

LHP: THE POWER OF MARKET FUNDAMENTALISM

RHP: THE REALITY OF SOCIETY

The Reality of Society

It cannot be denied that, however great a thinker, Karl Polanyi was very much a failed prophet. In *The Great Transformation* (hereafter GT), he predicted that with the changes of the 1930s and 1940s, the idea of the self-regulating market had suffered a final and catastrophic defeat. While the early post-World War II decades seemed to confirm his prediction, this volume has told a different story. From the mid-1970s onward, the free market utopia has been revived with disastrous consequences, including vastly increased inequality and greater economic instability.

The very mark of a towering intellect, however, is that we can learn from them even when their predictions are proven wrong. For GT, along with its relatively optimistic anticipations of the post-World War II world, warns in no less pronounced a manner that, without a deeper change in how we *understand* the social world, we might slide back into the views that were discredited by the global economic collapse of the 1930s. This call for a change in understanding Polanyi names *a new governance philosophy*. Its philosophy is that of *the reality of society*, which we explore in some depth in this concluding chapter.

Despite being much less well known than other major economic thinkers, Karl Polanyi provides us with the most incisive intellectual apparatus available to understand the actual workings and consequences of market economies (Stiglitz

2001 [1]). Chapters 2 through 4 presented this apparatus and its conceptual vocabulary, Chapter 5 explored in greater detail one of the historical incidents at the center of Polanyi's argument, while Chapters 6 and 7 employ a Polanyi-inspired institutionalist approach to analyze several of the critical events and processes that have marked the recent rise of market fundamentalism in the United States.

In Chapter 1 we elaborated a three-part conceptual armature that forms the core of our interpretation of Karl Polanyi's thought. The first part is the idea that, while markets are necessary for organizing society, they also represent a fundamental threat to social order and human wellbeing. This is most dramatically demonstrated in the afterword to Chapter 6, where we briefly summarized Somers's argument that the transformation of citizenship from an equal right to a quid pro quo contract based on one's market value had the tragic consequence of socially excluding the poor of New Orleans, leaving them unprotected from the ravages of Hurricane Katrina and invisible, ultimately disposable, to those local, state, and federal agencies expected to provide emergency rescue services (Somers 2008).

The second dimension of our conceptual framework is that the free markets invoked by market fundamentalists exists only in ideology; in reality, markets are always and everywhere embedded in social structures of politics, law, and culture. So, for example, in Chapter 7 we argue that the business interests in the United States that began to mobilize in the 1970s for "free market" political solutions had

no real intention of shrinking the government's role. They sought instead to dismantle those specific governmental regulations that were already in place to protect employees, consumers, and the environment and to substitute an alternative set of governmental rules and regulations to advance their own business interests (Galbraith 2008; Baker 2010). The resulting “re-regulation” (not deregulation) of the financial sector empowered financial firms to engage in extremely risky speculation with the assurance that government would rescue them when disaster struck. In New Orleans, the poor had to fend for themselves in the face of disaster; the “Too Big to Fail” banks, by contrast, knew that when disaster struck, help would quickly be on the way.

The final dimension of our conceptual framework probes into the special appeal of the free market doctrine; after all, despite all its notable and self-evident harms, it still endures beyond all expectation. Its exceptional powers, we believe, are rooted in its promise of a world without politics, a world of almost complete individual freedom where the role of government—so often feared as coercive and threatening to our rights—would be kept to an absolute minimum. Polanyi helps us to understand how this utopian promise allowed free market doctrine to return to global power in the 1970s and 1980s despite having been decisively defeated and discredited four decades earlier.

This three-dimensional conceptual armature joins together the wide-ranging subjects we have covered in the preceding chapters. But it can also be seen as the

foundation that underlies Polanyi's central metaphor of a long-term contestation between the two sides of his double movement. On the one side, the forces of laissez-faire justify an ever-expanding process of commodification by invoking the utopian promise of a fully self-regulating market economy free of politics. On the other, multiple social movements mobilize in opposition to defend society against the market by establishing institutional protections. While Polanyi demonstrates that protective countermovements can be reactionary and regressive as well as progressive, he leaves no doubt that he is above all committed to democratically motivated procedures to manage markets.

It is a great theory that provides the conceptual tools to illuminate and understand its own flaws. Thus our three-pronged framework also helps explain Polanyi's overly optimistic prediction that the back and forth of the double movement would come to an end with the effective defeat of both free market fundamentalism and fascism in the 1940s. While, in GT, Polanyi expresses confidence that, after World War II, the market would be subordinated to democratic politics, he appears substantially less sure about the paradigmatic shift towards a new understanding of freedom. The great passion and intensity that is evident in the final pages of the book betray his sense that his was still a voice in the wilderness, and that the misleading concept of freedom remained hegemonic. Moreover, in an important article written just a few years after GT, he is more

explicitly pessimistic that, without a deeper paradigm shift, society was headed in the wrong direction (Polanyi 1947).

In the short run, at least, his optimism was justified, as social democracy, greater equality, and expanding inclusiveness flourished over the course of the next three decades. But the paradigm shift towards a new governance philosophy never occurred, and social democracy was unable to draw sufficient support to sustain and renew itself when it ran into problems in the 1960s and 1970s. At that moment, free market utopianism reasserted itself with undiminished force.

