central Banks, the danger of such boom-bust cycles does not disappear. It is governmental management of the supplies of money and credit that has facilitated long periods of stable economic expansion.

Polanyi's point is quite simple. According to free market doctrine, market economies make a radical separation between the economic and the political realm. The political realm simply enforces a stable set of background rules, such as laws of contract and property, and it allows the market to proceed autonomously within those rules. Polanyi uses the examples of the fictitious commodities to show that this radical separation is mythical. The government is centrally involved in overseeing the markets for land, labor, and money; it is intimately and continuously involved in the economy.

To be sure, Polanyi recognizes that this governmental involvement in the economy goes well beyond these three fictitious commodities. They are simply illustrative of the deep ways in which the economy and the state are intertwined. He also discusses the case of antitrust policies. The autonomous market model rests on the idea that the different firms are competing with each other, but this competition can sometimes leave a small number of firms in a dominant position where they no longer are compelled to respond to price signals. So even some of the more radical proponents of laissez-faire end up endorsing the government's role in assuring that a competitive marketplace is actually present.

<A>The Seductive Appeal of the Autonomous Economy (Chapter 4)

But what accounts for the seductive appeal of these erroneous claims that the economy is both autonomous and self-regulating? How is it that extremely intelligent people have been so convinced by an idea that lacks empirical grounding? After all, an autonomous economy is invisible to the naked eye. Polanyi offers the surprising explanation that the free market idea is so appealing because it is utopian. While many generations of conservative thinkers have derided communism and socialism as utopian ideas that are completely inconsistent with what we know about human societies, Polanyi turns the tables and insists that the theorists of the free market have constructed a utopian vision of the good society that is appealing, impossible, and ultimately destructive, even catastrophic.

To understand the appeal of the free market utopia, we must recognize that it promises to reduce radically the role of politics in social life. Distaste for politics is deeply rooted in the modern Western tradition in several ways. First, those who have political power too often use it to place limits on individual rights. In the absolutist monarchies of both early modern Europe and contemporary dictatorships, people could be thrown in prison or be killed for simply falling out of favor with those with political clout. Even in democratic regimes with separations of power and the recognition of civil rights, abuses are not uncommon. Franklin Roosevelt interred tens of thousands of innocent Japanese citizens during World War II, and since the tragedy of the World Trade Center on September 11, 2001, the United States has routinely denied constitutional protections to people deemed to be threats to our national security.[27]

Second, even when political power is not being used to limit the freedom of the individual, the practice of politics is almost always conflict-ridden and ugly. The political arena is where different groups contend over differing competing views of how society should be organized, and inevitably the clashes over deep value disagreements produce polarization and hostility between rival camps. At the same time, elected officials must approve budgets and pass laws that bridge some of these fundamental disagreements, and the inevitable compromises that they make frequently appear to be arbitrary and unprincipled. The political arena routinely offends the sensibilities of ordinary citizens because it necessarily includes both actors who are excessively driven by principles and those whose only principle is making whatever deals will advance their own individual political careers. The market, by contrast, has been seen as a rational "haven" from the passion-inflamed world of political combat (Hirschman 1977).

The idea of ending politics has therefore long been deeply appealing. Polanyi argues that free market theorists especially promise a world where politics would largely disappear because the state's functions would be radically restrained as the self-regulating market became the central institution governing society. Threats to individual liberty would be eliminated and we would be safe from those ugly conflicts and unprincipled politicians because the scope of governmental action would be effectively limited.

Precisely because there is no such thing as an autonomous economy, Polanyi defines this vision as utopian, and therefore impossible. But he also emphasizes that the policy recommendations that are designed to realize this utopia pose fundamental threats to society. On the one hand, measures based on the unrealistic vision of self-regulating markets often expose social groups to extreme hardship and the most dangerous forms of social exclusion (see Somers 2008, chs.2, 3). On the other, pursuing the free market utopia requires anti-democratic measures that limit what citizens are able to accomplish in the political sphere. The ideal of limited government means that citizens must not be allowed to expand government spending for pensions and unemployment insurance if those measures are seen as interfering with market self-regulation.

