

Discussing Karl Polanyi, Understanding the Current Crisis

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Fred Block & Margaret Somers, two key members of an international network of scholars appealing to Karl Polanyi's masterpiece of 1944, forcefully argue that it constitutes a critical resource for understanding not only the nature and origins of the market economy but also its recurrent crises, including the current one.

Reviewed: Fred Block & Margaret Somers, *The Power of Market Fundamentalism: Karl Polanyi's Critique*, Harvard University Press 2014, 296 pp.

The success I expect this book to have on account of its intrinsic merits, will be assisted by its being a major entry into the large and growing body of significant scholarly literature dealing with the nature, causes, consequences of the global crisis that began with the financial meltdown of 2008 and in some form persists today. The title announces a distinctive contribution to this debate by exploring the bearing on it of the work of Karl Polanyi (1886-1964), but it consists in the final, comprehensive restatement of an argument the authors have conducted for decades, singly or jointly, from their central position within an international network of scholars variously engaged in what they call *neo-polanyian analysis*.

In fact, the original (1944) Beacon Press edition of Polanyi's masterpiece, *The Great Transformation: The Political and Economic Origins of Our Time* (henceforward: GT) has never ceased to attract the readers' interest and had gone through multiple reprints; its latest edition in English (2001) preceded what I have called the financial meltdown by a few years. All members of the network of Polanyi scholars, whatever their differences, are chiefly intent on exploring the significance of GT as the highest point in the intellectual legacy of Karl Polanyi. They make a sometimes passionate argument (I have seen Block and Somers referred to as "Polanyi fanatics") against not just the larger body of authors who in their view ignore, misinterpret or deny the significance of that legacy, but with one another.

Polanyi vs Marx

More or less self-consciously, all "polanyians" argue from a critical posture vis-a-vis the structures and processes dominant within contemporary Western societies. To that extent, they share a position on the left with a larger collectivity of scholars dealing with social and historical phenomena most of whom, instead, derive their intellectual inspiration from this or that component of the Marxian legacy. These scholars in turn disagree widely from one another, but basically share a (at best) *diffident* attitude toward Polanyi, due chiefly to a critical contrast between the understandings of "society" held respectively by Marx and by Polanyi.

From Marx's standpoint, society is no more than the site of the hostile confrontation between the conflicting economic interests of two historically variable groups – freemen and slaves in antiquity, lords and serfs under feudalism, the bourgeoisie and the proletariat under capitalism. Societal dynamics revolves around the exploitation of the second element within each relation by the first. Under rare and momentous historical circumstances, an existent mode of exploitation is subverted and replaced by another mode.

Polanyi of course shared Marx's emphasis on these developments, but challenged their absolute prominence attributed to them in his view of the social process, focused almost exclusively on the unique historical experience of the West. Thus, in Polanyi's judgment Marx was insufficiently aware of the huge diversity of *non*-Western arrangements for material production and of their relationship with other significant aspects of the social process.

For Polanyi, "society" is a complex reality constituted by relatively autonomous sets of diverse institutional arrangements, varying widely in time and space, some of which address concerns of no immediate economic significance. They generate and validate similarities and contrasts between individuals and between groups that may override - or any rate frame and constrain, rather than masking or justifying - the relations regarding their economic interests and the resulting collective identities.

Block and Somers' entire book can be considered as a sustained exploration and elaboration of this key motif in Polanyi's thinking, the so-called 'embedding' of the economic aspect of the social process within a pre-existent, more complex matrix. Their concluding chapter is entitled "The reality of society" and places this notion at the core of what they label Polanyi's "new public philosophy".

The market-centered conception of the social process.

Following the leads provided by Block and Somers' sophisticated treatment, I shall try to present Polanyi's own main argument, focusing on its eloquent, dramatic denunciation of the workings of "the great transformation".