<A>Polanyi's View of Socialism

Polanyi believes that it is possible to transcend the painful back and forth of the double movement by durably subordinating the economy to social life—this is what he means by the term *socialism*. His conception of socialism rests on his belief in democracy and his view of democratic institutions as extraordinary historical achievements. He believes that the only way to protect these achievements is by expanding democracy to include markets. He developed his vision of economic democracy during the interwar years, when democratically elected governments failed to protect their populations from the devastation caused by deflationary policies—a failure that produced fascism as people turned to authoritarian solutions to protect themselves from exposure to markets. He recognizes that the only way to preserve democratic institutions over the long term is to expand their capacity to protect citizens from market-driven instability.

Polanyi's vision depends on the possibility of a political-economic compromise by which businesses would continue to earn profits, but they would accept regulatory restraints, taxation, and the steady expansion of social welfare institutions. He had seen this in embryonic form in the social democratic experiments in the 1920s that were labeled "Red Vienna," where improvements in the living standards of the working class coexisted with viable business enterprises. That experience gave him confidence that an economy could simultaneously be productive and fair, as well as under democratic control.

While Polanyi does not discuss it, his intuition was vindicated in Sweden's social democratic breakthrough in the 1930s. Sheri Berman (2006) draws extensively on Polanyi's analysis to show the close affinity between Swedish Social Democracy and Polanyi's definition of socialism. Berman's argument is that the social democratic breakthrough depended on ideas that were distinct from both Marxism and conventional liberalism. The leaders of Swedish Social Democratic Party were committed to "the primacy of politics"—the idea that governmental power could be used to offset the destabilizing and unequal consequences of private property, and that reforms brought about by democratic means are both the means and the end of social transformation. Berman quotes Nils Karleby, an important theorist of Swedish Social Democracy: "All social reforms ... resulting in an increase in societal and a decrease in private control over property [represent a stage in] social transformation.... [Furthermore], social policies are, in fact an

overstepping of the boundaries of capitalism ... an actual shift in the position of workers in society and the production process. This is the original [and uniquely] Social Democratic view.” He suggested, in short, that “[r]eforms do not merely prepare the transformation of society, they are the transformation itself” (quoted in Berman 2006, 168).

These transformative reforms would be won through the combination of electoral victories and the continuing political mobilization of the trade union base of the Social Democratic Party. Building on this theoretical foundation, the Swedish Social Democrats were uniquely able in the 1930s to gain the political support they needed for a reform program that pulled Sweden out of depression, improved the living standards of workers and farmers, and ultimately institutionalized the Social Democrats as the party of government for the next forty years. Berman argues that this social democratic breakthrough provided the model for other governments in Europe after World War II. Working within the protective shield provided by the Bretton Woods regime of fixed exchange rates and limited capital mobility, governments in Western Europe were able to introduce reforms that tamed the market and significantly diminished class inequalities.

This aspect of Polanyi’s vision was vindicated by the extraordinary achievements of European social democracy in the years after World War II. The late historian Tony Judt (2010) argues that social democratic policies produced steady economic growth and greater economic security for the population, which

stabilized the political space and marginalized the radical forces that exerted such influence in the interwar years. Moreover, the advances in social equality have been truly extraordinary; most European nations very significantly narrowed the gap in life chances **[AU: this is confusing—are you talking about life expectancy or opportunity in life?]** between the working class and the middle class. In fact, a series of recent studies show that the traditionally class bound European societies have surpassed the United States in intergenerational social mobility (Organization for Economic Cooperation and Development 2010; Smeeding, Erikson, and Janti, eds. 2011). Moreover, even after the last thirty years of the global dominance of market fundamentalism, the achievements of the Nordic Social Democracies—Sweden, Norway, Finland, and Denmark—continue to be remarkable (Pontusson 2011). These countries have the highest level of social welfare expenditures and they have successfully reduced the percentage of all children living in poverty to rates around 5% or lower (as compared to more than 20% in the United States). This means, as well, that households headed by a single female parent are effectively protected against poverty. The reduction of poverty and strong support for public education has produced rates of adult literacy and skill that are superior to those in most other European nations (Pontusson 2011; Block 2011b). The World Economic Forum (2011) ranked all four of the Nordic Social Democracies among the fifteen most competitive nations on the planet. This is a surprising result, since measures of competitiveness are business oriented and

tend to mark countries down for having high tax rates. Nevertheless, the Nordic Social Democracies ranked very high because of the superior skill levels of their labor forces, the support for innovation as a result of large investments in science and technology, and the high degree of effectiveness of public programs.

Yet despite all of this, social democrats are in retreat. As Judt (2010, 6) noted: “Many European countries have long practiced something resembling social democracy: but they have forgotten how to preach it. Social democrats today are defensive and apologetic. Critics who claim that the European model is too expensive or economically inefficient have been allowed to pass unchallenged. And yet, the welfare state is as popular as ever with its beneficiaries: nowhere in Europe is there a constituency for abolishing public health services, ending free or subsidized education or reducing public provision of transport and other essential services.”

Social democrats, in short, appear to have lost their social democratic convictions; they have not been able to reinvent their tradition to face the new circumstances of the twenty-first century and they have not been able to take the offensive against the resurgence of free market doctrine. Instead, too often they have sought to emulate the market model, usually with only minimalist modifications (Crouch 2011). As we argued in Chapter 1 in pointing out the differences between Polanyi and Keynes, twentieth-century social democrats abandoned the moral critique of the inequalities and injustices of market society;

for several generations, they instead made their political appeals solely on the pragmatic grounds that they would be better able to deliver the goods than politicians in other parties.

But this is simply the surface level of the deeper problem that Polanyi identified in the final pages of GT. While social democrats were successful in demonstrating that a more just economy that was subjected to democratic political constraints could be highly productive, they failed to advance the paradigmatic transformation that Polanyi called for. They did not articulate a new governance philosophy and a new conception of human freedom. And without that deeper transformation, they have no compelling vision to counter free market advocates who insist that a meddlesome government will inevitably destroy individual autonomy and freedom.