Polanyi recognizes that democracy is itself put at risk by such anti-democratic efforts to derail popular protective measures. He arguesthat the fantasy of escaping from a world in which political power exists actually paves the way for dictatorship. Vigorous democratic institutions are the only way to protect ourselves from political tyranny. But those who strive for a society organized around a self-regulating market are forced to weaken democracy and limit the public's capacity to make its own decisions. It is precisely those weakened and unresponsive democracies that are most vulnerable to attack by extremist leaders bent on imposing authoritarian solutions.

<A>The Political Embedding of Markets: The Speenhamland Story (Chapter 5)

Polanyi argued that market fundamentalists naturalize the market economy into something that is autonomous of human artifice and operates according to its own inner logic of nature. Polanyi challenged this way of thinking by showing that the state was by necessity very directly involved in governing the markets for the fictitious commodities of land, labor, and money. He elaborates this position by showing that both the initial construction of a modern labor market and its continual functioning requires a very substantial expansion of the state's capacity for coercion: "The road to the free market was opened and kept open by an enormous increase in continuous, centrally organized and controlled interventionism" (GT, 146).

Polanyi devotes several chapters of GT to the famous Speenhamland Act. Speenhamland is a village in Berkshire County, England, where in 1795, in response to an extended harvest failure and downturn in the world market, the magistrates adopted a policy to support the wage levels of agricultural laborers using a schedule that linked the amount of "poor relief" to the size of the family and the cost of bread. Under the Old Poor Laws dating back to 1563, local parishes were the basic administrative unit. Although they were required to provide assistance to their indigent parishioners, there was considerable local discretion over the precise rules, forms of assistance, and degrees of generosity.

Responding to the acute distress in 1795, the Speenhamland policy represented an attempt to rationalize the system by creating some degree of uniformity in relief practice. In practice, the new policy was actually implemented in a limited number of counties in the south of England. Nevertheless, the Speenhamland Act was blamed by a chorus of Poor Law opponents as being responsible for what was claimed to be a widespread collapse in rural wages and rural productivity that occurred in the 1810s and 1820s. (The argument by which a form of social assistance came to be blamed for creating the very poverty it was meant to alleviate is also the central topic of Chapter 6 on the "perversity thesis"). Critics of the Old Poor Laws insisted that the only solution was to abolish the Speenhamland system and all forms of "outdoor relief"—assistance that allowed the indigent to continue to live in their own houses while receiving assistance. Their solution was to abolish the old system completely and universalize the work house, in which the indigent and "able-bodied" workers, both men and women, would be required to do menial and demeaning labor in exchange for meals and forced lodging.

In 1834, the radical anti-welfare forces eventually were victorious in abolishing the Old Poor Law and substituting the "Poor Law Amendment Act" or "the New Poor Law." This widely unpopular national legislation, among the very first passed by the newly reformed 1832 Parliament (now filled by representatives of newly enfranchised business interests), created a national system of poor houses that were administered centrally by a Poor Law Board based in London. Polanyi analyzed the New Poor Law as ushering in a fully modern labor market, the kind envisioned by the classical economists in which working people had no choice but to obey the signals of the labor market regardless of how degraded the working conditions or how debased the compensation. Polanyi stresses the role of government coercion in making the dreadful and degrading experience of the work house the only alternative to starvation. Only then did the English poor finally accept the working conditions of the "dark Satanic mills" of early industrialism.

Speenhamland and the Poor Laws—Old and New—loom so large in Polanyi's account because their history provides powerful evidence that economic arrangements are neither natural nor autonomous, but they are deeply embedded within the state's exercise of power and authority. In Chapter 5 we support the basic thrust of his argument about the underlying intentions of those who pushed the New Poor Law through Parliament, as well as their its enormous significance in shaping the modern industrial order. But we also directly challenge his interpretation of the Speenhamland period overall. Polanyi may simply have put too much stock in the "evidence" supplied by the now thoroughly discredited 1834 Report on the Poor Law.

