

The Great Transformation:

The Political and Economic Origins of Our Time

Karl Polanyi (1944) [1957]
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Part One The International System

Chapter One: The Hundred Year's Peace:

Polanyi begins the book with the following statement: Nineteenth century civilization has collapsed. This book is concerned with the political and economic origins of this event, as well as with the great transformation which it ushered in. (p. 3).

He then goes on to say that 19th century civilization rested on four institutions:

- 1) The balance of power system
- 2) The international gold standard
- 3) The self-regulating market
- 4) The liberal state

He says that between these institutions, they determined the characteristic outlines of the history of our civilization:

But the fount and matrix of the system was **the self-regulating market**. It was this innovation which gave rise to a **specific civilization**. The gold standard was merely an attempt to extend the domestic market system to the international field; the balance of power system was a superstructure erected upon and, partly, worked through the gold standard; the liberal state was itself a creation of the self-regulating market. **The key to the institutional system of the 19th century lay in the laws governing market economy.** (p. 3).

Now Polanyi introduces his thesis:

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 surrounding into a wilderness. Inevitably, society took measures to protect itself, but whatever measures it took impaired the self-regulation of the market, disorganized industrial life, and thus endangered society in yet another way. It was this dilemma which forced the development of the market system into a definite groove and finally disrupted the social organization based upon it. (p. 3-4).

Now Polanyi becomes somewhat self-reflexive and says that it may appear as a hopeless endeavor to argue that the crisis can be explained in terms of institutions since civilizations are complex and not, as a rule, reducible to circumscribed institutions. But says Polanyi, he's going to do it anyway because he believes

that ‘the civilization of the 19th century was unique precisely in that it centered on a definite institutional mechanism.’ (p. 4).

We shall try to show that the balance of power system could not ensure peace once the world economy on which it rested had failed. (p. 4). But if the breakdown of our civilization was timed by the failure of world economy, it was certainly not caused by it. Its **origins** lay more than a hundred years back in that **social and technological upheaval** from which the idea of a self-regulating market sprang in Western Europe. (p. 5).

So for Polanyi, the origins of the breakdown of 19th century civilization do not stem from an economic meltdown per se, but from a social and technological cataclysm.

Now Polanyi discusses the 100 years peace (1815-1914) and claims that while there were altercations and episodes of violence during this time, principally isolated colonial wars, the Great Powers managed to avoid great conflagrations. (p. 5-6).

While in the first part of the century **constitutionalism** was banned and the Holy Alliance suppressed freedom in the name of peace, during the other half- and again in the name of peace – constitutions were **foisted upon turbulent despots by business-minded bankers.** (p. 6).

Polanyi of course credits the preservation of peace with the balance of power mechanism but says that this claim is somewhat peculiar since the balance of power mechanism previous to the 19th century always seemed to lead to war. So why was the balance of power mechanism a force for peace? Polanyi says that there was a new factor at play in the 19th century and that was ‘the emergence of an acute peace interest.’ (p. 7).

According to Polanyi, “the backwash of the French Revolution reinforced the rising tide of the Industrial Revolution in establishing **peaceful business as a universal interest.**” (p. 7). **He claims here that the** ‘cartel of dynasts and feudalists whose patrimonial positions were threatened by the revolutionary wave of patriotism that was sweeping the continent’ **were the most interested in peace.** (p. 7).

But says Polanyi, what really made the peace interest effective was ‘an undisclosed powerful social instrumentality at work in the new setting’ – *haute finance*. (p. 9).

Haute finance, an institution *sui generis* (unique), peculiar to the last third of the nineteenth and the first third of the 20th century, functioned as the main link between the political and the economic organization of the world in this period. (p. 10).

While the Concert of Europe acted only at intervals, *haute finance* functioned as a permanent agency of the most elastic kind....the secret of the successful maintenance of general peace lay undoubtedly in the position, organization, and techniques of international finance. (p. 10).

The Rothschilds were subject to no one government; as a family they embodied the abstract principle of internationalism; their loyalty was to a firm, the credit of which had become the only supranational link between political government and industrial effort in a swiftly growing world economy. (p. 10).

But, Polanyi adds: “They were anything but pacifists; they had made their fortune in the financing of wars; they were impervious to moral consideration; they had no objection to any number of minor, short, or localized wars. But their business would be impaired if a general war between the Great Powers should interfere with the monetary foundations of the system.” (p. 10-11).

The motive of haute finance was gain; to attain it, it was necessary to keep in with the governments whose end was power and conquest. (p. 11).

Power had precedence over profit. However closely their realms interpenetrated, ultimately it was war that laid down the law to business. (p. 12).

For business success involved the ruthless use of force against weaker countries, wholesale bribing of backward administrations, and the use of all the underhand means of gaining ends familiar to the colonial and semi-colonial jungle. And yet by functional determination it fell to *haute finance* to avert general wars. The vast majority of the holders of government securities, as well as other investors and traders, were bound to be the first losers in such wars, especially if the currencies were affected. (p. 13).

Since, under **constitutional government** (unconstitutional ones were severely frowned upon), behavior is detached from the appreciation of the budget, debtor governments were well advised to watch their exchanges carefully and to avoid policies which might reflect upon the soundness of the budgetary position. (p. 14).

Trade was now dependent upon an international monetary system which could not function in a general war. It demanded peace, and the Great Powers were striving to maintain it. (p. 15).

Every war, almost, was organized by financiers; but peace also was organized by them. (p. 16).

By the fourth quarter of the nineteenth century, world commodity prices were the central reality in the lives of millions of Continental peasants; the repercussions of the London money market were daily noted by businessmen all over the world; and governments discussed plans for the future in light of the situation on the world capital markets. Only a madman would have doubted that the **international economic system was the axis of the material existence of the race**. Because this system needed peace in order to function, the balance of power was made to serve it. Take this economic system away and the peace interest would disappear from politics. (p. 18).

Chapter Two: Conservative Twenties, Revolutionary Thirties

This chapter opens with Polanyi saying that the breakdown of the international gold standard is pivotal for an understanding of world economy disintegration. He argues that the international monetary system had a political function that was hardly understood. For instance he claims that ‘to liberal economists the gold standard was a purely economic institution’ but they refused to consider that it as part of a social mechanism. (p. 20).

He then moves to discuss WWI and its outcome. He basically makes that claim that the balance of power system could not work for peace because the international monetary system was not restored:

“In the absence of stable exchanges and freedom of trade the governments of the various nations, as in the past, would regard peace as a minor interest, for which they would strive only as long as it did not interfere with any of their major interests.” (p. 22).

Polanyi then reminds us that what is at issue is the radical change/transformation from the conservative twenties to the revolutionary thirties:

“In the early thirties, change set in with abruptness. Its landmarks were the abandonment of the gold standard by Britain; the Five-Year Plans in Russia; the launching of the New Deal; the National Socialist Revolution in

Germany; the collapse of the League in favor of autarchist empires. While at the end of the Great War nineteenth century ideals were paramount, and their influence dominated the following decade, by 1940 every vestige of the international system had disappeared and, apart from a few enclaves, the nations were living in an entirely new international setting.” (p. 23).

For Polanyi, ‘the root of the crisis...was the threatening collapse of the international economic system.’ (p. 23).

During this tumultuous period (1930s) Polanyi argues that ‘currency had become the pivot of national politics’ and ‘belief in the gold standard was the faith of the age.’ (p. 24-25).

He then goes on to say discuss this faith in gold:

“It would be hard to find any divergence between utterance of Hoover and Lenin, Churchill and Mussolini, on this point. Indeed, the essentiality of the gold standard to the functioning of the international economic system of the time was the one and only tenet common to men of all nations and all classes, religious denominations, and social philosophies. It was the invisible reality to which the will to live could cling, when mankind braced itself to the task of restoring its crumbling existence.” (p. 25).

We get some more musings about the attempt to restore the gold standard and the search for stable currencies. The portent of the time, says Polanyi, was the fact that America went off gold in 1933. (p. 26).

The big claim Polanyi makes here is that the search for a stable (external) currency value led to autarchized national economies. Eventually, Polanyi tells us, the gold standard snapped and signaled a ‘world revolution’. What Polanyi means here is that the institution of the ‘gold standard’ was no longer congruous with expanding national economies. Consequently, a new ‘institutional fix’ had to be found: (p. 27).

“But the failure of the gold standard did hardly more than set the date of an event which was too big to have been caused by it. No less a complete destruction of the national institutions of nineteenth century society accompanied the crisis in a great part of the world, and everywhere these institutions were changed and re-formed almost out of recognition. The liberal state was in many countries replaced by totalitarian dictatorships, and the central institution of the century – production based on free markets – was superseded by new forms of economy.” (p. 28).

Now Polanyi distinguishes between WWI and WWII:

“Again, the distinction between World Wars I and II is apparent: the former was still true to nineteenth century type – a simple conflict of powers, released by the lapse of the balance-of-power system; the latter already is part of the **world upheaval.**” (p. 29).

We then get Polanyi’s thesis restated:

“This leads up to our thesis which still remains to be proven: that the origins of the cataclysm lay in the **utopian endeavor of economic liberalism to set up a self-regulating market system.** Such a thesis seems to invest that system with almost mythical powers; it implies no less than that the balance of power, the gold standard, and the liberal state, those fundamentals of the civilization of nineteenth century, were, in the last resort, all shaped by one common matrix, the self-regulating market.” (p. 29-30).

“All types of societies are limited by economic factors. Nineteenth century civilization alone was economic in a different and distinctive sense, for it chose to base itself on **a motive only rarely acknowledged as valid in the**

history of human societies, and certainly never before raised to the level of a justification of action and behavior in everyday life, namely, **gain**. The self-regulating market system was uniquely derived from this principle.” (p. 30).

He concludes the chapter and the section by saying that the origins of the cataclysm lay in the birthplace of the Industrial Revolution – England. Thus, the focus of his study is on the rise of market economy in England. (p. 30).