<A>A New Public Philosophy: The Reality of Society

In the years after GT, Polanyi continued to be preoccupied by the idea of a necessary paradigmatic shift away from the obsolete market mentality of economic liberalism toward a necessary “acceptance of the reality of society” (GT, 268). Although never published, in the 1950s he drafted outlines for a book to be called *The Reality of Society* (Rotstein 1990). But while the phrase appears throughout Polanyi’s writings, most prominently in GT, few commentators have tried to work out what he meant by this admittedly Delphic injunction that only “uncomplaining acceptance of the reality of society gives man indomitable courage and strength to

remove all removable injustice and unfreedom” (GT, 268). Clearly, this was an aspirational plea—one that Polanyi put forth while the world war against fascism still raged. But it was also a warning to the victors that they should not return to the kind of free market economic philosophy that had contributed to the conflagration in the first place.

To begin to bring clarity to what Polanyi means by the reality of society, we must turn to the final chapter of GT (ch.21), as that is where he most pointedly and frequently invokes the phrase. Entitled “Freedom in a Complex Society,” the chapter reads as though it was a direct response to Friedrich Hayek’s *The Road to Serfdom*, which was published just a few months before GT in early 1944. As an early entrant into the anti-communist literature soon to flood the Cold War marketplace, Hayek’s book was from the start far more widely read than Polanyi’s—ultimately being abridged and widely distributed in the popular magazine *The Reader’s Digest*. But Hayek’s treatise was not framed in terms of the Cold War opposition of East vs. West, or Communism vs. Capitalism. On the contrary, *The Road to Serfdom* claimed that the mild social democratic policies in the West (the New Deal in the United States and the U.K.’s emerging welfare state) were separated only by a difference in degree from the terrors of totalitarianism. He thus evoked the fear of “slavery” by insisting that it was just a matter of time before social democracies like Britain’s would inevitably slide down the slippery slope from “planning” to “serfdom” (Hayek 1944).

Hayek aimed his attack directly at the market socialism that Polanyi espoused. And Polanyi's multifaceted discourse on the reality of society in the final chapter of GT is, in effect, a direct refutation of Hayek's position in *The Road to Serfdom*. Interpreting the meaning behind the phrase helps us to understand the paradigm shift that Polanyi advocated. It also remains fundamental to any project of progressive political transformation.

<A>What Does Polanyi Mean by "Society"?

The public philosophy that Polanyi sought to displace was one informed by what he called our "obsolete market mentality" (Polanyi 1947), a term that is interchangeable with the "economistic fallacy," which we discussed at length in Chapter 2. The economistic fallacy comprises the unfounded assumption that human nature is that of a *homo economicus*, motivated above all by material self-interest or utility maximization. Moreover, it holds that our collective existence is that of *homo economicus writ large*; instead of simply having a market economy as *part* of collective life, we must live in an entire market *society* shaped exclusively by the laws of the market. Finally, these market principles are, in effect, part of the *natural* order of things; they are as immutable as the laws of nature and equally resistant to human intervention. When combined, these assumptions add up to the fallacy that society is not only in theory, but in actual fact, subordinate to the immutable natural laws of the market.

The implications for public philosophy and social policy are straightforward. With economic laws established as the foundation of social existence, practitioners of economic science are elevated to the reigning czars of public philosophy and policy influence. Because all aspects of human existence are subordinated to that of *homo economicus*, the kind of knowledge produced by sociologists, anthropologists, historians, and other social scientists is effectively marginalized. For Polanyi, such economic orthodoxy empties the social world of everything truly social. In this market mentality as public philosophy, policy solutions always involve applying the self-evident assumptions of economic knowledge, such as those we examine in detail in Chapter 6 on social welfare policy.

A new Polanyian public philosophy would first and foremost dethrone the privileged power of economic ideology and would instead establish the importance for public policy of social, cultural, and historical knowledge. Polanyi was certainly not suggesting that the materiality of life was outside the field of legitimate public policy. On the contrary, he believed that how to best provide for “the livelihood of man” (Polanyi 1977[]) was the central concern of all societies. And reckoning with social provisioning would always be a critical part of democratic governance. But instead of conceiving of livelihood as something driven by the natural laws of the market, he emphasizes the historical and cultural variations through which societies have established the appropriate institutional arrangements for social provisioning. This requires Polanyi to argue for a different

understanding of what economics actually means. The orthodox meaning, which he calls the “formal” definition of economics, is built on abstract assumptions about human nature and social naturalism. In contrast, the “substantive” meaning focuses on social provisioning; it analyzes the varied means by which people cooperate to sustain the kinds of institutions, allocations, and social practices that support collective livelihood. From this perspective, understanding how to best meet the needs of livelihood requires anthropological and historical analysis of actual social practices rather than abstract assumptions and economic axioms.

Polanyi’s approach involves seeing society as comprising multiple social institutions and their dense networks of relationships (Polanyi 1935, 371 **biblio**; Rotstein 1990, 100). Following both Marx and Durkheim, he challenges the self-evident quality of *homo economicus* by demonstrating through anthropological evidence the fundamentally social nature of human agency. He eviscerates the notion of a universal self-interested, utility-maximizing individual. As Marshall Sahlins (1976) and other anthropologists and historians have since demonstrated, the invention of the autonomous individual is itself a cultural totem and ultimately a conceit of modernity. Indeed, the very idea of modernity is a cultural artifact that tells a story about how modern individuals are “free to choose” as sovereign and independent actors.