<A>The Continuing Power of the Perversity Narrative (Chapter 6)

The campaign against the Old Poor Law relied heavily on what we call "the perversity narrative"—the claim that policies meant to assist the rural poor were, in fact, responsible for their poverty. Remarkably, the very same arguments used against the Old Poor Law—that poverty is caused by welfare, rather than vice versa—were revived by conservatives in the United States in the 1980s and played a central role in bringing about the end of "welfare as we know it" in legislation passed in 1996. Adopting the language of Albert Hirschman (1991), we label these arguments as the "perversity thesis" and explore its astonishing revival after 200 years of history. This presents a compelling puzzle: since we usually assume that dominant ideas are those perceived to best makesense of *current* issues, such continuity across vast swaths of time and space is difficult to reconcile with the ways in which we think about the contextual importance of policy debates and influential ideas.

A central aspect of Polanyi's critique of the economistic fallacy is his argument that the classical economists were mistaken or misleading in both their understanding of human beings (ontology) and their theory of knowledge (epistemology). Polanyi is explicit in arguing that these mistakes were incorporated into the fabric of mainstream economics and continued to have negative consequences well into the twentieth century. GT draws attention to what could be called the "naturalistic fallacy" of classical political economy--the belief that society is governed by the same laws that govern nature and the physical world. We term this idea "social naturalism" and show how important a role it plays in the initial formulation of the perversity thesis in Malthus's famous *Essay on the Principle of Population*.

In that essay, Malthus begins by asserting that human population tends to grow geometrically while agricultural output grows only arithmetically, so societies are in constant danger of outgrowing the food supply. This is precisely why, according to Malthus, poor relief is so destructive; it encourages (incentivizes, in today's language) the poor to have children even when they lack the resources to provide for their offspring through their own labor. The central moment in Malthus's argument comes when he proposes a "thought experiment" of what might happen if the system of poor relief were eliminated from one day to the next. He foretells that the poor would quickly see the folly of having children that they are not able to provide for, and society would quickly move back to the lost "state of nature" when those without resources responsibly postponed sex and marriage until they had accumulated a sufficient stake to provide for their children. At that point, population and food supply would again be in balance.

But while Malthus is justly celebrated for placing the ratioof population growth to food supply on the agenda of the social sciences, his reliance on social naturalism and the "biological" essence of human beings makes this part of his argument highly problematic. While it is true that human societies have long struggled with the balance between resources and population growth, Malthus simply invokes an imaginary state of nature and biology to solve the problem. Moreover, he ignores the variety of social mechanisms that societies have used to manage population growth and to augment the supply of food. The reality is that the reproductive practices of both the rich and the poor are also embedded in social arrangements and are not governed directly by nature or by economic incentives.

At the same time, that Malthus had to resort to a thought experiment to clinch his argument against poor relief demonstrates the epistemological shortcomings of classical political economy. We term this approach to knowledge *theoretical realism*—a philosophical precept that rejects empirical evidence as the primary condition for positive knowledge. It instead uses theory to deduce that hidden forces and properties are the causal mechanisms that underlie social processes that are the real foundations for knowledge. Malthus and Ricardo developed their theories in the shadow of Newton's discovery of the unseen underlying laws of motion that explained the movements of the planets. For the economists, the market-induced balancing of supply and demand and the differential growth of population and food supply were equivalent unobservable laws that accounted for the “natural” movement of self-regulating markets to equilibrium.

The critical difference between physics and economics, of course, is that the stable trajectories of the planets can be observed and carefully measured. Physics is indeed a science. By contrast, the assertion that there is an underlying movement of self-regulating economies towards equilibrium was not based on empirical observation; it was simply a methodological axiom. Absent empirical evidence, however, their basic assumptions about how economies work can be neither falsified nor confirmed—thus conveniently insulating them from standard social science scrutiny. No matter;both classical political economy and modern economics are built on top of this nonempirical “as if” axiom. Polanyi’s ideas help us to see that particular market arrangements are not just socially and politically embedded; they are also embedded in ideas, a phenomenon we dub *ideational embeddedness*. When free market advocates mount their arguments against welfare spending or for tax cuts that benefit the wealthy, they are seeking to embed economic practices within a worldview that rests on social naturalism and theoretical realism.