Part Two Rise and Fall of Market Economy

Chapter Three: Satanic Mill: Habitation versus Improvement:

Nowhere has liberal philosophy failed so conspicuously as in its understanding of the problem of change. Fired by an emotional faith in spontaneity, the common-sense attitude toward change was discarded in favor of a mystical readiness to accept the social consequences of economic improvement, whatever they might be...*the teachings of a social philosophy inherited from the ancients, were in the nineteenth century erased from the thoughts of the educated by the corrosive of a crude utilitarianism combined with an uncritical reliance on the alleged self-healing virtues of unconscious growth.* (p. 33).

Economic liberalism misread the history of the Industrial Revolution because it insisted **on judging social events from the economic viewpoint.** (p. 33-34).

Enclosures have appropriately been called **a revolution of the rich against the poor**. The lords and nobles were upsetting the social order, breaking down ancient law and custom, sometimes by means of violence, often by pressure and intimidation. They were literally robbing the poor of their share in the common, tearing down the houses which, by the hitherto unbreakable force of custom, the poor had long regarded as theirs and their heirs. **The fabric of society was being disrupted.** (p. 35).

The rate of change is often of no less importance than the direction of the change itself; but while the latter frequently does not depend upon our volition, it is the rate at which we allow change to take place which well may depend upon us. (p. 36-37). **Polanyi writes these words after discussing the anti-enclosure legislation, which, however futile in stopping the enclosure movement, at least slowed it down:**

“England withstood without grave damage the calamity of the enclosures only because the Tudors and the early Stuarts used the power of the Crown to slow down the process of economic improvement until it became socially bearable – employing the power of the central government to relieve the victims of the transformation, and attempting to canalize the process of change so as to make its course less devastating.” (p. 38).

A belief in spontaneous progress makes us blind to the role of government in economic life. This role consists often in altering the rate of change, speeding it up or slowing it down as the case may be... (p. 37).

Market economy is an institutional structure which, as we all too easily forget, has been present at no time except our own, and even ***then it was only partially present***...If the immediate effect of a change is deleterious, then, until proof to the contrary, the final effect is deleterious. (p. 37-38).

The **government of the Crown** gave place to **government by a class**--the class which led in industrial and commercial progress. The great principle of constitutionalism became wedded to the political revolution that

dispossessed the Crown, which by that time had shed almost all its creative faculties, while its protective function was no longer vital to the country that had weathered the storm of transition. (p. 38).

...the capitalists and employers of the rising middle class were the chief victims of [the Crown's] protective activities. (p. 39).

Recall: Polanyi discusses the enclosure movement in England in order to compare it to the social change brought on by the Industrial Revolution some 150 years later.

We submit that an avalanche of social dislocation, **surpassing by far that of the enclosure period, came down upon England**; that this catastrophe was the accompaniment of a vast movement of economic improvement; that an entirely new institutional mechanism was starting to act on Western society; that its dangers, which cut to the quick when they first appeared, were never really overcome; and that **the history of nineteenth century civilization consisted largely in attempts to protect society against the ravages of such a mechanism.** (p. 40).
Foucault's biopolitics???

The new creed was utterly materialistic and believed that all human problems could be resolved given an unlimited amount of material commodities. (p. 40).

But how shall the [Industrial] Revolution itself be defined?...We submit that all these (rise of factory towns, the emergence of slums etc...), were merely incidental to one basic change, **the establishment of market economy**, and that **the nature of this institution cannot be fully grasped unless the impact of the machine on a commercial society is realized**. We do not intend to assert that the machine caused that which happened, but we insist that once elaborate machines and plant were used for production in a commercial society, **the idea of a self-regulating market was bound to take shape**. (p. 40).

For the merchant this means that all factors involved [in production for the machine] must be on sale, that is, they must be available in the needed quantities to anybody who is prepared to pay for them. (p. 41).

The transformation implies a change in the motive of action on the part of the members of society: for the motive of **subsistence** that of **gain** must be substituted. All transactions are turned into money transactions, and these in turn require that a medium of exchange be introduced into every articulation of industrial life. All incomes must derive from the sale of something or other, and whatever the actual source of a person's income, it must be regarded as resulting from sale. No less is implied in the simple term "market system," by which we designate that institutional pattern described. *But the most startling peculiarity of the system lies in the fact that, once it is established, it must be allowed to function without outside interference.* (p. 41).

The transformation to this system from the earlier economy is so complete that it resembles more the **metamorphosis of the caterpillar** than any alteration that can be expressed in terms of continuous growth and development. (p. 42).

But what he buys is raw materials and labor - nature and man. Machine production in a commercial society involves, in effect, no less a transformation than that of the natural and human substance of society into commodities. The conclusion, though weird, is inevitable; nothing less will serve the purpose: obviously, the dislocation caused by such devices must disjoint man's relationships and threaten his natural habitat with annihilation. (p. 42).

Chapter Four: Societies and Economic Systems:

Polanyi opens this chapter by saying that we must grasp the extraordinary assumptions underlying the laws governing a market economy. (p. 43).

Market economy implies a self-regulating system of markets; in slightly more technical terms, it is an economy directed by market prices and nothing but market prices...These rough indications should suffice to show the entirely unprecedented nature of such a venture in the history of the race. (p. 43).

No society could, naturally, live for any length of time unless it possessed an economy of some sort; but previously to our time no economy has ever existed that, even in principle, was controlled by markets. In spite of the chorus of academic incantations so persistent in the nineteenth century, **gain and profit made on exchange never before played an important part in human economy.** (p. 43).

Though the institution of the market was fairly common since the later Stone Age, its role was no more than incidental to economic life. (p. 43).

On the bottom of page 43 and top of 44, Polanyi scolds the liberals for equating the division of labor with barter and exchange instead of springing from the facts of sex, geography and individual endowment.

Polanyi continues on this point (the historical break of having a market run society):

The role played by markets in the internal economy of the various countries, it will appear, was insignificant up to recent times, and the change-over to an economy dominated by the market pattern will stand out all the more clearly. (p. 44)

Polanyi continues to argue against Smith and later liberal's conception of man and says that the corrective of this view, which liberals avoid, is a perspective that links economic history and social anthropology. (p. 45).

The tradition of the classical economists, who attempted to base the law of the market on the alleged propensities of man in the state of nature, was replaced by an abandonment of all interest in the cultures of "uncivilized" man as irrelevant to an understanding of the problems of our age. (p. 45).

...if one conclusion (of social anthropology) stands out more clearly than another from the recent study of early societies it is the changelessness of **man as a social being.** (p. 46).

The outstanding discovery of recent historical and anthropological research is that man's economy, as a rule, is submerged in his social relationships. He does not act so as to safeguard his individual interest in the possession of material goods; he acts so as to safeguard his social standing, his social claims, his social assets. He values material goods only insofar as they serve this end. (p. 46).

From page 46ff Polanyi discusses 'primitive' economies to illustrate the point made above. The twin principles of reciprocity and redistribution are of crucial importance here.

The most important quote in this section might be when Polanyi discusses Aristotle's Politics and the distinction between householding proper and money-making:

...gain was a motive peculiar to production for the market, and that the money factor introduced a new element into the situation, yet nevertheless, as long as markets and money were mere accessories to an otherwise self-sufficient household, the principle of **production for use** could operate. (p. 54).

Polanyi concludes the chapter with the following:

From the 16th century onwards markets were both numerous and important. Under the mercantile system they became, in effect, a main concern of government; yet there was still no sign of the **coming control of markets over human society**. On the contrary. **Regulation and regimentation were stricter than ever**; the very idea of a self-regulating market was absent. To comprehend the **sudden change-over to an utterly new type of economy in the 19th century**, we must now turn to the **history of the market**, an institution we were able practically to neglect in our review of the economic systems of the past. (p. 55).

Chapter Five: Evolution of the Market Pattern:

This chapter opens by Polanyi saying that if we want to rid ourselves of the ‘economic superstitions’ of the 19th century, we have to perform a careful inquiry into the nature and origin of markets. (p. 56).

The market pattern, on the other hand, being related to a peculiar motive of its own, the motive of truck or barter, is capable of creating a specific institution, namely, the market. Ultimately, that is why the control of the economic system by the market is of overwhelming consequence to the whole organization of society: it means no less than the running of society as an *adjunct to the market*. Instead of the economy being embedded in social relations, social relations are embedded in the economic system. The vital importance of the economic factor to the existence of society precludes any other result. (p. 57).

...market economy can function only in a market society.” (p. 57).

Now Polanyi moves to say that ‘the step which makes isolated markets into a market economy, regulated markets into a self-regulating market, is crucial’. Polanyi argues that this transformation did not result from the ‘natural outcome of spreading markets’...’ but the effect of highly artificial stimulants administered to the body social in order to meet a situation which was created by the no less artificial phenomenon of the machine.’ (p. 57).

For the next ten pages the discussion turns on the origin of national markets. He says that national markets did not come out of individual barter, nor did it come out of external or long-distance trade but through state intervention. Mercantilism, according to Polanyi, cleared the way for a national market by breaking down local particularisms. (p. 63-65).

“That competition must ultimately lead to monopoly was a truth well understood at the time...All-round regulation of economic life, only this time on a national, no more on a merely municipal, scale was the given remedy. What to the modern mind may easily appear as a shortsighted exclusion of competition was in reality the means of safeguarding the functioning of markets under the given conditions.” (p. 66).

Polanyi concludes the chapter by saying that there was nothing in mercantilism as a distinctive policy of nations that would presage the development of a self-regulating market. (p. 67).

Chapter Six: The Self-regulating Market and the Fictitious Commodities: Labor, Land, and Money

In the opening of this chapter Polanyi reminds us that ... never before our own time were markets more than accessories of economic life. As a rule, the economic system was absorbed in the social system, and whatever principle of behavior predominated in the economy, the presence of the market pattern was found to be compatible with it. (p. 68).

Where markets were most highly developed, as under the mercantile system, they thrived under the control of a centralized administration which fostered autarchy both in the households of the peasantry and in respect to national life. Regulation and markets, in effect, grew up together. The self-regulating market was unknown; indeed the emergence of the idea of self-regulation was a complete reversal of the trend of development. (p. 68).