Polanyi argues that the Christian Gospels played an important role in perpetuating this fanciful ontology by advancing a highly individualized

understanding of freedom of conscience. He argues that because individuals are constituted by their societies and cultural practices, they can only develop a unique set of talents and understandings within that society—that is, in relation to other human beings. Individuals cannot exist outside of society—not simply because they would starve and die, although they surely would. But recognition as a moral and social equal by others is the very foundation of the self—membership in society is what it means to be human. Without that recognition, people will be pushed across the boundary that divides humans from animals (Arendt 1976 [1948] Somers 2008, chs.2, 3).

Polanyi's view sharply departs from the social naturalist position that defines humans by their basic biological needs and instincts and then invokes markets as instruments that mobilize incentives to push those instinctual drives in the proper direction. Much of his life's work challenged the common assumptions that humans are divided between their material and ideal interests, and that it is the material or economic interests that take priority as the foundation for everything else. He believes that the concept of interest used by social scientists is an analytic abstraction, and that actual human beings make their decisions based on understandings in which material and ideal factors are deeply intertwined. Somers (1994, 628) elaborates Polanyi's approach when she writes: "... social action can only be intelligible if we recognize that people are guided to act by the structural and cultural relationships in which they are embedded and by the stories through

which they constitute their identities—and less because of the interests that we impute to them.” This is a perspective in which individual action is deeply shaped by social ties and shared ideas. Where others emphasize material interests, Polanyi recognizes that people are motivated to preserve the noncontractual arrangements necessary for social life itself.

Polanyi also demonstrates how an elaborate division of labor gives rise to a complex interdependence of technologies, producers, and political bureaucracies. These require coordination through culture, through law, and ultimately through governing institutions. In his relational and institutional view of society, he targets the market fundamentalists, whose utopian vision rests on a minimalist state and a society free of political power. For Polanyi, just as the state is necessary and will never wither away, so too is our dependence on the institutions and cultural repertoires that support organized social life.

In the end, Polanyi is asking us to accept that we live in complex societies, the essence of which is the interdependence of persons and institutions. No person or action or institution is autonomous; every institutional movement or seemingly personal action will have consequences, often unknown, for people close and far. This changes the moral valence of individual choices; they have consequences well beyond one’s own life and conscience, and make us ethically responsible to the whole of society. A new public philosophy must be built from this foundational commitment to the reality of a complex and interdependent society.

<A>What Does Polanyi Mean by “Reality”?

Throughout GT, Polanyi invokes the word *reality* to serve as the positive counterpart to several of his most foundational criticisms of economic liberalism. First and foremost, the concept’s critical task is to challenge the economists’ practice of reducing society to its market functions. Just as he drew from anthropology and history to establish the priority of social relations in collective life, so too does he insist that the only way to construct realistic knowledge is to theorize based on observations of the world as it actually is—something again akin to the empirical work of anthropologists and historians. In the case of “society,” Polanyi is making an ontological statement about the social nature of human agency and the interdependence of our collective existence. In the case of “reality,” his critique is epistemological and methodological, and it is directed squarely against economic theory as a form of knowledge that is based on abstract logic and unobservable assumptions about human nature and social equilibrium. To see the world as it is in reality, not as we might like it to be in the logic of economic thought, is for Polanyi the only way to fashion public and social policies on moral and ethical foundations.

Polanyi traces the beginning of the denial of reality (once again, to the classical political economists of the late eighteenth and early nineteenth centuries, specifically to their appropriation of social naturalism, their utopian ideas about autonomous self-regulating markets, and their methods of deductive theory-driven

abstract logic. Social naturalism, in the first instance, is an approach to understanding the social world that assumes that human society and the natural world both work according to the same laws of nature. Polanyi locates the origins of social naturalism in Joseph Townsend's allegorical fable of goats and dogs on a deserted island that, despite a natural predatory competition for survival, lived in a harmonious equilibrium (1971 [1786]). Townsend, whose fable became the inspiration for Malthus, Ricardo, and later Darwin, justified using goats and dogs as allegorical proxies for human beings because he saw no difference in the biological instincts that drove human and animal alike. This, in turn, justified social policies designed to trigger biological drives rather than human morality or social responsibility.

Polanyi wants us to appreciate just how radical was this theory that reduced the meaning of what it is to be human to purely biological instincts, instincts that the political economists made to serve as proxies for economic motivations and activities. He argues, moreover, that reinventing the social world as a system that works according to the "laws of the jungle" was among the most significant—and egregious—of classical political economy's dictates, as it transformed our social world from a system of socially constructed arrangements into one that achieved its own equilibrium when left alone to self-regulate no differently from dogs and goats alone on an island. By defining human agency and the social world as as subject to the same laws as the natural world, Polanyi argues that classical political

economy achieved three of its greatest accomplishments—1) to rule the economy as out of bounds for political intervention; 2) to make the sole criteria for public policies only those practices that played upon people’s biological instincts for survival; and 3) to make the study of human livelihood an axiomatic science based on highly problematic assumptions.

The first accomplishment was deeply political, and the aim was to block any government efforts to regulate labor conditions or to bring relief to the poor. Polanyi identifies their target as Thomas Hobbes’s celebration of the state (2008 [1651]). According to Townsend and the political economists, Hobbes was mistaken when he postulated that because people behave just like animals in their eternal battle for survival, a powerful government is necessary to prevent an endless war of all against all, and to ensure humanity the right to security and life itself. Townsend sought to delegitimize this idea that a strong government protected rights by preserving social order for the common good. In Polanyi’s formulation, for Hobbes, people were *like* beasts, and thus needed a state to regulate them; for Townsend, people *are* beasts and because they are driven by the same laws of nature as say, tigers and gazelles, foxes and rabbits, no government was necessary. In using goats and dogs as proxies for humans, Townsend thus slipped from the metaphor of “likeness” to a condition of *being*. In the wilds of nature there exists no umpire.