<A>The Contradictory Relationship between Big Business and the State (Chapter 7)

In Polanyi's historical account, big businesses and corporations are frequently caught between their ideological support for the free market and their practical need for ever greater government action to organize and stabilize markets. This can be seen as another face of the tension between regulation and deregulation. Businesses often define as regulation only those government rules that they feel unfairly limit their ability to shift costs onto others. Eliminating such rules is characterized as deregulation or the act of restoring markets to their natural prepolitical condition. As we suggested above, however, these firms actually demand as many—albeit different and more advantageous—rules and regulations that they see as pro-business. The difference is not the *fact* of regulations; it is what they are called,what their effects are, and who they benefit. Rather than describing these business-friendly laws and policies as regulations, free market dogmatists characterize them as part of the natural, right, and proper workings of the free markets.Classic examples are the rules protecting intellectual property rights, including patent laws, copyright, and protection of trade secrets. These are all very specific historical creations that have been continuously modified and changed over time through administrative actions, judicial rulings, and new laws. Most recently, the digitization of information required major shifts in the legal regime to protect ownership rights in the strings of zeroes and ones that form software programs, as well as music and videos. The Disney Corporation has taken advantage of these recent legislative initiatives to extend the duration of copyright protection so that Mickey Mouse and Donald Duck are still protected more than seventy-five years after their initial creation.

But when Disney profits from the extension of copyright protection or a pharmaceutical company takes advantage of a government-granted monopoly to sell a particular medication for twenty years, they do not describe this as a government "intervention" or "regulation." On the contrary, government is depicted as simply validating the firm's legitimate right to draw profits from its very substantial research and development effort. But even when the firm has licensed the particular technology for a nominal fee from a government research laboratory that is legally prohibited from commercializing its own discoveries, it still insists that a government-granted monopoly is a legitimate and necessary way to incentivize the firm to oversee the costly clinical trials that are a prerequisite for approval to market the new medication.

This is a great deal more than hypocrisy—although it is that, to be sure. More fundamentally, it is a denial of the fact that in all contemporary market societies, large corporations are always heavily dependent on government in a wide variety of ways. They need government contracts, government help with their research and development efforts, government protection of their intellectual property, government support when they run into problems overseas, and so on. But the business sector also worries that this dependence makes it vulnerable to government pressure to accept policies and limitations on their actions that they find burdensome. In some places, and with varying degrees of intensity, firms deliberately embrace the ideology of the free market as a way to push back and resist those initiatives of government that they do not like. This strategy has been pursued with particular intensity by business firms in the United States.

<A>The Need to Subordinate the Economy to Democratic Politics (Chapter 8)

Even while emphasizing the “stark utopianism” of the self-regulating market, Polanyi’s most passionate argument against free market ideology is based on the limits it places on the scope of democratic politics. The hegemony of a self-regulating economy free of government “meddling” is, in the end, an assertion that the preferences of voters in democratic politics must be ignored when they conflict with the logic of a self-correcting market economy. And, in fact, free market theorists such as Milton Friedman and Paul Weyrich have argued explicitly for a legal framework that would prevent voters from taking any actions that “undermine” the autonomous economy. Just as the Supreme Court periodically strikes down a piece of Congressional legislation for violating the system of rights guaranteed in the Constitution, free market ideologues want a set of institutions that will similarly overrule any decisions that interfere with what is not by accident called *free* enterprise.

One of these institutions has been well established in many nations—an independent Central Bank that is autonomous from the Executive Branch and that is supposed to set monetary policy strictly by economic rather than popular democratic criteria. While the United States passed legislation that instructs the Federal Reserve Bank to pursue both price stability and full employment, Federal Reserve Chairs usually focus single-mindedly on price stability and the smooth functioning of financial markets. They occasionally give lip service to the goal of full employment, but they are effectively insulated from the economic preferences of the electorate.

But even this is not enough for free market intellectuals and activists. They also want to erect barriers so that taxes or spending cannot be increased by simple democratic majorities. They advocate requiring supermajorities, such as the two-thirds vote in both houses of the legislature that California required for approval of its state budget from 1933 to 2010 and which it still requires for increases in taxes. In fact, conservatives have been fighting for years for a Balanced Budget Amendment to the U.S. Constitution that would prohibit even large majorities in the Congress from authorizing any deficit spending, unless the deficit results from tax cuts that benefit the very rich. Similarly, free market theorists have sought to erect higher barriers to the legislative enactment of regulations on business activity.