A market economy is an economic system controlled, regulated, and directed by markets alone; order in the production and distribution of goods is entrusted to this self-regulating mechanism. An economy of this kind derives from the expectation that human beings behave in such a way as to *achieve maximum money gains*. It assumes markets in which the supply of goods (including services), available at a definite price will equal the demand at that price. It assumes the presence of money, which functions as purchasing power in the hands of its owners. (p. 68).

Production will then be controlled by prices, for the profits of those who direct production will depend upon them; the distribution of the goods also will depend upon prices, for prices form incomes, and it is with the help of these incomes that the goods produced are distributed amongst the members of society. Under these assumptions order in **the production and distribution of goods is ensured by prices alone**. (p. 68).

Self-regulation implies that all production is for sale on the market and that all incomes derive from such sales. Accordingly there are markets for all elements of industry, not only for goods but also for labor, land, and money, their prices being called respectively commodity prices, wages, rent, and interest. (p. 69).

A further group of assumptions follows in respect to the *state and its policy*. Nothing must be allowed to inhibit the formation of markets, nor must incomes be permitted to be formed otherwise than through sales...no measure or policy must be countenanced that would influence the action of these markets. *Neither price, nor supply, nor demand must be fixed or regulated; only such policies and measures are in order which help ensure the self-regulation of the market by creating conditions which make the market the only organizing power in the economic sphere*. (p. 69).

Polanyi now says that in order to understand what this means, we have to return to the mercantile system and the national markets which it did so much to develop:

“Land, the pivotal element in the feudal order, was the basis of the military, judicial, administrative, and political system; its status and function were determined by legal and customary rules. Whether its possession was transferable or not, and if so, to whom and under what restrictions; what the rights of property entailed; to what uses some types of land might be put – all these questions were removed from **the organization of buying and selling, and subjected to an entirely different set of institutional regulations.**” (p. 70).

He also talks about labor being tightly regulated (guild system). (p. 70).

Mercantilism...never attacked the safeguards which protected these two basic elements of production – labor and land – from becoming objects of commerce. (p. 70).

The change from regulated to self-regulating markets at the end of the eighteenth century represented **a complete transformation in the structure of society**. A self-regulating market demands nothing less than the institutional separation of society into an economic and political sphere. (p. 71).

Nineteenth century society, in which economic activity was isolated and imputed to a distinctive economic motive, was, indeed, *a singular departure*. (p. 71).

Such an institutional pattern could not function unless society was somehow subordinated to its requirements. A market economy can exist only in a market society....We can now specify the reasons for this assertion. A market economy must comprise all elements of industry, including labor, land, and money. But labor and land are no other than the human beings themselves of which every society consists and the natural surroundings in which it exists. To include them in the market mechanism means to **subordinate the substance of society itself to the laws of the market**. (p. 71).

Polanyi now claims that he wants to do two things:

- 1) Describe the methods by which the market mechanism is enabled to control and direct the actual elements of industrial life
- 2) Try to gauge the nature of the effects of such a mechanism on the society which is subjected to its action. (p. 72).

According to Polanyi, 'it is with the help of the commodity concept that the mechanism of the market is geared to the various elements of industrial life.' (p. 72).

Commodities are here empirically defined as objects produced for sale on the market; markets, again, are empirically defined as actual contacts between buyers and sellers. Accordingly, every element of industry is regarded as having been produced for sale, as then and then only will it be subjected to the supply-and-demand mechanism interacting with price. (p. 72).

The crucial point is this: labor, land, and money are essential elements of industry; they also must be organized in markets; in fact, these markets form an absolutely vital part of the economic system. But labor, land, and money **are obviously not commodities**; the postulate that anything that is bought and sold must have been produced for sale is emphatically untrue in regard to them...Labor is only another name for human activity which goes with life itself, which in its turn is not produced for sale but for entirely different reasons, nor can that activity be detached from the rest of life, be stored or mobilized; land is only another name for nature, which is not produced by man; actual money, finally, is merely a token of purchasing power which, as a rule, is not produced at all, but comes into being through the mechanism of banking of state finance. *None of them is produced for sale. The commodity description of labor, land, and money is entirely fictitious*. (p. 72).

Nevertheless, it is with the help of this fiction that the actual markets for labor, land, and money are organized; they are being actually bought and sold on the market; their demand and supply are real magnitudes; and any measures or policies that would inhibit the formation of such markets would *ipso facto* endanger the self-regulation of the system. The **commodity fiction**, therefore, supplies a vital organizing principle in regard to the whole of society affecting almost all its institutions in the most varied way, namely, the principle according to which **no arrangement or behavior** should be allowed to exist that might prevent the actual functioning of the market mechanism on the lines of the commodity fiction. (p. 72-3).

To allow the market mechanism to be sole director of the fate of human beings and their natural environment, indeed, even of the amount and use of purchasing power, would result in **the demolition of society**. (p. 73).

Undoubtedly, labor, land, and money markets are essential to a market economy. But no society could stand the effects of such a system of crude fictions even for the shortest stretch of time unless its human and natural substance as well as its business organization was protected against the ravages of this satanic mill. (p. 73).

It was not the coming of the machine as such but the invention of elaborate and therefore specific machinery and plant which completely changed the relationship of the merchant to production...the use of elaborate machinery and plant involved the development of the factory system and therewith a decisive shift in the relative importance of commerce and industry in favor of the latter. (p. 75).

The extension of the market mechanism to the elements of industry – labor, land, and money – was the inevitable consequence of the introduction of the factory system in a commercial society. The elements of industry had to be on sale. (p. 75).

But as the organization of labor is only another word for the forms of life of the common people, this means that the development of the market system would be accompanied by a change in the organization of society itself. All along the line, human society had become an accessory of the economic system. (p. 75).

Improvements...are, as a rule, bought at the price of social dislocation. If the rate of dislocation is too great, the community must succumb in the process. (p. 76).

...human society would have been **annihilated** but for **protective countermoves** which blunted the action of this **self-destructive mechanism**. (p. 76).

Social history in the 19th century was thus the result of a **double movement**: the extension of the market organization in respect to genuine commodities was accompanied by its restriction in respect to fictitious ones. While on the one hand markets spread all over the face of the globe and the amount of goods involved grew to unbelievable proportions, on the other hand a network of measures and policies was integrated into powerful institutions **designed to check the action of the market relative to labor, land, and money**. (p. 76).

Chapter Seven: Speenhamland, 1795

In the opening of this chapter, Polanyi is most concerned with the labor market and claims that there can be no market economy without a market for labor. Yet the labor market was the last of the markets to be organized under the new industrial system emerging in England:

...but to establish such a market, especially in England's rural civilization, implied no less than the **wholesale destruction of the traditional fabric of society**. During the most active period of the Industrial Revolution, from **1795 to 1834**, the creating of a labor market in England was **prevented** through the Speenhamland Law. (p. 77).

According to Polanyi, 'the economic advantages of a free labor market could not make up for the social destruction wrought by it.' (p. 77).

As the title of his chapter would suggest, the entire discussion now falls upon the Speenhamland Law or the introduction of an 'allowance system' of 1795. According to Polanyi, 'the tendency of this law...was towards a powerful reinforcement of the paternalistic system of labor organization as inherited from the Tudors and Stuarts.' (p. 77).

Polanyi claims that this law introduced "no less a social and economic innovation than the 'right to live'" **but was eventually abolished in 1834**. "Two years earlier, in 1832, the middle class had forced its way to power, partly in order to remove this obstacle to the new capitalistic economy." (p. 78).

...the wage system imperatively demanded the withdrawal of the "right to live" as proclaimed in Speenhamland – **under this law, nobody would work for a wage if he could make a living by doing nothing**. (p. 78).

...the social adventure...(p. 80).

...if the **Reform Bill of 1832** and the **Poor Law Amendment of 1834** were commonly regarded as the **starting point of modern capitalism**, it was because they put an end to the rule of the benevolent landlord and his allowance system. The attempt to create a capitalistic order **without a labor market** had failed disastrously. (p. 80).

Under Speenhamland society was rent by **two opposing influences** the one emanating from paternalism and protecting labor from the dangers of the market system; the other organizing the elements of production, including land, under a market system, and thus divesting the common people of their former status, compelling them to gain a living by offering their labor for sale, while at the same time depriving their labor of its market value. A new class of employers was being created, but no corresponding class of employees could constitute itself. (p. 80).

A new gigantic wave of enclosures was mobilizing the land and producing a rural proletariat, while the 'maladministration of the Poor Law' precluded them from gaining a living by their labor. (p. 80).

Now Polanyi discusses the irony of Speenhamland – a law meant to help the poor since in this pre-capitalist age, the Berkshire magistrate and the members of Parliament were both concerned with the economic situation of the poor. What Polanyi says here is that if the poor were allowed to organize into trade unions, Speenhamland might have had the opposite effect – it might have raised rather than lowered wages. But the **Anti-Combination Laws passed throughout the 1799-1800 period precluded this option**. Polanyi argues that this was not malice on the part of the lawmakers, but a further attempt to intervene and help the poor, since the Anti-Combination Laws helped to secure Speenhamland. Polanyi says that the ironic result was that "the financially implemented "right to live" eventually ruined the people whom it was ostensibly designed to succor." (p. 81).

To later generations nothing could have been more patent than the mutual incompatibility of institutions like the wage system and the "right to live" or, in other words, than the impossibility of a functioning capitalistic order as long as wages were subsidized from public funds. (p. 81).

The pitfalls of the market system were not readily apparent. To realize this clearly we must distinguish between the various vicissitudes to which the laboring people were exposed in England since the coming of the machine: first, those of the **Speenhamland period, 1795 to 1834**; second, the hardships caused by the **Poor Law Reform in the decade following 1834**; third, the deleterious effects of **a competitive labor market after 1834**, until in the 1870's the recognition of the trade unions offered sufficient protection. Chronologically, Speenhamland antedated market economy; the decade of the Poor Law Reform Act was a transition to that economy. The last period- overlapping the former – was that of **market economy proper**. (p. 82).