The second accomplishment of social naturalism was to delegitimize public philosophy and those social policies that appeal to the common good, to social morality, to collective conscience or social compassion. Social naturalism dictated only those policies designed to mimic the brutalities of nature. By allowing the harshest of social conditions to prevail, people would act on their biological instincts to survive. Poverty policy, for example, would no longer provide relief to the hungry; instead, it would allow the natural condition of extreme hunger as an incentive to motivate the poor to work. Polanyi's achievement was to puncture the delusion that subordinating society to nature's laws would produce harmony. The perfect world envisioned by proponents of the self-regulating market could never be actualized by real human beings whose very existence is integrated with their social institutions. Hence he traces the cataclysms of World Wars I and II to the political economy of nineteenth century England.

The final principle of social naturalism is that because people and beasts are one and the same, then the logic of natural science can generate the kind of knowledge needed to produce optimal social and political policies. Once again, Polanyi traces this methodological denial of a distinct human reality to the classical political economists. Townsend and his followers, recall, did not generate their theories through first observing and then theorizing real social practices. Rather they made up allegories and conducted thought experiments, which aimed to identify those social policies appropriate for a society in which humans are shaped

by their biological drives. It was the logic of the thought experiment combined with deductive models that gave rise to their new theories of economics and society. Deductivist, theory-driven economics triumphed further with the marginalist revolution and the birth of neoclassicism in the last third of the nineteenth century. In the famous *Methodienstreit* (battle over methods) between the empirical and the neoclassical economists that followed, those scholars that Polanyi most admired from the German Historical School and the English tradition of historical economics were effectively marginalized because of their resistance to deductivism and formalism (Somers 1990).

As we discussed in Chapter 6, economic theory's self-styled scientific methodology is founded on a deductive model constructed through theoretical reasoning. The deductivist methodology in economics can be said to have reached its apex in 1953, when Milton Friedman famously pronounced the purpose of modern economic knowledge was to generate powerful and parsimonious economic predictions (Friedman 1953). This was a goal, he argued, which justifies, indeed necessitates, unrealistic "as if" assumptions about utility-maximizing rational actors and general equilibrium. This embrace of unrealistic foundations remains to this day central to much of mainstream economics and to the proselytizing of public economic pundits. Its rejection of reality-based empirical analysis can be understood as an expression of theoretical realism, a philosophy that builds on the classic Enlightenment distinction between the illusions of

superficial empirical appearances and the profound level of reason, truth, and reality that remains hidden.

In response to accusations that they have built an entire theoretical edifice on postulates and assumptions about human nature that can never be either confirmed or disconfirmed by evidence, theoretical realists decry “empiricism”—what they define as the testing of theory with illusory superficial empirical evidence. Modern economic science reflects the philosophy of theoretical realism; it is not empirical observations but logical deduction that is the source of their foundational tenets. It is called theoretical realism because it is an approach to knowledge that uses rational logic to determine what is real, and rejects what seems self-evidentially real to the rest of us as superficial and surface illusion. They argue, for example, that human agency is biologically driven because logic dictates that it must be so. In this way, theoretical realism turns our common sense notion of reality upside down: that which is accessible to our senses, the empirical, is rejected as merely the stuff of misleading appearance and not real; if we want truth, then we must tear away the veil of the illusory exterior to find the hidden level of reality.

Common sense, however, demands an answer to the question of how any generally accepted knowledge can be achieved if truth is hidden from all but the anointed knowers. Clearly, there is no impartial way to adjudicate which hidden truth gets to count as *the* truth. Reality becomes a matter of deductive reasoning, which builds from arbitrary assumptions that can never be democratically



adjudicated. That is to say, whereas the level of the empirical can be observed by any and all, a hidden truth is only discernible to those who claim special abilities to access it. This type of economic reasoning relies on the special capacities of the few, those who are the priests of philosophical logic rather than of empirical observation (Somers 1998).

Polanyi was first and foremost an economic historian and rejected this theory-driven methodology. And while he never uses the concept of theoretical realism to describe economic theory, he spent a lifetime advocating for what he called the empirical economy. Against the abstractions of the economic fallacy, Polanyi counterposed the necessity of empirical evidence and inductive reasoning drawn from the actual social practices of observable human beings. GT, while it is rich with social theory, is theory generated from actual human history, including the vast diversity of economic arrangements one finds through history. In this sense, his argument is clearly a rejection of theoretical realism.

Polanyi especially admired the late nineteenth and early twentieth century English and German historical economists whose research forms the backbone of GT (see pp. 269–303 on his sources). In addition to their holistic approach, the historical economists were distinguished by their belief in inductive reasoning and empirical data collection. This put them in intellectual and institutional conflict with the mathematically inclined marginalist economists. Polanyi embraced the institutionalism of the English historical economists and the German historical

school to demonstrate the dangers that result from adhering to theories built not on what real men and women actually do, but on theoretical models based on a priori postulates about what human nature would dictate they do. Polanyi's allegiance to the reality of inductive reasoning challenged and served as a counterpoint to the dominant methods of political economy and economic liberalism, which adopted untestable and nonempirical assumptions about human nature and market equilibrium to justify their self-representations as true science (Somers 1990).