The main target of GT is the vision (let us call it *liberal*) which lay behind those workings. It fully shared the "economistic fallacy" detected by Polanyi in Marx's thought, and considered any appeal to "the reality of society" a fanciful, deceptive misunderstanding of the real social process, unfortunately capable, if taken seriously and acted upon, of hindering its dynamics and contrasting its beneficial effects. A tenable and consequential understanding of that process could only construe it as a *market*.

On the market, an open-ended plurality of self-activating, self-interested individuals - owing each other no more than the mutual observance of general, negative rules for preventing and sanctioning mischief - develop, deploy, and risk their private resources, with a view to securing and increasing each its own well-being by means of freely entered exchanges, the content of which is intrinsically contingent and mutable, for it must be negotiated.

There is no other reality to society than the on-going, constantly changing totality of such exchanges. All political initiatives and cultural constraints which do not protect the spontaneous ordering of inter-individual relations autonomously generated by the market, but appeal to other

interests than those of freely “bartering and exchanging” private parties, entail unjustified, and generally damaging, social costs.

The following is a statement of Max Weber’s which captures this liberal understanding of “the market”. In my reading of it, it also foreshadows the critical position GT develops toward the enthronement of the market as *the* key source and constituent of the social process at large:

Where the market is left to its autonomy, it takes account only of the object, not of the person, not of any duty of brotherhood and solidarity, not of any primordial human relations based on personal commonalities. All such relations would hinder the free development of the pure market relationship, whose specific interests in turn put those relations under pressure [...] This absolute objectivity contrasts, as Sombart had impressively argued, with all the original structures of human relationships.

Polanyi viewed (and criticized) the “great transformation” as the massive product of the historically unprecedented success of the market understood in this manner (and celebrated by liberalism) in the modern West. From his standpoint it constituted an arrogant denial of the complexity and a brutal violation of the integrity of society as he conceived it. At its centre lay the historically novel, imperious requirement that three basic components of human existence – land, work, and money – be treated as “fictional commodities” and exchanged on the market.

Polanyi’s view of money, in particular, is open to the criticism that money does not have quite the same kind and degree of artificiality, as a commodity, that land and labor have. This consideration may have been overridden by his intent to treat also arrangements expressly related to money - in particular the gold standard –as agents of a ‘disembedding’ process, which in the course of commercialization and industrialization had deprived of legitimacy and effectiveness whatever opposed or resisted the market’s claim to sovereignty over all significant social phenomena.

At the same time – and this is another side of his argument - the disembedding process itself called forth within societies a large and complex ‘countermovement’ to the ever increasing hold of the market upon the whole social process. Were part of it, at one end, local phenomena of short duration such as Luddism, hopelessly seeking to resist threats to the interests and traditions of local social groupings; at the other, wholly new collective alignments between individuals across whole societies, pursuing interests created by the new circumstances. These movements either demanded new forms of authoritative social regulation to lay some limits on the supremacy of market relations, or prospected a revolutionary new order of society, which would suppress and transcend those relations.

Polanyi explored the vicissitudes of the resultant “double movement” chiefly with reference to England. But the historical reach of GT’s argument - from the last decades of the European anciens régimes to World War Two – led him to two further themes: the variant forms taken by such a movement *within* one country after another; the strain this development generates in the relations *between* countries. Hence his interest in the gold standard as the key international arrangement for managing those relations, and in the consequences of its (mis)functioning, especially after World War One. Whatever the weaknesses of Polanyi’s treatment of this theme,

it probably induces some scholars to seek inspiration in GT when dealing with the contemporary globalization phenomenon.

Polanyi's intellectual itinerary

Against the background of this rough understanding of Polanyi's main argument, let us consider some distinctive aspects of its treatment by Block and Somers. They enlighteningly present Polanyi's *life-and-work* as a whole (though with relatively scant attention to his production as an economic anthropologist) and the genesis of GT itself. Some components of that genesis were intellectual in nature - in particular Polanyi's critical confrontation on the one hand with Marxist doctrines, on the other with those of the so-called Austrian school of economics.