According to Polanyi, the three periods differed sharply from one another:

1. Speenhamland was designed to prevent the proletarianization of the common people, or at least to slow it down. The outcome was merely the pauperization of the masses, who almost lost their human shape in the process. (p. 82).
2. The Poor Law Reform of 1834 did away with this obstruction to the labor market: the "right to live" was abolished. **Here Polanyi claims that it was not so much the enactment of this law that led to suffering among the poor but the 'abruptness with which an institution of old standing (Speenhamland) was uprooted and a radical transformation rushed into effect.'** (p. 82).

3. **In the third period Polanyi makes the argument that now the danger ran in the opposite direction. It was no longer the fact that a market for labor did not exist and thus threatened the full bloom of a market economy, but the very ‘presence of a competitive labor market’ which became the new source of danger.’** (p. 83). Or in other words, “if Speenhamland had prevented the emergence of a working class, now the laboring poor were being formed into such a class by the pressure of an unfeeling mechanism.”

Not until **1834** was a competitive labor market established in England; hence, **industrial capitalism** as a social system cannot be said to have existed before that date. Yet almost immediately, the **self-protection** of society set in: **factory laws and social legislation, and a political and industrial working class movement sprang into being.** It was in this attempt to stave off the entirely new dangers of the market mechanism that **protective action** conflicted fatally with the self-regulation of the system. (p. 83).

It is no exaggeration to say that the social history of the 19th century was determined by the logic of the market system proper was after it was released by the Poor Law Reform Act of 1834. The starting point of this dynamic was the Speenhamland Law. (p. 83).

Polanyi concludes the chapter by saying that if we see in the study of Speenhamland the birth of 19th century civilization we come to realize that ‘our social consciousness was cast in its mold.’ What he means by this is that ‘the figure of the pauper’ unlocked a discussion that ‘uncovered the very existence of which had not been suspected, that of the laws governing a complex society.’ Polanyi claims that the form in which the newborn reality came to our consciousness was political economy. (p. 83-84).

Pauperism, political economy, and the discovery of society were closely interwoven. Pauperism fixed attention on the **incomprehensible fact that poverty seemed to go with plenty.** Yet this was only the first of the baffling paradoxes with which industrial society was to confront modern man. (p. 83).

...it was in relation to **the problem of poverty** that people began to explore the meaning of life in a complex society. The induction of political economy into the realm of the universal happened in **two opposite perspectives,** the of progress and perfectibility on the one hand, determinism and damnation on the other; its translation into practice was also achieved in two opposite ways, through the principle of harmony and self-regulation on the one hand, competition and conflict on the other. **Economic liberalism** and the class concept were **preformed** in these contradictions. With the finality of an elemental event, **a new set of ideas entered our consciousness.** (p. 85).

Chapter Eight: Antecedents and Consequences:

In the opening of this chapter Polanyi is most concerned with the **mercantile system of labor organization** in England. He notes that the **Statute of Artificers** (which dealt with the employed) and the **Poor Law** (which Polanyi notes is somewhat of a misnomer as it dealt with all those who had an insufficient income to keep them in leisure) together provided what might be called a Code of Labor. (p. 86-87).

Polanyi now discusses how the Poor Law was administered locally; every parish – a tiny unit – had its own provisions for setting the able-bodied to work; for maintaining a poorhouse; for apprenticing orphans and destitute children; for caring for the aged and the infirm; for the burial of paupers; and every parish had its own scale of rates (rates are what we would now call welfare). (p. 87).

Polanyi says that the application of this law was by no means perfect, but the Poor Law authorities ‘managed to keep the social fabric of village life unbroken and undamaged.’ (p. 88).

Now Polanyi introduces another law – the Act of Settlement and Removal – which basically restricted labor to their home parishes. The reason for this law, ostensibly, was that some parishes were better than others and the authorities didn't want paupers flocking to the better ones and swamping them with new demands they could not handle. (p. 88).

In 1795 the Act of Settlement and Removal (originally passed in 1662 and hated by Adam Smith because this restricted labor mobility) was repealed thus abolishing parish serfdom. Polanyi says that but for Speenhamland, which was passed in the same year of the repeal, a labor market could have been established on a national scale. And herein lays the contradiction:

...the Act of Settlement was being repealed because the Industrial Revolution demanded a national supply of laborers who would offer to work for wages, while Speenhamland proclaimed the principle that no man need fear to starve and that the parish would keep him and his family however little he earned. (p. 89).

Again, the purpose of Speenhamland was to protect the village against social dislocation and Polanyi argues that while this was largely successful, this policy endangered society in a new way (not allowing for the full development of the market economy). (p. 89).

Now the chapter takes a turn and focuses more on rural pauperism and its connection to world trade. Polanyi begins this discussion with the following clarification:

Up to 1785 the English public was unaware of any major change in economic life, except for a fitful increase of trade and the growth of pauperism. Where do the poor come from? was the question raised by a bevy of pamphlets which grew thicker with the advancing century. (p. 90).

Polanyi now goes over the various reasons given for the increase in the poor (some extremely ridiculous) but says that the key point in all this thought was that pauperism was regarded as a unique phenomenon, 'a social disease which was caused by a variety of reasons, most of which became active only through the failure of the Poor Law to apply the right remedy. (p. 91).

Polanyi argues that the real reason for the rise in pauperism was unemployment. (p. 91).

Polanyi then briefly touches upon the social damage done to England's countryside by the Revolution in Agriculture which preceded the Industrial Revolution. According to Polanyi, "both enclosures of the common and consolidations into compact holdings...had an unsettling effect...the rationalization of agriculture inevitably uprooted the laborer and undermined his social security." (p. 92).

Polanyi then discusses the scourge of fluctuating employment in the more urban centers. The key point here is merely to show that both in the countryside and in urban centers unemployment was becoming a serious problem. Right about this time we start to get theorizations about overpopulation. For instance, William Townsend warned in his Dissertation on the Poor Laws: that England had more people than it could feed. (p. 92-93).

Polanyi then returns to the Speenhamland Law and argues that this device was implemented to protect the rural setting against social dislocation. (p. 95).

And yet the criticism of Speenhamland became more and more violent owing to the fact, so it appears, that the dehumanization of the masses began to paralyze national life, and notably to constrain the energies of industry itself. (p. 98).

Speenhamland was an automaton for demolishing the standards on which any kind of society could be based...it put a premium on the shirking of work and the pretence of inadequacy...it increased the attraction of pauperism precisely at the juncture when a man was striving to escape the fate of the destitute. (p. 99).

The abolishment of Speenhamland was the true **birthday of the modern working class**, whose immediate self-interest destined them to become the protectors of society against the intrinsic dangers of a machine civilization. But whatever the future had in store for them, **working class and market economy appeared in history together**. (p. 101).

Polanyi concludes the chapter with the following:

In 1834 industrial capitalism was ready to be started, and Poor Law Reform was ushered in...The mechanism of the market was asserting itself and clamoring for its completion: human labor had to be made a commodity. **Reactionary paternalism** had in vain tried to resist this necessity (through Speenhamland). Out of the horrors of Speenhamland men rushed blindly for the shelter of a utopian market economy. (p. 102).

Chapter Nine: Pauperism and Utopia:

Polanyi opens this chapter with the claim that the problem of poverty centered on pauperism and political economy and the impacts each had on modern consciousness. Though Polanyi distinguishes the two, he says that they ‘formed part of one indivisible whole: the discovery of society.’ (p. 103).

Up to the time of Speenhamland no satisfactory answer could be found to the question of **where the poor came from**. It was, however, generally agreed among 18th century thinkers that pauperism and progress were inseparable. **The greatest number of poor is not to be found in barren countries or amidst barbarous nations, but in those which are the most fertile and the most civilized, wrote John M’Farlane, in 1782.** (p. 103).

Polanyi then notes how during this period of misery and plenty, a period that Polanyi notes was merely transitory; the theoretical system of economists was built. In other words, what Polanyi is saying here is that the work of Malthus, Ricardo, and James Mill for instance, was written in a given historical context and was later extended as a universal science to be applied everywhere and for always. (p. 104).

It was in the first half of the 16th century that the poor first appeared in England; they became conspicuous as individuals unattached to the manor, “or to any feudal superior” and their gradual transformation into a class of free laborers was the combined result of the fierce persecution of vagrancy and the fostering of domestic industry which was powerfully helped by a continuous expansion of foreign trade. (p. 104).

The rest of the chapter is an overview of thought on what to do with the poor. Here Polanyi discusses the Quaker Bellers, Carey, and Bentham among others, and their schemes to make pauperism pay. Interestingly, ‘there was yet no standard view of poverty’ **at this time** ‘nor any accepted way of making profits out of the poor.’ (p. 108).

The economic reason why no money could be made out of the paupers should have been no mystery. It was given almost 150 years before by Daniel Defoe whose pamphlet, published in 1704, stalled the discussion started by Bellers and Locke. **Defoe insisted that if the poor were relieved, they would not work for wages; and that if they were put to manufacturing goods in public institutions, they would merely create more unemployment in private manufactures.** (p. 108).

But at the time of Speenhamland the true nature of pauperism was still hidden from the minds of men...Pauperism had become a portent. But its meaning was still anybody's guess. (p. 110).

Chapter Ten: Political Economy and the Discovery of Society:

The chapter opens with the following difference between the period in which Adam Smith wrote, and that of Townsend's:

The change of atmosphere from Adam Smith to Townsend was, indeed, striking. The former marked the close of an age which opened with the inventors of the state, Thomas More and Machiavelli, Luther and Calvin; the latter belonged to the 19th century in which Ricardo and Hegel discovered from opposite angles the existence of a society that was not subject to the laws of the state, but on the contrary, **subjected the state to its own laws.** (p. 111).

Polanyi first discusses Adam Smith and notes how while Smith was concerned with the question of wealth, he could only do so because he understood that wealth was created within a given political framework:

There is no intimation in his work that the **economic interests of the capitalists laid down the law to society**; no intimation that they were the secular spokesmen of the divine providence which governed the economic world as a separate entity. The economic sphere, with him, is not yet subject to laws of its own that provide us with a standard of good and evil. (p. 111-112).