Paul Krugman has recently characterized the principles and practices of modern economics as “faith-based” (2009b, 37). By this he means economists place untestable economic logic—justified by a theology of faith in presuppositions and assumptions—over and above years and decades of historical and sociological evidence. Krugman, in fact, links the economists' failure to foresee the financial crisis of 2008 to exactly that kind of reasoning. “As a group,” he writes, they “mistook beauty, clad in impressive-looking mathematics, for truth.” He continues: “[T]he central cause of the profession's failure was the desire for an all-encompassing, intellectually elegant approach that also gave economists a chance to show off their mathematical prowess ... this romanticized and sanitized vision of the economy led most economists to ignore all the things that can go wrong. They turned a blind eye to the limitations of human rationality that often leads to bubbles and busts; ... to the imperfections of markets ... that can cause the economy's operating system to undergo sudden, unpredictable crashes.” (Krugman

2009b, 37  Polanyi's pursuit of "reality" as the foundation of knowledge is the exact opposite of this hubristic approach. Indeed, it seems more than likely that he would embrace wholeheartedly Krugman's aspirational cure for his ailing discipline: "[w]hat's almost certain is that economists will have to learn to live with messiness ... they will have to acknowledge the importance of irrational and often unpredictable behavior, face up to the often idiosyncratic imperfections of markets and accept that an elegant economic "theory of everything" is a long way off" (Krugman 2009b, 37 .

<A>Re-Viewing the Reality of Society versus Economic Utopianism

We have conducted this tour through the complex thinking beneath Polanyi's commitment to the reality of society to give a fuller sense of what a new Polanyian public philosophy would look like. It would be informed by extensive empirical research and deep philosophical conviction alike. But there is one last angle on how prioritizing the reality of society motivates Polanyi's call for a new political philosophy. This is his juxtaposition of the reality of society against the stark utopianism of the self-regulating market. For Polanyi, one reason why economic liberalism and the self-regulating market are unrealistic and utopian is because of their abstract, theory-based approach to making sense of the social world. But even more important, he believes that the logic of economic liberalism is utopian because it denies two of the most foundational truths about actual social reality.

First, economic liberalism is blind to the harms associated with the fact that, for a market society to ever fully exist, land, labor, and capital all have to be converted into commodities. As Polanyi most memorably charges, the problem is that they are “fictitious commodities”—fictitious because commodities are things produced for the sole purpose of being bought and sold on the market. Since this is obviously not true of land, labor, or money, they are unreal (utopian) fictions that exist exclusively in the world of theories, models, and thought experiments. The tragedy is that this does not prevent the utopian architects of market societies from treating them *as if* they were real commodities. Because they are in reality nothing less than three of the vital substances of which social life is comprised, to rip them out of the fabric of society, as commodification requires, is to destroy the very stuff that makes society possible. A self-regulating market society is unrealizable because it would inevitably destroy its very being in the effort to come to fruition.

Secondly, Polanyi argues that economic utopianism denies that government, power, and politics are necessary for societal well-being. For both classical political economy and twentieth-century market fundamentalists, the presence of power and government is singularly portrayed as a threat to individual rights and freedoms. To be sure, Hayek and his allies were not anarchists; they embraced the “rule of law” for guaranteeing property rights and enforcing contracts, even going so far as to support the government’s vigorous enforcement of anti-trust laws in the interest of ensuring a competitive market.¹ Beyond this minimum, however,

Hayek's (1944) most memorable declaration was that government involvement in the economy along the lines of Britain's infant welfare state would lead to nothing short of tyranny and "serfdom."

Polanyi's counterargument was that no human society can exist without the presence of power, especially governmental power to protect society and its people from the most destructive aspects of market society, as well as to ensure the rights and liberties of which Hayek speaks so eloquently. The economists' utopian dream of a perfect society without the exercise of power is the political expression of a story-book tale more appropriate for Kipling's *Just-So Stories*. Like other utopias, however, it provides an appealing escape from the obvious social problems and limitations of actual politics. Polanyi, by contrast, finds his solace in the reality of society as the foundation of a humane public philosophy.

<A>Freedom, Democracy, and the Reality of Society

In its full-throated embrace of the reality of society, the last chapter of GT lays the foundation for Polanyi's new public philosophy—the core principles of which are *freedom* and *rights*. There he elaborates an enlarged conception and a new understanding of their meaning. At first glance it may seem surprising that Polanyi turned to concerns more commonly found in political theory. But Polanyi invoked a more expansive and social understanding of freedom and individual rights to defend against Hayek's claim that the pursuit of greater social justice through a

social and political provisioning inexorably takes us down the slippery “road to serfdom.”

Polanyi’s theory of freedom begins by challenging the narrowness, individualism, and anti-government stance of classical political and economic liberalism. In the final pages of GT, he explicitly calls for a paradigm shift that would redefine the way in which we conceptualize freedom for a complex society. He identifies three “constitutive facts in the consciousness of Western man [*sic*]: knowledge of death, knowledge of freedom, knowledge of society.” (267) The knowledge of death he attributes to the Old Testament; the knowledge of freedom he attributes to the teachings of Jesus in the Gospels. While freedom is of course a great desideratum, Polanyi argues that by offering a vision of individual freedom premised on absolute freedom of conscience for isolated and autonomous individuals, the Gospels “ignored the reality of society.” Polanyi’s view is that once we recognize the complex interdependence of our collective existence, we can no longer justify an unlimited freedom to act solely according to one’s own, too often self-serving conscience.