But what counted were also his lived experiences, in particular his awareness of the extent to which, in post-WWI Vienna, the working class was able to maintain a degree of organizational autonomy and political effectiveness. In 1933, after Dolfuss imposed on Austria a highly repressive authoritarian regime inspired by fascism, Polanyi left the country for England, where for years he held a teaching post in the Workers Educational Association. Further critical reflections on the nature of the on-going political and economic events were stimulated also by his encounters with guild socialism and with the thought of Robert Owen. Later, University appointments in Canada and the US allowed Polanyi to attend to the writing and publication of his masterpiece in a properly academic environment.

The New Poor Law

Block and Somers discuss most enlighteningly a significant episode within "the great transformation", which had a tremendous impact on the economic, political, institutional landscape of 19th century England: the enactment by the *Royal Commission into the Operation of the Poor Laws* of the New Poor Law of 1834. The country had a long, complex and diverse history of public arrangements (mostly operating on a local basis) for the relief of poverty. The 1834 act expressly targeted for destruction the so-called *Speenhamland system*, established in 1795 in the Berkshire County town of that name and subsequently widely adopted in the country. Under that system, parishes used poor relief funds to provide indigent families with allowances covering the gap between their earnings from employment and their expenses for primary necessities, calculated from the current price of bread.

The Royal Commission's main argument against this arrangement, was that it discouraged able-bodied people from seeking employment to improve their own earnings, since their families were afforded a however minimal livelihood at the expense of the parish's tax payers. Thus a policy intended to alleviate poverty generated a self-sustaining cycle of dependency. Furthermore, it allowed employers (farmers, generally) to keep at a minimum their own remuneration of workers since this would be supplemented from public funds.

To eliminate such effects, under the New Poor Law public funds for the relief of poverty could only go to individuals forced to labor in "work houses", under such condition as to make most of

them opt, instead, for whatever employment was on offer, on terms dictated by current labor market conditions.

Chapter Five of the Block & Somers book carefully analyze the scholarly literature which over the past few decades has reconstructed the whole “Speenhamland-and-all-that” story and criticized its previous, conventional rendering. They show, for instance, that the Royal Commission had produced the New Poor Law on the basis of utterly inadequate information on the actual workings of the Speenhamland system; and that the real makings of the 1834 act lie in the Commission’s wholesale, enthusiastic acceptance of theoretical arguments of Malthusian and Ricardian inspiration.

The most compendious rendering of their penetrating argument is provided by the title itself of the book, *The Power of Market Fundamentalism*. It derives the expression “market fundamentalism” from a statement by George Soros, and points up significant analogies between the utterly this-worldly body of ideas inspiring the New Poor Laws and ideas of a religious nature, urging collective movements to reform current reality by enacting their own, self-righteous and imperious interpretation of a spiritual message ignored, misunderstood, or betrayed by the rest of the world

The key ideas of both market and religious fundamentalisms constitute for those holding them a peculiarly compelling vision, conferring on those subscribing to them a sense of election, of collective identity and mission. They commit themselves to seize every opportunity to impinge on the public context of both their own existence and that of others.

Whatever contribution to their thinking Soros’s statement may have made, Block and Somers’s title has another distinctive component - “*The Power of Market Fundamentalism*”. This announces their forceful contribution to an ancient theme of social analysis, conventionally phrased as “the role of ideas in history”. They argue that certain bodies of ideas not only are passionately held and proclaimed, not only constitute for those sharing them a cherished component of collective identity, but can *make a decisive difference* to critical aspects of social reality. When held and acted upon by major social actors, ideas can decisively affect the nature and content of understandings and arrangements of great public significance; they can frame and sanction the activities not only of those actors themselves, but of the whole collectivity.