He also adds that Smith understood that political economy should be a human science; it should deal with that which was natural to man, not to Nature. (p. 112).

Polanyi now contrasts Smith's work with Townsend's *Dissertation*. This paper centered on the theorem of the goats and the dogs. The scene is Robinson Crusoe's island in the Pacific Ocean, off the coast of Chile. The story goes that Juan Fernandez landed a few goats who multiplied in at a Biblical rate so Juan could have plenty of food when visitors came. This was a source of food for pirates who were ruining Spanish trade, so Spain dropped off some wild dogs on the island. They also multiplied and ate the goats, diminishing the population of the goats and thus the supply of food. Fewer pirates came to the island. Anyway, the point is that out of this we get the proposition that 'it is the quantity of food which regulates the number of the human species.' (p. 112-113).

This of course was a fictional story, but Polanyi notes that this didn't stop it from being influential – **especially to Darwin and Malthus.** But the really important part in Townsend's piece was his notice that 'hunger will tame the fiercest of animals' **and it is the only thing that will spur the poor to labor.** (p. 113).

According to Polanyi, this was a completely new starting point for political science: **by approaching human community from the animal side.** (p. 114). **Polanyi then follows this logic noting its consequences:**

Hobbes had argued the need for a despot because men were like beasts; Townsend insisted that they were actually beasts and that, precisely for that reason, only a minimum of government was required. **From this point of view, a free society could be regarded as consisting of two races: property owners and laborers. The number of the latter was limited by the amount of food; and as long as property was safe, hunger would drive them to work...hunger was a better disciplinarian than the magistrate.** (p. 114).

...thus it came to pass that **economists presently relinquished Adam Smith's humanistic foundations, and incorporated those of Townsend.** (p. 115).

Polanyi now notes that economic society was now emerging as ‘distinct from the political state’ when in the past ‘no human community had yet been conceived of which was not identical with law and government.’ (p. 114-115).

The paradigm of the goats and the dogs seemed to offer an answer as to how to maintain order and balance for the human collective. The biological nature of man appeared as the given foundation of a society that was not of a political order. (p. 115).

Since the emerging society was no other than the market system, human society was now in danger of being shifted to foundations utterly foreign to the moral world of which the body politic hitherto had formed part. **The apparently insoluble problem of pauperism was forcing Malthus and Ricardo to endorse Townsend’s laps into naturalism.** (p. 116).

The laws of commerce were the laws of nature and consequently the laws of God. (p. 117).

...*laissez-faire* was simply a principle of the ensurance of law and order, with the minimum cost and effort. Let the market be given charge of the poor, and things will look after themselves. (p. 117).

The **discovery of economics** was an astounding revelation which hastened greatly the transformation of society and the establishment of a market system, while the decisive machines had been the inventions of uneducated artisans some of whom could hardly read or write. (p. 119).

Bentham’s Panopticon was not only a ‘mill to grind rogues honest, and idle men industrious’; it would also pay dividends like those of the Bank of England. (p. 121).

What induced orthodox economics to seek its foundations in naturalism was the otherwise inexplicable misery of the great mass of the producers which, as we know today, could never have been deduced from the laws of the old market. (p. 123).

Polanyi then moves to discuss this point above. The most important point he suggests is that ‘economic society was subjected to laws which were not human laws. The rift between Adam Smith and Townsend had broadened into a chasm...(p. 125).

Polanyi then turns to Owen as an exceptional thinker of the times who rejected both naturalism and the denial of society. Owen argued that if market institutions were not checked by conscious social direction made effective through legislation, these institutions would produce grave evils. (p. 129).

...the self-protection of society...would prove incompatible with the functioning of the economic system itself. Polanyi notes that Owen did not foresee this. (p. 129).

II. Self-Protection of Society

Chapter Eleven: Man, Nature, and Productive Organization:

For a century the dynamics of modern society was governed by a **double movement**: the market **expanded continuously** but this movement was met by a counter-movement **checking the expansion** in definite directions. Vital though such a counter-movement was for the protection of society, in the last analysis it was incompatible with the self-regulation of the market, and thus with the market system itself. (p. 130).

Polanyi then goes over how a market economy works and notes that:

...while production could theoretically be organized in this way, the commodity fiction disregarded the fact that leaving the fate of social and people to the market would be tantamount to **annihilating them**. Accordingly, the countermove consisted in checking the action of the market in respect to the factors of production, labor, and land. This was the **main function of interventionism** (p. 131).

...if factory legislation and social laws were required to protect industrial man from the implications of the commodity fiction in regard to labor power, if land laws and agrarian tariffs were called into being by the necessity of protecting natural resources and the culture of the countryside against the implications of the commodity fiction in respect to them, it was equally true that central banking and the management of the monetary system were needed to keep manufactures and other productive enterprises safe from the harm involved in the commodity fiction as applied to money. (p. 132).

Paradoxically enough, not human beings and natural resources only but also **the organization of capitalistic production itself had to be sheltered from the devastating effects of a self-regulating market**. (p. 132).

Let us return to what we have called the double movement. It can be **personified** as the action of two organizing principles in society, each of them setting itself specific institutional aims, having the support of definite **social forces** and using its own distinctive methods. The one was the **principle of economic liberalism**, aiming at the establishment of a self-regulating market, relying on the support of the trading classes, and using largely laissez-faire and free trade as its methods; the other was the **principle of social protection** aiming at the conservation of man and nature as well as productive organization, relying on the varying support of those most immediately affected by the deleterious action of the market - primarily, but not exclusively, the working and the landed classes - and using protective legislation, restrictive associations, and other instruments of intervention as its methods. (p. 132).

The trading classes had **no organ to sense** the dangers involved in the exploitation of physical strength of the worker, the destruction of family life, the devastation of neighborhoods, the denudation of forests, the pollution of rivers, the deterioration of craft standards, the disruption of folkways, and the general degradation of existence including housing and arts, as well as the innumerable forms of private and public life that do not affect profits. (p. 133).

Society itself was endangered by the fact that the contending parties (working versus trading class) were making government and business, state and industry, respectively, their strongholds. Two vital functions of society, the political and economic, were being used and abused as weapons in a struggle for sectional interests. It was out of such a perilous deadlock that in the 20th century **the fascist crisis** sprang. (p. 133).

Chapter Twelve: Birth of the Liberal Creed:

Polanyi opens with the following statement: Economic liberalism was the organizing principle of a society engaged in creating a market system. Born as a mere penchant for non-bureaucratic methods, it evolved into a veritable faith in man's secular salvation through a self-regulating market. (p. 135).

Only by the 1820's did [economic liberalism] stand for the three classical tenets: that labor should find its price on the market; that the creation of money should be subject to an automatic mechanism; that goods should be free to flow from country to country without hindrance or preference; in short, for a labor market, the gold standard, and free trade. (p. 135).

Not until the 1830's did economic liberalism burst forth as a crusading passion, and *laissez-faire* become a **militant creed**. The manufacturing class was pressing for the amendment of the Poor Law, since it prevented the rise of an industrial working class which depended for its income on achievement. (p. 137).

Polanyi then discusses how the competitive labor market (newly created), the automatic gold standard and international free trade were all needed in order for a market economy to work. Drop one of these elements, and the entire edifice will come tumbling down (p. 138):

The expansion of the market system in the 19th century was synonymous with the simultaneous spreading of international free trade, competitive labor market, and gold standard; they belonged together. No wonder that economic liberalism turned into a secular religion once the great perils of this venture were evident. (p. 139).

There was **nothing natural about *laissez-faire***; free markets could never have come into being merely by allowing things to take their course. Just as cotton manufactures – the leading free trade industry – were created by the help of protective tariffs, export bounties, and indirect wage subsidies, *laissez-faire* itself was **enforced by the state**. (p. 139).

To the typical utilitarian, economic liberalism was a social project which should be put into effect for the greatest happiness of the greatest number; ***laissez-faire* was not a method to achieve a thing, it was the thing to be achieved**. (p. 139).

For the record: brief passage on Bentham's Panopticon on 140.

The road to the free market was opened and kept open by an enormous increase in continuous, centrally organized and **controlled interventionism**. **To make Adam Smith's "simple and natural liberty" compatible with the needs of a human society was a most complicated affair**. Polanyi then lists some initiatives carried out by public administrators and notes that the introduction of free markets, far from doing away with the need for control, regulation, and intervention, enormously increased their range (p. 140).

While *laissez-faire* economy was the product of deliberate state action, subsequent restrictions on *laissez-faire* started in a spontaneous way. ***Laissez-faire* was planned; planning was not**. (p. 141).

Realizing the contentiousness of this claim Polanyi then notes that:

Economic liberals must strongly take exception to this view. Their whole social philosophy hinges on the idea that *laissez-faire* was a natural development, while subsequent anti-*laissez-faire* legislation was the result of a purposeful action on the part of the opponents of liberal principles. In these **two mutually exclusive interpretations of the double movement** (for instance see Hayek), it is not too much to say, the truth or untruth of the liberal position is involved today. (p. 141).

While in our view the concept of self-regulating market was utopian, and its progress was stopped by the realistic self-protection of society, in their view (Polanyi here mentions Spencer and Sumner, Mises and Lippmann), all protectionism was a mistake due to impatience, greed, and shortsightedness, but for which the market would have resolved its difficulties. **The question as to which of these two views is correct is perhaps the most important problem of recent social history, involving as it does not less than a decision on the claim of economic liberalism to be the basic organizing principle of society**. (p. 142).

In retrospect our age will be credited with having seen the **end of the self-regulating market**. The 1920's saw the prestige of economic liberalism at its height. (p. 142).

The thirties lived to see the absolutes of the twenties called in question...International debts were repudiated wholesale and the tenets of economic liberalism were disregarded by the wealthiest and the most respectable. (p. 142).

Its [principle of laissez-faire] spectacular failure in one field did not destroy its authority in all. Indeed, its partial eclipse may be have even strengthened its hold since it enable its defenders to argue that the incomplete application of its principles was the reason for every and any difficulty laid to its charge. (p. 143). THE ABANDONED ROAD THESIS.