Polanyi identifies the great nineteenth century social reformer Robert Owen as among the first to call into question the hyper-individualism of the Gospels. Owen looked squarely at the reality of life in the industrial revolution and rejected the free market political economy that dominated at the time. In it he saw not the glory of autonomous and unfettered freedoms, but a society in which the fates of

individuals are tragically interconnected. Specifically, a small group of factory owners inflicted great hardship on the working families who had no choice but to take work in the harsh Satanic mills of early industrialization. “Owen recognized that the freedom we gained through the teachings of Jesus was inapplicable to a complex [interdependent] society. His socialism was the upholding of man’s claim to freedom in such a society” (GT, 268). Inspired by Owen, Polanyi argues that there are two kinds of freedom. The more familiar one is that of classical liberal political theory, which makes autonomous rights-bearing the natural condition of humanity and imagines that these individual rights-bearers voluntarily enter into society through a social contract. Building on these foundations, economic liberals then tightly link the free market system to the very existence of human freedom, while simultaneously defining government actions as the negation of freedom. Polanyi explains that this understanding of freedom limits its benefits solely to “those whose income, leisure, and security need no enhancing,” which in turns leaves “a mere pittance of liberty for the people, who may in vain attempt to make use of their democratic rights to gain shelter from the power of the owners of property.” (GT, 265).

Polanyi’s alternative conception of freedom begins with the recognition of the complex social interconnectedness of our society. Each individual act inevitably affects other people’s lives, often without the original actor even knowing. Polanyi refuses to privilege the freedom of the well-heeled at the expense of unfreedom for

anonymous others. While fully endorsing individual rights and liberties, he vigorously rejects the idea that they are “natural” and that their flourishing requires freedom *from* government. On the contrary, freedoms and rights are actually produced and sustained through politics and law. The only quality of human beings that can be considered natural is their relational sociality, and it is our work as social beings that will determine whether or not we shall have any rights at all.

Polanyi’s new public philosophy is founded on his alternative conception of freedom. He recognizes social interdependence as the foundation of humanity and knows that freedom and rights must be deliberately built on that foundation. The implications would most immediately impact social elites, who have long had the luxury of exercising their autonomous freedom, while being fully insulated from most of the suffering their actions inevitably inflict on everyone else. This means that the privileges long associated with the control of wealth must ultimately be constrained; not redistributed but recognized and reconceptualized as having been collectively produced. To be sure, Polanyi understands that “the comfortable classes” will be “less anxious” to extend their own freedoms to “those whose lack of income must rest content with a minimum of [freedom]” (GT, 262). But Polanyi has faith that even the well-off can come to recognize that it is inside the interdependency of society that freedoms exist: “Such a shifting, reshaping and enlarging of freedoms should offer no ground whatsoever for the assertion that the new condition must necessarily be less free than was the old” (GT, 263). Placing

limits on the exercise of individual autonomy will thus not rob people of their freedom. Rather, Polanyi is suggesting that, by extending to others the vested freedoms so long enjoyed only by the wealthy few, “the level of freedom throughout the land shall be raised.” New and different kinds of freedoms will develop by accommodating ourselves to the constraints imposed on us by our complex interdependencies.

As for the celebrated “market view” of freedom, Polanyi argues that its exclusive focus on contractual market freedom “degenerates into a mere advocacy of free enterprise” (GT, 265) Ironically, he observes, even individual market freedom is an illusion in the face of the “hard reality of gigantic trusts and princely monopolies.” This is a hard reality that has only multiplied in the twenty-first century. For Polanyi, every move toward “planning”—the term then in currency to denote social democratic economic policies—should “comprise the strengthening of the rights of the individual in society.” He is as resolute in his commitment to individual freedom as he is toward the necessity of the social. But he insists that to be true freedom it had to expand into new “institutions ... to make the rights effective.” It is here that he breaks decisively with classical liberalism’s conception of freedom, which limits the concept to civil rights protections against the state. Polanyi fully endorses such rights, but adds that “rights of the citizen hitherto unacknowledged must be added to the Bill of Rights,” including the whole range of socio-economic rights from having a job to a decent education (GT, 264–265).

Quite remarkably, and surely unbeknownst by the other, almost simultaneously FDR gave a too little known speech advocating for a “Second Bill of Rights” also comprised of socioeconomic rights (Sunstein 2004).

For Polanyi, then, the maximum opportunity for real freedom can come only through expansive socioeconomic rights, which are firmly rooted in institutions. But for this to be accomplished in a durable fashion, people have to understand that the historical struggle to maximize only the freedom of the individual *from* government is a dead end, for it inevitably subverts the very social arrangements that are needed to provide us with real freedom. Polanyi’s faith in government is not naïve optimism; after all, GT is an account of the *defeat* of democratic aspirations by fascist and totalitarian governments. . But it also is an account of the survival of those aspirations over and against the formidable ideological and institutional obstacles that have continually frustrated and blocked them. That Polanyi still recognizes the necessity of government to secure rights and freedoms rests on his belief in the capacity of human populations to exercise influence and power over political institutions through democratic self-governance. Indeed, these capacities for self-governance are rooted in the same processes that make possible a complex division of labor and high levels of social interdependence. Just as his belief that people are social beings motivated not merely by economic interests but by the values of social relationships makes him optimistic that even the privileged can come to understand the desirability of his alternative view of freedom, Polanyi

believes that we are able to create solidaristic bonds with each other for the purposes of achieving a wide variety of ends.