Polanyi’s critique of Malthus

The main case in point, in the book, is the part played in the making of the New Poor Law by Malthus’s elaborate arguments against such public provisions for the basic needs of indigents as the Speenhamland system. The main argument – as already mentioned - concerned the perverse effects of those well-meaning provisions. They inevitably rewarded expectations and behaviors which inexorably increased the incidence and the gravity of the very social evils they were supposed to ameliorate.

The book’s Chapter 6, “From poverty to perversity” reconstructs and analyses in a most sophisticated manner Malthus’s reasoning. It signals the debt his *Essay on the Principle of Population* (first edition, 1798) owed to Joseph Townsend’s *Dissertation on the Poor Law*

(1786), which narrated the “Fable of the dogs and the goats” – a fictional set of events taking place on an island in the Pacific – to make a case against poor relief.

In revisiting this topic, Block and Somers confirm Polanyi’s treatment of it. They distinguish within Malthus’s main argument (and the successive ones that rephrase it, amplify it and support it, both in the nineteenth century and in our own times) has three major aspects. First, *social naturalism*, the conviction that “the laws of the market are no different from the biological self-regulatory organisms of nature”. Thus, “society is governed by [...] natural laws rather than by institutional rules and social rationalities”.

Second, *theoretical realism*: the identity between grounded reasoning about social facts and grounded reasoning about facts of nature authorizes the former not to consider empirical evidence as the foremost validation of positive knowledge. After all – witness Newton’s laws - advanced scientific reasoning deals with non-observables. Thus, “absent empirical evidence, [the] basic assumptions about how economies work can be neither falsified nor confirmed”. That a strong commitment to such assumptions can impose on existent reality a self-assured set of imperious demands entails the intrinsically utopian nature of the entire system of thought, for a vocation to constitute a universally acknowledged “ideational regime” is a common feature of fundamentalisms.

Block and Somers characterize these two aspects of Malthusian thinking as respectively the *ontological* and the *epistemological* components of market fundamentalism. A third aspect cannot be classified in a comparable, relatively conventional manner; they call it the “conversion narrative”.

What is this about? A body of thought so assured of its own exclusive validity needs to account for the fact that it has not been, and it is not being, recognized as uniquely valid. Indeed, the world is full of understandings and arrangements predicated on assumptions and tenets that contradict the true nature of things. A conversion narrative “has only one goal—to convert a person, a culture, a nation, from an ideational regime to another” by means of causal stories that subvert established though erroneous perceptions of reality. Its end is to uncover “the true but hidden causal mechanisms” of the social order, currently ignored and violated by the prevarications of prevailing, malignant interests. Typically, the narrative “begins with a present crisis, and then moves backward in time to a more harmonious past before the onset of the crisis, then forward again to the problematic present”. By means of thought experiments, it forecasts “two possible futures—one promising only more of the same strife, the second promising a future restored to the original state of harmony”.

Conventional views, including intellectually respectable ones, assume that bodies of ideas are the product of material circumstances, accompany rather than determine their developments, argue the inherent necessity of new collective arrangements, justify, mask or mediate contrasts between underlying social interests. Beginning with its title, *The Power of Market Fundamentalism* argues the opposite case. It argues forcefully for not just the *institutional* but also the *ideational* embedding of “the reality of society”. After discussing the advent of market fundamentalism between the 18th and the 10th century, it points to its persistent significance in our own times, shown for instance by the extent to which President Clinton’s welfare reforms expressly re-

cycled the *perversity* argument framed by Malthus and institutionally validated by the New Poor Law.

There are a number of other illuminating arguments in Block and Somers's book. There are also, of course, others that deserve to be challenged. To mention just one, they consider the notion of "market society" as still a valid characterization of the contemporary social order, in spite of the many reasons for viewing "de-marketization", instead, as a dominant process in contemporary economies. But one can only applaud their contributions to the discussion of many problems posed to social analysis (including its Polanyian variety) by major contemporary events.

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