This, indeed, is **the last remaining argument of economic liberalism today**. Its apologists are repeating in endless variations that but for the policies advocated by its critics, liberalism would have delivered the goods; that not the competitive system and the self-regulating market, but **interference with that system and interventions with that market are responsible for our ills**. And this argument does not find support in innumerable recent infringements of economic freedom only, but also in the indubitable fact that the movement to spread the system of self-regulating markets was met in the second half of the 19th century by a persistent countermove obstructing the free working of such an economy. (p. 143).

The economic liberal is thus enabled to formulate a case which links the present with the past in one coherent whole. For who could deny that government intervention in business may undermine confidence? (p. 143).

The root of all evil, the liberal insists, was precisely this interference with the freedom of employment, trade, and currencies practiced by the various schools of social, national, and monopolistic protectionism since the third quarter of the nineteenth century; but for the unholy alliance of trade unions and labor parties with monopolistic manufacturers and agrarian interests, which in their shortsighted greed joined forces to frustrate economic liberty, *the world would be enjoying today the fruits of an almost automatic system of creating material wealth.* (p. 144).

Liberal leaders never weary of repeating that the tragedy of the nineteenth century sprang from the incapacity of man to remain faithful to the inspiration of the early liberal; that the generous initiative of our ancestors was frustrated by the passions of nationalism and class war, vested interests, and monopolists, and above all, by the blindness of the working people to the ultimate beneficence of unrestricted economic freedom to all human interests, including their own. A great intellectual and moral advance, was thus, it is claimed, frustrated by the intellectual and moral weakness of the mass of the people; what the spirit of Enlightenment had achieved was put to nought by the forces of selfishness. In a nutshell, this is the **economic liberal's defense. Unless it is refuted, he will continue to hold the floor in the contest of arguments.** (p. 144).

Now Polanyi tries to focus the issue:

It is agreed that the liberal movement, intent on the spreading of the market system, was met by a protective counter-movement tending towards its restriction; such an assumption, indeed, underlines our own thesis of the double movement. But while we assert that the inherent absurdity of the idea of a self-regulating market system would have eventually destroyed society, the liberal accuses the most various elements of having wrecked a great initiative. (p. 144-5).

Unable to adduce evidence of any such concerted effort to thwart the liberal movement, [the liberal] falls back on the practically irrefutable hypothesis of covert action. This is the myth of the anti-liberal conspiracy which in one form or another is common to all liberal interpretations of the events of the 1870s and 1880s. (p. 145).

The great variety of forms in which the ‘collectivist’ countermovement appeared was not due to any preference for socialism or nationalism on the part of concerted interests, but exclusively to the broader range of the **vital social interests** affected by the expanding market mechanism. (p. 145).

Although it is true that the 1870's and 1880's saw the end of orthodox liberalism, and that all crucial problems of the present can be traced back to that period, it is incorrect to say that the change to social and national protectionism was due to any other cause than the manifestation of the weaknesses and **perils inherent in a self-regulating market system**. (p. 145).

Polanyi argues that this can be shown in more than one way and address some liberal interpretations of the crisis of liberalism. I simply highlight the four points he notes below:

1. There is amazing diversity of the matter on which action was taken (hence, it wasn't concerted/uniform as the liberals claim). (p. 145).
2. The change from liberal to ‘collectivist’ solutions happened sometimes over night and without any consciousness on the part of those engaged in the process of legislative rumination. (p. 146).
3. There is indirect, but most striking proof provided by a comparison of the development in various countries of a widely dissimilar political and ideological configuration. (p. 147).
4. There is significant fact that at various times economic liberals themselves advocated restrictions on the freedom of contract and on laissez-faire in a number of well-defined cases of great theoretical and practical importance. (p. 148).

In other words, if the needs of a self-regulating market proved incompatible with the demands of laissez-faire, the economic liberal turned against laissez-faire and preferred - as any anti-liberal would have done- the so called collectivist methods of regulation and restriction. (p. 148).

Now Polanyi offers us a sweeping critique of liberal interventionism:

...this is far from saying that market system and intervention are mutually exclusive terms. For as long as that system is not established, economic liberals must and will unhesitatingly call for the intervention of the state in order to establish it, and once established, in order to maintain it. The economic liberal can, therefore, without any inconsistency call upon the state to use the force of law; **he can even appeal to the violent forces of civil war to set up the preconditions of a self-regulating market**...The accusation of interventionism on the part of liberal writers is thus an empty slogan, implying the denunciation of one and the same set of actions according to whether they happen to approve of them or not. The only principle economic liberals can maintain without inconsistency is that of the self-regulating market, whether it involves them in interventions or not. (p. 149).

Even free trade and competition required intervention to be workable. (p. 150).

For if market economy was a threat to the human and natural components of the social fabric, as we insisted, what else would one expect than an urge on the part of a great variety of people to press for some sort of protection? This was what we found. (p. 150).

Chapter Thirteen: Birth of the Liberal Creed (continued) Class Interest and Social Change:

Polanyi opens the chapter by arguing that the liberal myth of the collectivist conspiracy, which holds that protectionism, was merely the result of sinister interest of agrarians, manufactures, and trade unionists, who selfishly wrecked the automatic machinery of the market, stands in our way of understanding the true basis of 19th century policies. (p. 151).

Here, Polanyi argues that if we make class our central subject, we end up vindicating the liberal since the liberal points to opposing classes as well as Marxists for the protectionism that eventually thwarted the market. (p. 151).

To focus solely on class, says Polanyi, we obstruct ‘an overall view of market society, and of the function of protectionism in such a society.’ (p. 152).

Here Polanyi seems to suggest that ‘mere class interests’ cannot offer a satisfactory explanation for any long-run social process since the challenge (of social change) is to society as a whole; the response come through groups, sections, and classes. (p. 152).

Though human society is naturally conditioned by economic factors, the motives of human individuals are only exceptionally determined by the needs of material want-satisfaction. (p. 153).

The classes and groups which intermittently took part in the general movement towards protectionisms after 1870 **did not do so** primarily on account of their economic interests. (p. 153).

Once we rid of the obsession that only sectional, never general, interests can become effective, as well as of the twin prejudice of restricting the interests of human groups to their monetary income, the breadth and comprehensiveness of the **protectionist movement** lose their mystery. (p. 154).

Precisely because not the economic but the social interests of different cross sections of the population were threatened by the market, persons belonging to various economic strata unconsciously **joined forces** to meet the danger. (p. 155).

...if the rise of the industrialists, entrepreneurs, and capitalists was the result of their leading role in the expansionist movement (of the market system), the defense fell to the traditional landed classes and the nascent working class. And if among the trading community it was the capitalists’ lot to stand for the structural principles of the market system, the role of the die-hard defender of the social fabric was the portion of the feudal aristocracy on the one hand, the rising industrial proletariat on the other. (p. 155).

...it is the relation of a class to society as a whole which maps out its part in the drama; and its success is determined by the breadth and variety of the interests, other than its own, which it is able to serve. (p. 156).

In order to fix safely the blame on the alleged collectivist conspiracy, **economic liberals must ultimately deny that any need for the protection of society had arisen.** (p. 156).

...the elemental force of culture contact, which is now revolutionizing the colonial world, is the same which, a century ago, created the dismal scenes of early capitalism. (p. 158).

...the cultural catastrophe of black society today is closely analogous to that of a large part of white society in the early days of capitalism. (p. 159).

Nothing obscures our social vision as effectively as economic prejudice. So persistently has exploitation been put into the forefront of the colonial problem that the point deserves special attention...Yet it is precisely this

emphasis put on exploitation which tends to hide from our view the even greater issue of **cultural degeneration**. (p. 159).

The catastrophe of the native community is a direct result of the rapid and violent disruption of the basic institutions of the victim...These institutions are disrupted by the very fact that a market economy is foisted upon an entirely differently organized community; labor and land are made into commodities, which, again, is only a short formula for the liquidation of every and any cultural institution in an organic society. (p. 159).

Briefly, not single groups or classes were the source of the so-called collectivist movement, though the outcome was decisively influenced by the character of the class interests involved. Ultimately, what made things happen were the interests of society as a whole, though their defense fell primarily to one section of the population in preference to another. It appears reasonable to group our account of the protective movement not around class interests but around the **social substances** imperiled by the market. (p. 162).

Markets for labor, land, and money are easy to distinguish; but it is not so easy to distinguish those parts of a culture the nucleus of which is formed by human beings, their natural surroundings, and productive organizations, respectively. (p. 162).

Chapter Fourteen: Market and Man:

Polanyi opens with the following remark:

To separate labor from other activities of life and to subject it to the laws of the market was to annihilate all organic forms of existence and to replace them by a different type of organization, an atomistic and individualistic one. Such a scheme of destruction was best served by the application of the principle of freedom of contract. (p. 163).

The natives are to be forced to make a living by selling their labor. To this end their traditional institutions must be destroyed, and prevented from re-forming, since, as a rule, the individual in primitive society is not threatened by starvation unless the community as a whole is in a like predicament. (p. 163).

It is the absence of the threat of individual starvation which makes primitive society, in a sense, more human than market economy, and at the same time less economic. Ironically, the white man's initial contribution to the black man's world mainly consisted in introducing him to the uses of **the scourge of hunger**. (p. 164).

Thus the colonists may decide to cut the breadfruit trees down in order to create an artificial food scarcity or may impose a hut tax on the native to force him to barter away his labor. In either case the effect is similar to that of Tudor enclosures with their wake of vagrant hordes. (p. 164).

Now, what the white man may still occasionally practice in remote regions today, namely, the smashing up of social structures in order to extract the element of labor from them, was done in the 18th century to white populations by white men for similar purposes. (p. 164).

The protection of society, in the first instance, falls to the rulers, who can directly enforce their will. However, it is all too easily assumed by economic liberals that **economic rulers** tend to be beneficial, while **political rulers do not**. (p. 165).