Polanyi saw this institutionalized distrust of democratic politics by advocates of the free market as a profound threat to democracy. If the political system is rigged so that the people cannot win the protections from the market that they need, then they will turn against that system. Indeed, this is precisely the dynamic that destroyed democracy in many countries of Europe in the 1920s and 1930s. In fact, Polanyi's view was that his free market antagonists in Vienna, Von Mises and Hayek, had paved the way for the rise of fascism by preaching that popular preferences on economic matters should be ignored. In Polanyi's view, the way to preserve democratic institutions is to extend their influence over economic decisions. Precisely because he saw the autonomous economy to be a fiction, he had little concern that an expanded government role in providing services and regulating private business would destroy the market. On the contrary, his experience of municipal socialism in Vienna had persuaded him that businesses could prosper in a polity that was responsive to the needs of working people.

To be sure, Polanyi recognized that democratic institutions are inherently imperfect; voters will periodically elect people who promise things that are neither possible nor desirable. But the solution to the problems of democracy is more democracy, not less. Leaders who claim they will deliver the unattainable can be voted out of office at the next election or brought down by a parliamentary vote of no confidence. Similarly, government enactments that are economically destructive will later be reversed as voters recognize that taxes have been pushed too high or that certain government programs are overly generous. In Polanyi's view, while democracy is imperfect, along with constitutional rights it remains the core mechanism we have for protecting human freedom.

Notes

[1] Eurosclerosis diagnosed Europe's difficulties as resulting from too much government spending, high tax rates, and excessive regulatory burdens on corporations.

[2] In this, they were hardly alone. Other dissenters, who drew on Polanyi before the crisis, include Block (1996), Kuttner (1996),[Harvey (2005), Klein (2007), Somers (2008).

[3] Moreover, the problem did not end with the global financial crisis. Saez and Piketty (2013, Table 1) reports that from 2009 to 2011, 121% of income growth went to the top 1%.

[4] Shortly afterwards, Concordia University in Montreal, Canada, established the Karl Polanyi Institute. Since then, there have been nine more Karl Polanyi International Conferences held throughout Europe and North America, all attended by scholars from as many as thirty countries, which have produced a series of edited volumes. Polanyi's work is increasingly discussed at important panels at professional meetings of social scientists and at conferences and symposia held around the world. We discuss his biography in more depth in Chapter 2.

[5] One exception was Polanyi's centrality to a major two-decade-long debate among anthropologists over the "formal" versus the "substantive" meaning of the economy. His studies of Aristotle's economics and ancient Greek economies had important impact on the discipline of classics, particularly through the work of the eminent classicist M. I. Finley, who had worked with Polanyi (Tompkins 2008). Polanyi was also an important influence on Immanuel Wallerstein's (1974–1980) development of world-system theory.

[6] The distinguished economic historian Charles Kindelberger had written earlier (1974) of GT: "Some books refuse to go away. They get shot out of the water by critics but surface again and remain afloat."

[7] Polanyi called this the "double movement" in which a protective countermovement to that of the market was not only inevitable but necessary for society to be able to survive market society.

[8] FDR gave his now largely forgotten speech proposing a Second Bill of Rights the same year (1944) as GT was published. In that speech, FDR advocated expanding our conception of freedom beyond civil and political rights to embrace "freedom from want" and many other socioeconomic rights. Some of this had been foreshadowed in his 1941 "Four Freedoms" speech (Sunstein 2004).

[9] More precisely, Polanyi emphasizes both discontinuities in social development and deep continuities in social and economic theories.

[10] While our discussion of Polanyi focuses on his major work, *The Great Transformation*, his life's work encompassed many other writings—both published and unpublished. While some of these have not yet been translated into English, our interpretation draws on Polanyi's published writings, some of his unpublished work, and a number of important secondary analyses of Polanyi's work. Some of Polanyi's previously little-known works have been republished in European languages recently. See Cangiani, Polanyi-Levitt and Thomasberger, eds. (2002, 2003, 2005); Cangiani and Maucourant, eds. (2008); Laville and La Rose, eds. (2008); Maucourant, ed. (2011); Resta and Cantanzariti, eds. (2013).