Despite his direct experience with the most brutal regimes, Polanyi chose to believe that democratic potentialities are deeply rooted in the noncontractual foundations of society. The ability to construct relationships based on deep reciprocity is learned within family, intimate life, and neighborhood, and this form of reciprocity continues even within modern political cultures that celebrate the sovereignty of the individual. As an increasingly complex division of labor requires that people acquire both more complex cognitive skills and a capacity to question received wisdom, these new abilities have been joined with the old to produce recurrent solidaristic initiatives to reshape society itself. It is out of such initiatives that people have created a public sphere of debate and discussion and democratic institutions. While Polanyi sees the attainment of a perfect democratic society as yet another utopian illusion, he envisions democratization as a process that can advance over the decades as people learn how to construct political and economic institutions that are effective and allow for the preservation of individual freedoms. Echoing Polanyi, Somers (2008, 249) suggests that the conditions for such freedom are deeply relational and institutional: "... meaningful citizenship practices and durable relationships that are robust, relationally sturdy, reciprocally empowered, and characterized by high degrees of trust [that] depend on deep links to public spheres, the national state, and the rule of law."

While Polanyi does not elaborate on what this process of democratization would look like and what kinds of institutions it might involve, we read him as an advocate of radical democracy. Radical democracy includes parliamentary institutions elected on a territorial basis, but it also envisions an extension of democracy into the fabric of everyday life. This would include new institutions of “empowered participatory governance” (Fung and Wright 2001) through which citizens would directly influence the allocations made by local governments, have key input into decisions about how to build and maintain the complex physical infrastructure of contemporary societies, and have a direct voice in how schools and other key institutions function. It would also involve employee participation in the governance of the workplace as has been developed in systems of collective bargaining, works councils, and codetermination (Greider 2003; Alperovitz 2005). Finally, it would involve the creation of local economic institutions that would give citizens a direct voice in patterns of economic development. The best example we have of this has been the development of the solidarity economy in Quebec, which involves the proliferation of financial institutions that are directly accountable to citizen input. Citizens are able to use these mechanisms to shape job creation, the provision of key services, and to influence broader patterns of economic development (Mendell 2009; Mendell and Nogales 2011; Bouchard, ed. 2013).

This is not the place to outline here a vision of twenty-first century social democracy that would be consistent with Polanyi’s ideas. It would also take us too

far afield to address the contemporary social movements, such as the World Social Forum or Occupy Wall Street, that have sought to galvanize opposition to the market fundamentalist policies that have been dominant for the last thirty years. Nevertheless in closing, we think there are several key insights from Polanyi that can illuminate our contemporary global condition.

First, social and economic thought about what needs to be done in the aftermath of the 2008 global financial crisis remains terribly impoverished. Conventional thinking has not yet even returned to the level of insight that Keynes, Polanyi, and others attained in the 1940s. This is exemplified in the single-minded and disastrous pursuit of public sector austerity as a way to muddle through the continuing weakness of economies (Kuttner 2013). The lesson learned in the United States under Herbert Hoover between 1929 and 1932 remains as relevant as ever; in response to a global economic downturn, nations cannot recover by slashing government spending and balancing budgets. The only solution to what is a lack of adequate demand is to add demand to the global economy, not to subtract it.

Not only are serious proposals for generating global demand glaringly absent; Polanyi's analysis of the crises of the 1930s also should alert us to the urgency of reforming the governing rules of the global economy. The policies and practices of organizations such as the International Monetary Fund, the World Bank, and the World Trade Organization need to be radically transformed to lay the foundation

for a new period of sustainable global economic growth. Moreover, the dollar's central role as the key global currency must be phased out and replaced by a global mechanism that would provide the world economy with the expanding supply of money needed to sustain global demand (Block 2011a).

Among the key reforms of the global institutions would be a new regulatory regime that would bring the world's largest financial institutions under far more rigorous control than has been so far accomplished. The threat of a new financial bubble that would again explode and endanger the global economy is still present; radical reforms are needed so that financial activity is once again supporting the real economy rather than undermining it in the pursuit of speculative profits. And yet global elites appear to believe that just a little tinkering around the edges might be sufficient to restore global prosperity.

The second charge we take from Polanyi is equally urgent: we must we must resolutely call attention to how "our obsolete market mentality" is a dangerous delusion that threatens the future of the human species. Throughout this book we have emphasized the economic side of this argument, but it is also important to recognize the ecological peril. As the world's population now exceeds seven billion people, it is obvious that our collective ability to survive requires a radical shift in our relation to nature. Only a perspective that ceases to treat nature and natural resources as commodities to be exploited will make it possible to meet the


challenge of global climate change and overcome the current threats to the ocean and the supplies of clean water on which humanity relies.

Finally, all of our efforts to move beyond this crisis must be animated by our willingness, as Polanyi said, to embrace the reality of society. We must recognize that we will not be able to solve our collective problems without the instrumentalities of government, which inevitably involve the use of political power. But political power is not necessarily tyranny or even governmental paternalism. We can and must struggle continuously to expand and institutionalize rights, to subject our political leaders to the oversight of a democratically mobilized citizenry, and to wage ongoing battles to deepen and enlarge democratic governance at the local, national, and global levels. For political power, in tandem with a democratically empowered citizenry, is our best countervailing strength against the relentless expansionary drive of market forces.

Finally, we must vigorously strive to achieve the paradigm shift for which Polanyi argued with such passion. To live in a complex and interdependent global society with seven billion other people, it is no longer possible to define freedom as the maximal autonomy of the individual. The spiritual freedom enjoyed by the cloistered monk or the isolated hermit has ceased to be a meaningful marker of the free individual. We are social beings; we derive our meanings from our connections to other people, and we need to understand that genuine freedom

comes from constructing human institutions that protect the rights of each and every one of us.

Notes

¹ A practice readily discarded in the late twentieth century in favor of the “general welfare” to be gained from corporate monopolies (Crouch 2011 )