In the remainder of the chapter Polanyi discusses Owensim and the Chartist Movement (demanded popular suffrage).

He concludes with the following:

To argue that social legislation, factory laws, unemployment insurance, and, above all, trade unions have not interfered with the mobility of labor and the flexibility of wages, as is sometimes done, is to imply that those institutions have entirely failed in their purpose, which was exactly that of interfering with the laws of supply and demand in respect to human labor, and removing it from the orbit of the market. (p. 177).

Chapter Fifteen: Market and Nature:

Traditionally, land and labor are not separated; labor forms part of life, and land remains part of nature, life and nature form an articulate whole. (p. 178).

...to separate land from man and organize society in such a way as to satisfy the requirements of a real-estate market was a vital part of the utopian concept of a market economy. (p. 178).

...it is in the field of modern colonization that the true significance of such a venture becomes manifest. Whether the colonist needs land as a site for the sake of the wealth buried in it, or whether he merely wished to constrain the native to produce a surplus of food and raw materials, is often irrelevant...for in every and any case the social and cultural system of native life must be first shattered. There is close analogy between the colonial situation today and that of Western Europe a century or two ago. (p. 178).

...stages in the subordination of the surface of the planet to the needs of an industrial society:

1. The commercialization of the soil, mobilizing the feudal revenue of the land.
2. The forcing up of the production of food and organic raw materials to serve the needs of a rapidly growing industrial population on a national scale.
3. The extension of such a system of surplus production to overseas and colonial territories. With this step, land and its produce were finally fitted into the scheme of a self-regulating world market. (p. 179).

...between 1830 and 1860, freedom of contract was extended to the land. This powerful trend radically reversed only in the 1870's when legislation altered its course radically. The 'collectivist' period had begun. (p. 182).

Presently, the problem of protection arose in regard to the agricultural populations of whole countries and continents. International free trade, if unchecked, must necessarily eliminate ever-larger compact bodies of agricultural producers. (p. 182).

But if the organized states of Europe could protect themselves against the backwash of international free trade, the politically unorganized colonial peoples could not. **The revolt against imperialism was mainly an attempt on the part of exotic peoples to achieve the political status necessary to shelter themselves from the social dislocations caused by European trade policies.** (p. 183).

...economic liberalism was wedded to the liberal state...(p. 185).

The stupendous industrial achievements of market economy had been bought at the price of great harm to the substance of society. The feudal classes found therein an occasion to retrieve some of their lost prestige by turning advocates of the virtues of the land and its cultivators. (p. 186).

...in Germany as in Italy, the story of the immediate post-war period proved that Bolshevism had not the slightest chance of success. But it also showed conclusively that in an emergency the working class, its trade unions and parties, **might disregard the rules of the market** which established freedom of contract and the sanctity of

private property as absolutes – a possibility which just have the most deleterious effects on society, discouraging investments, preventing the accumulation of capital, keeping wages on an unremunerative level, endangering the currency, undermining foreign credit, weakening confidence and paralyzing enterprise. Not the illusionary danger of a communist revolution, but the **undeniable fact that the working classes** were in the position to force possibly ruinous interventions, was the source of the latent fear which, at a crucial juncture, **burst forth in the fascist panic**. (p. 190).

Chapter Sixteen: Market and Productive Organization:

Polanyi opens with the following remark:

Even capitalist business itself had to be sheltered from the unrestricted working of the market mechanism. (p. 192).

The need for protection arose on account of the manner in which the supply of money was organized under a market system. Modern central banking, in effect, was essentially a device developed for the purpose of offering protection without which the market would have destroyed its own children, the business enterprises of all kinds. Eventually, however, it was this form of protection which contributed most immediately to the downfall of the international system. (p. 192).

But in the expansion of production and trade unaccompanied by an increase in the amount of money must cause a fall in the price level- precisely the type of ruinous deflation which we have in mind. (p. 193).

Yet nothing else but commodity money could serve this end for the obvious reason that token money, whether bank or fiat, cannot circulate on foreign soil. Hence, the gold standard – the accepted name for a system of international commodity money – came to the fore. (p. 193).

...commodity money was vital the existence of foreign trade; token money, to the existence of domestic trade. (p. 193).

With money, the threat was to productive enterprise, the existence of which was imperiled by any fall in the price level caused by the use of commodity money. (p. 195).

A new set of ruling ideas superseded the world of the self-regulating market. To the stupefaction of the vast majority of contemporaries, unsuspected forces of charismatic leadership and autarchist isolationism broke forth and fused societies into new forms. (p. 200).

Chapter Seventeen: Self-Regulation Impaired:

...a self-regulating market system implies something very different, namely, markets for the elements of production – labor, land, and money. Since the working of such markets threatens to destroy society, the self-preserving action of the community was meant to prevent their establishment or to interfere with their free functioning, once established. (p. 201).

America has been adduced by economic liberals as conclusive proof of the ability of a market economy to function. Polanyi argues that this might hold true for a time since the US was still expanding westward and a free supply of land, labor and money continued to be available...As soon as these conditions ceased to exist, social protection set in:

As the lower ranges of labor could not any more be freely replaced from an inexhaustible reservoir of immigrants, while its higher ranges were unable to settle freely on the land; as the soil and natural resources became scarce and had to be husbanded; as the gold standard was introduced in order to remove the currency from politics and to link domestic trade with that of the world, the US caught up with a century of European development: protection of the soil and its cultivators, **social security** for labor through unionism and legislation, and central banking – all on the largest scale – made their appearance. (p. 202).

How far the state was induced to interfere depended on the constitution of the political sphere and on the degree of economic distress. **As long as the vote was restricted** and only the few exerted political influence, interventionism was a much less urgent problem than it became **when universal suffrage made the state the organ of the ruling million** – the identical million who, in the economic realm, had often to carry in bitterness the burden of the ruled. And as long as employment was plentiful, incomes were secure, production was continuous, living standards were dependable, and prices were stable, interventionist pressure was naturally less than it became when protracted slumps made industry a wreckage of unused tools and frustrated efforts. (p. 206).

Now Polanyi talks about national disparity in wealth-producing capacity (uneven development), liberal theory, and the repayment of national debts:

The world market mechanism could not afford to run such risks (repudiation of foreign debt). Instead, gunboats were dispatched on the spot and the defaulting government, whether fraudulent or not, faced with the alternative of bombardment or settlement. (p. 207).

But the more often repayments **were made only under the threat of armed intervention**, the more often trade routes were kept open only with the help of gunboats, the more often **trade followed the flag**, while the flag followed the needs of invading governments, the more patent it became that political instruments had to be used in order to maintain equilibrium in world economy. (p. 208).

Chapter Eighteen: Disruptive Stains:

From such uniformity of underlying institutional arrangements derived the intriguing similarity in the pattern of events which in the half century 1879-1929 was spread out over an enormous expanse. (p. 209).

...the similarity concerned the function of concrete events in the historical context of life, the time-bound component of collective existence. An analysis of these typical strains and stresses should reveal much of the mechanism that produced the singularly uniform pattern of history during this period. (p. 209).

The strains can be readily grouped according to the main institutional spheres...the typical scourge of unemployment...the tension of classes, the pressure on exchanges...imperialist rivalries. (p. 209).

While in the imagination of the 19th century engaged in constructing the liberal utopia, in reality it was handling over things to a definite number of concrete institutions the mechanism of which ruled the day. (p. 211).

But in vain would one seek in liberal literature for anything in the nature of an explanation for the patent facts. **An unending stream of abuse of the governments, politicians, and states-men whose ignorance, ambition, greed, and shortsighted prejudice were supposedly responsible for the consistently followed policies of protectionism in an 'overwhelming majority' of countries was the only answer...**Not since the Schoolmen's defiance of the empirical facts of science was sheer prejudice displayed in so fearful array. The only intellectual response was the supplement the myth of the protectionist conspiracy by the myth of imperialist craze. (p. 211).

The liberal argument, in so far as it became articulate, asserted that sometime in the 1880s imperialist passions began to stir in the Western countries, and destroyed the fruitful work of economic thinkers by their emotional appeal to tribal prejudice. (p. 211).

Only in narrowly defined cases were diplomatic representatives supposed to be active on behalf of the private interests of their nationals, and the surreptitious extension of these occasions was publicly denied, and if proven, reprimanded accordingly. Not only at home but also abroad, the principle of non-intervention of the state in the affairs of private business was maintained. (p. 213).

...**foreign investments** were still deemed a gamble, and the frequent total losses incurred by investors were regarded as amply compensated for by the scandalous terms of **usurious lending**. (p. 213).

...to expect that a community would remain indifferent to the scourge of unemployment, the shifting of industries and occupations and to the moral and psychological torture accompanying them, merely because economic effects, in the long run, might be negligible, was to assume an absurdity. (p. 215).

Since the purpose of the intervention was to rehabilitate the lives of men and their environment, to give them some **security** of status, intervention necessarily aimed at reducing the flexibility of wages and the mobility of labor, giving stability to incomes, continuity to production, introduction public control of national resources, and the management of currencies in order to avoid unsettling changes in the price level. (p. 216).

Economic imperialism was mainly a struggle between the Powers for the privilege of extending their trade into politically unprotected markets. **What Polanyi means by this is that while (more or less) industrialized countries blocked their economies through high tariffs and could do so because they were military strong, the weaker nations could not enforce the same sort of protection – hence imperialism.** (p. 217).

...civilization was being disrupted by the blind action of **soulless institutions** the only purpose of which was the automatic increase of material welfare. But how did the inevitable actually happen? How was it translated into the political events which are the core of history? Into this final phase of the fall of market economy **the conflict of class forces entered decisively.** (p. 219).

Part Three Transformation in Progress

Chapter Nineteen: Popular Government and Market Economy:

The **fascist attack on popular democracy** merely revived the issue of political interventionism that haunted the history of market economy, since that issue was hardly more than another name for the separation of the economic from the political sphere. (p. 223).

Speenhamland had been justly described as a preventive act of intervention, obstructing the creation of a labor market...And still the demoralizing Speenhamland Law was spreading from county to county, deterring the laborer from honest work, and making the very concept of independent working man an incongruity. (p. 224).