[11] Polanyi, however, stressed the important discontinuities between Smith on the one side, who was still oriented toward the nation-state, with Malthus and Ricardo and the classical political economists on the other (GT, ch.10; see also Rothschild 2001).

[12] The obvious problem with this idea that the government must remain a neutral arbiter is that the specifics of how governments protect property or enforce contracts cannot be derived from free market principles, and differing definitions of property rights or alternative ideas of what constitutes a valid contract or a legitimate competitive strategy will, in fact, shape the way that market processes evolve. One can see this in the ongoing struggles for legal advantage between large corporations and small businesses.

[13] Polanyi was well aware that the gold standard never worked exactly as its adherents claimed. He discussed the way that central banks managed inflows and outflows of gold (GT, 206–207).

[14] See Chapter 5 on Speenhamland for a more developed discussion of the implications of the gold standard.

[15] One such paradigmatic instance was the Irish potato famine. The English authorities withheld assistance on the grounds that it violated the principles of laissez-faire and let hundreds of thousands starve. As Amartya Sen (1981) **1981 is correct; biblio changed.]** argues, however, this was a colonial situation. When people have democratic rights, governments must almost always act to avert starvation. This has not, however, stopped increasingly strident complaints in the United States by conservatives against the federal food stamp program—the nation's major bulwark against malnutrition.

[16] It was the better-off developing countries that had to make use of international credit in the 1980s. Those countries that were not credit-worthy had been subject to the International Monetary Fund's discipline to pursue orthodox economic policies from the 1950s onward.

[17] In our account, we emphasize the commonalities among von Mises, with whom Polanyi argued directly in Vienna, his student Hayek, and Friedman, whom Hayek effectively recruited into the free market crusade. But there are important differences among these thinkers. Von Mises consistently held an extreme position against virtually any state activity; he befriended Ayn Rand, who could not stand the somewhat more moderate Hayek (Burns 2011). **[**Hayek wanted the Mont Pelerin group to develop a "neo-liberalism" that was not simply a rehash of nineteenth century liberalism, but as Burgin (2012) makes clear, this never happened, and as Friedman became progressively more anti-state in the 1950s, he successfully took the Mont Pelerin group along with him. While Hayek was celebrated in his old age for reviving the free market idea, the truth is that he failed in the project of creating something new.

[18] Burns (2011) reports that Greenspan was so close to the libertarian thinker and novelist Ayn Rand that he brought Rand and her husband to his swearing in as Gerald Ford's Chairperson of the Council of Economic Advisors in 1974.

[19] As Keynes (1964 [1936], 383) famously put it, "… the ideas of economists and political philosophers, both when they are right and when they are wrong, are more powerful than is commonly understood. Indeed the world is ruled by little else. Practical men, who believe themselves to be quite exempt from any intellectual influence, are usually the slaves of some defunct economist."

[20] Although, as Phillips-Fein (2009) demonstrates so effectively, despite surface political calm, conservative business opposition had been increasing for some time.

[21] This process of transformation began very early. One of Keynes's key disciples, Joan Robinson, referred to this official version of Keynes's ideas as "Bastard Keynesianism" (Marcuzzo, Pasinetti, and Roncaglia, eds. 1996).

[22] In the U.S., the practices of Keynesianism were also compromised by an alliance with military and commercial interests (Block 1977; Collins 1981).

[23] We are grateful to John Judis for bringing this quote to our attention.

[24] Dale (2010, 29) shows that in Polanyi's 1925 response to von Mises in the *Archiv fur Sozialwissenschaft und Soczialpolitik*, one of his key points is that property includes both rights of disposition and rights of appropriation that need "not be invested in the same hands."

[25] Daniel Bell (1981) writes that building theory "as if" certain things were true is the foundation of modern economic thought.

[26] It is possible to identify cycles in governmental management of the fictitious commodities in which existing policy repertoire becomes progressively less effective until replaced by new policies.

[27] In this respect, the American Bill of Rights is an ideal encomium to popular fears of government power.