The Poor Law Amendment of 1834...created an entirely new category of the poor, the unemployed who made their appearance on the social scene. **While the pauper, for the sake of humanity, should be relieved, the unemployed, for the sake of industry, should not be relieved.** That the unemployed worker was innocent of his fate did not matter. The point was not whether he might or might not have found work had he only really tried,

but that unless he was in danger of famishing with only the abhorred workhouse for an alternative, the wage system would break down, thus throwing society into misery and chaos. (p. 224).

When the Chartist Movement demanded entrance for the disinherited into the precincts of the state, the separation of economics and politics ceased to be an academic issue and became the irrefragable condition of the existing system of society. It would have been an act of lunacy to hand over the administration of the New Poor Law with its scientific methods of mental torture to the representatives of the self-same people for whom that treatment was designed...Sir Robert Peel called **the Charter an impeachment of the Constitution**. The more viciously the labor market contorted the lives of the workers, **the more insistently they clamored for the vote**. The demand for popular government was the political source of this tension. (p. 225).

Under these conditions **constitutionalism** gained an utterly new meaning. Until then constitutional safeguards against unlawful interference with the rights of property were directed only against arbitrary acts from above. Locke's vision did not transcend the limits of landed and commercial property, and aimed merely at excluding high-handed acts of the Crown such as the secularizations under Henry VIII, the robbing of the Mint under Charles I, or the 'stop' of the Exchequer under Charles II. Separation of government from business, in John Locke's sense, was achieved in an exemplary fashion in the charter of an independent Bank of England in 1694. Commercial capital had won its tilt against the crown. (p. 225).

A hundred years later not commercial but industrial property was to be protected, and not against the Crown but against the people. **Only by misconception could 17th century meanings be applied to 19th century situations**. The separation of power, which Montesquieu had meanwhile invented, was now used to separate the people from power over the own economic life. (p. 225).

The **American Constitution**, shaped in a farmer-craftman's environment by a leadership forewarned by the English industrial scene, isolated the economic sphere entirely from the jurisdiction of the Constitution, put private property thereby under the highest conceivable protection, and created the only legally grounded market society in the world. In spite of universal suffrage, American voters were powerless against owners. (p. 226).

In England it became the unwritten law of the Constitution that the working class must be denied the vote...the mere **demand for the ballot was often treated as a criminal act by the authorities**. (p. 226).

The Chartists had fought for the right to stop the mill of the market which ground the lives of the people. But the people were granted rights only when the awful adjustment had been made. **Inside and outside England, from Macaulay to Mises, from Spencer to Sumner, there was not a militant liberal who did not express his conviction that popular democracy was a danger to capitalism**. (p. 226).

Here also the 1920's were foreshadowed by the 1790's. Bentham was the first to recognize that inflation and deflation were interventions with the right of property: the former a tax on, the latter an interference with, business. (p. 226).

The French Revolution and its assignats showed that **the people might smash the currency**, and the history of **the American states didn't help to dispel that suspicion**. Burke identified American democracy with currency troubles and Hamilton feared not only factions but also inflation. But while in 19th century America the bickerings of populists and greenback parties with Wall Street magnates were endemic, in Europe the charge of inflationism became an effective argument against democratic legislatures only in the 1920's, with far-reaching political consequences. (p. 227).

Parties concerned for the safety of the currency protested as much against threatening budget deficits as against cheap money policies, thus opposing 'treasury inflation' as much as 'credit inflation' or, in more practical terms, denouncing social burdens and high wages, trade unions and labor parties. (p. 227).

...going off gold would have been deemed a sacrilege...(p. 228).

The financial markets govern by panic. The eclipse of Wall Street in the thirties saved the United States from a social catastrophe of the Continental type. (p. 229).

Indeed, the **utopian nature of a market society** cannot be better illustrated than by the absurdities in which the commodity fiction in regard to labor must involve the community. The strike, this normal bargaining weapon of industrial action, was more and more frequently felt to be a wanton interruption of socially useful work, which at the same time, diminished the social dividend out of which, ultimately, wages must come. Sympathy strikes were resented, general strikes were regarded as a threat to the existence of the community. (p. 230).

...the worker has no **security** in his job under as system of private enterprise, a circumstance which involved a grave deterioration in his status. (p. 231).

Economic liberalism made a supreme bid to restore the self-regulation of the system by eliminating all interventionist policies which interfered with the freedom of markets for land, labor, and money. (p. 231).

Socialism is, essentially, the tendency inherent in an industrial civilization to transcend the **self-regulating market by consciously subordinating it to a democratic society**...socialism is merely the continuation of that endeavor to make society a distinctively human relationship of persons which in Western Europe was always associated with Christian traditions. (p. 234).

...the mere possibility that [socialist policies] might decide to [interfere with the economy] undermines that type of confidence which in liberal economy is vital, namely, **absolute content of property rights might undergo redefinition** at the hands of legislation, assurance of formal continuity is essential to the functioning of the market system. (p. 234). Check BOOK for accuracy.

Chapter Twenty: History in the Gear of Social Change:

If there was a political movement that responded to the needs of an objective situation and was not a result of fortuitous cause it was fascism. (p. 237).

...it would everywhere produce sickness unto death. That is the manner in which civilizations perish. (p. 237).

The fascist solution of the impasse reached by liberal capitalism can be described as a reform of market economy achieved at the price of the extirpation of all democratic institutions, both in the industrial and in the political realm. (p. 237).

...there was no type of background – of religious, cultural, or national tradition – that made a country immune to fascism, once the conditions for its emergence were given. (p. 238).

...fascist tactics were invariably those of a sham rebellion arranged with the tacit approval of the authorities who pretended to have been overwhelmed by force. (p. 238).

Fascism, like socialism, was rooted in a market society that refused to function. (p. 239).

...fascism was a revolutionary tendency directed as much against conservatism as against the competing revolutionary force of socialism. (p. 240).

In its struggle for political power fascism is entirely free to disregard or to use local issues, at will. Its aims transcend the political and economic framework: it is social. It puts a political religion into the service of a degenerative process. In its rise it excludes only a very few emotion from its orchestra; yet once victorious it bars from the band wagon all but a very small group of motivations, though again extremely characteristic ones. (p. 241).

It was...after 1929...that the true significance of fascism became apparent. The deadlock of the market system was evident. Until then fascism had been hardly more than a trait in Italy's authoritarian government, which otherwise differed but little from those of a more traditional type. It now emerged as an alternative solution to the problem of an industrial society. (p. 243).

Russia turned to socialism under dictatorial forms. Liberal capitalism disappeared in the countries preparing for war like Germany, Japan, and Italy, and, to a lesser extent, also in the US and Great Britain. **But the emerging regimes of fascism, socialism, and the New Deal were similar only in discarding laissez-faire principles.** (p. 244).

While history was thus started on its course by an event external to all, the single nations reacted to the challenge according to whither they were bound. Some were averse to change; some went a long way to meet it when it came, some were indifferent. Also, they sought for solutions in various directions. Yet from the point of view of market economy these often radically different solutions merely **represented given alternatives.** (p. 244).

Chapter Twenty-One: Freedom in a Complex Society:

Polanyi opens the chapter by reminding the reader that 19th century civilization was destroyed by 'the measure which society adopted, or order not to be...annihilated by the action of the self-regulating market.' (p. 249).

If industrialism is not to **extinguish the race**, it must be subordinated to the requirements of man's nature. The true criticism of market society is not that it was based on economics...but that its economy was based on **self-interest**. Such an organization of economic life is entirely unnatural, in the strictly empirical sense of exceptional. 19th century thinkers assumed that in his economic activity **man strove for profit**, that his materialistic propensities would induce him to choose the lesser instead of the greater effort and to expect payment for his labor; in short, that in his economic activity he would tend to abide by what they described as economic rationality, and that all contrary behavior was the result of outside interference. It followed that markets were natural institutions, that they would spontaneously arise if only men were let alone. (p. 249).

...the market has been the outcome of **a conscious and often violent intervention** on the part of government which imposed the market organization on society for noneconomic ends. (p. 250).

Industrial civilization will continue to exist when the utopian experiment of **a self-regulating market will be no more than a memory.** (p. 250).

The restoration of the past is as impossible as the transferring of our troubles to another planet...**Within the nations we are witnessing a development under which the economic system ceases to lay down the law to society and the primacy of society over the system is secured...the market system will no longer be self-regulating, even in principles, since it will not comprise labor, land, and money.** (p. 250-1).

...the end of market society means in no way the absence of markets...(p. 252).

Institutions are embodiments of human meaning and purpose. We cannot achieve the freedom we seek, unless we comprehend the true significance of freedom in a complex society. (p. 254).

Though restriction applies to all, the privileged tend to resent it, as if it were directed solely against themselves. They talk of slavery, while in effect only an extension to the others of the vested freedom they themselves enjoy is intended. (p. 254).

The passing of market-economy can become the beginning of an era of unprecedented freedom. (p. 256).

With the **liberal idea of freedom** thus degenerates into a mere advocacy of free enterprise – which is today reduced to a fiction by the hard reality of giant trusts and princely monopolies. This means that fullness of freedom for those whose **income, leisure, and security** need no enhancing, and 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.** (p. 257).

...liberal philosophy, which claims that power and compulsion are evil, that freedom demands their absence from a human community. No such thing is possible; in a complex society this becomes apparent. This leaves no alternative but either to remain faithful to an illusionary idea of freedom and deny the reality of society, or to accept that reality and reject the idea of freedom. The first is the liberal's conclusion; the latter the fascist's. No other seems possible. (p. 257).

No society is possible in which power and compulsion are absent, nor a world in which force has no function. (p. 257).

But power and economic value are a paradigm of social reality. They do not spring from human volition; non-cooperation is impossible in regard to them. (p. 258A).

Man accepted the reality of death and built the meaning of his bodily life upon it. He resigned himself to the truth that he had a soul to lose and that there was worse than death, and founded his freedom upon it. (p. 258B).