
Re-Inventing Karl Polanyi: On the Contradictory Interpretations of Social Protectionism

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Abstract: The ideas of Karl Polanyi's *The Great Transformation* have often been referred to in the recent debates that have emerged as a reaction to the rise of neo-liberal policies. This paper deals with contradictory interpretations of the notion of social protectionism in the work of Karl Polanyi. There are two opposing interpretations distinguished here. The first interprets social protectionism as a balancing principle of economic liberalism. The second understands social protectionism as a part of market pathology. In order to assess the validity of competing interpretations, the author puts forth an account of social protectionism in the context of Polanyi's theory of the economy and society. The author concludes that the popular notion of social protectionism as a balancing principle of economic liberalism does not correspond to Polanyi's theory. In addition, the author offers a skeptical commentary on the utility of Polanyi for understanding social protectionism in social analysis.

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1. Introduction: On the contemporary relevance of Karl Polanyi**

Although written in the early 1940s, the popularity and relevance of Karl Polanyi's *The Great Transformation* [1944/1957] has grown in the last two decades.¹ There are two reasons for this upsurge in Polanyi's popularity: first, the emergence of neo-liberal ideology and the globalisation debate, and second, the dissolution of state socialism in East-Central and Eastern Europe and the ensuing post-communist transformation.²

There is an analogy between these events and the development that caused the civilisation crisis described in *The Great Transformation*. At both moments in his-

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¹ Karl Polanyi (1886–1964) was an economic historian of Hungarian origin. For biographical details, see, for instance, Humphreys [1969].

² This is not to say that Polanyi was ignored or unknown before [cf. Granovetter 1985; Konrad and Szelényi 1979; Szelényi 1978].

tory, social reality was shaped by the influential ideas of a self-regulating market and the ideology of market liberalism. In both these periods, the movement toward allegedly self-regulating markets was accompanied by a counter-movement toward protectionism. If this analogy is adequate, and I believe that to a certain extent it is, we might be able to learn a good deal from Polanyi's analysis: it can infuse the way we understand recent social reality and think about the economy and society with original stimuli. But, unfortunately and surprisingly, Polanyi's rediscovery remains widely ignored in the Czech social sciences. This paper attempts to bring Polanyi back into Czech sociological awareness by dealing with a contradictory interpretation of one of the basic messages conveyed in *The Great Transformation*.

In his works, Polanyi described the profound changes Western societies experienced in the 18th and 19th centuries and the evil consequences that were inevitably brought about by them. 'Western' societies were radically altered by the institutionalisation of the self-regulating market. This change was imposed under an ideology of *laissez-faire* liberalism. As Polanyi argues, the concept of a self-regulating market was a utopia, and the attempt to achieve it – the effort to organise society on the basis of *laissez-faire* liberalism – inevitably led to social responses aimed at protecting society from the market. Nevertheless, this development ushered in the catastrophic events of the first half of the 20th century.

In the 1980s, the ideas of *laissez-faire* liberalism were revived, this time under the label of neoclassical economics. Neo-liberal politicians and economists had a fundamental influence on world politics. They challenged the social protectionist measures that were designed to protect society against the market after the Second World War. Furthermore, neo-liberal ideology drove the effort towards deregulation and underpinned the process of economic globalisation. Critics of neo-liberalist policy and globalisation perceive this shift as a return to the market-utopia ideology that was analysed and criticised by Polanyi. *The Great Transformation* was hence dusted off and was used as an analytical tool for grasping the global economy at the beginning of the 21st century and as an ideological weapon in the fight against global neo-liberalism [cf. Block and Somers 2003; Silver and Arighi 2003].

The post-socialist transformation of the 1990s took place in the atmosphere of neo-liberal enthusiasm, which is what shaped the post-communist transformation of the new democracies [cf. Gowan 1995, 1996; Lloyd 1996]. As two critics of neo-liberalism remarked, "[t]he Eastern Europeans have been unlucky with the timing of change" [Bryant and Mokrzycki 1994: 6]. The policy makers of the post-communist transformation embraced neo-liberal ideas quite enthusiastically and thoroughly. Therefore, Polanyi's account offers lessons and perspectives of relevance to the situation in the post-socialist East-Central European states, too.

As mentioned above, the conclusions in *The Great Transformation* could be very illuminating, not only theoretically, but also for the assessment and formation of policy. The problem is that there is a fundamental dispute over the interpretation of a salient aspect of Polanyi's account. The disagreement relates to the understanding

of the role of social protectionism³ in the market economy and its relation to the disastrous events of the 1930s. The way of interpreting the role of social protectionism in Polanyi's theory has crucial consequences for the application of this theory in current social reality.

This article focuses on the concept of social protectionism in the work of Karl Polanyi and its recent interpretation. First, I will sketch the rival readings of the social protectionism in Polanyi's theory. Second, I will put forth my own interpretation of Polanyi's understanding of the role of social protectionism in the market economy. Finally, I will assess the validity of the competing interpretations and comment on the usefulness and validity of Polanyi's theory of social protectionism for present-day social inquiry.

2. (Re-)Reading Karl Polanyi: Contradictory accounts

It is possible to distinguish two contradictory approaches to the interpretation of the work of Karl Polanyi. This distinction is based on the understanding of social protectionism in his theory. The first approach perceives economic liberalism and social protectionism as two *balancing principles* in modern society. The second approach views market protectionism merely as a *part of the market pathology*.

Both interpretive approaches concur in the understanding of Polanyi's view of *laissez-faire* liberalism. The notion of the self-regulating market is a utopia that is not feasible in reality. Accordingly, it has never been achieved in the history of humankind. It functions only as an ideological tool. Market equilibrium produces social and cultural devastation and recurring economic crises, and thus it inevitably induces the spontaneous self-protective reaction of society against its annihilation by the market.⁴

Social protectionism is indisputably an inevitable part of the market economy. But this is the point where the agreement ends. The most influential approach to grasping this problem interprets Polanyi in such a way that it perceives social protectionism and the self-regulating market as two balancing principles of capitalism, principles that are mutually compatible. Social protectionism protects society from being annihilated by the self-regulating-market mechanism and makes the very existence of a self-regulating market and market society possible. The strain between these principles is productive: it results in equilibrium. The balance of these two

³ Social protectionism is understood here as an intervention in the market economy in order to secure the cultural and social integrity of humankind and/or society (e.g. welfare-state redistribution and the regulation of the economy).

⁴ There are some deviations from this concurrence: some scholars misread Polanyi with an interpretation of the (self-regulating) market economy successfully achieving autonomy from society and coming to dominate it (see, e.g., historian Fernand Braudel [1992]). This misconception, which is not very relevant for the argument in this paper, will be clarified below.

principles is the precondition for the existence of the modern society. "Economic liberalism has to be counter-balanced by social protection, and indeed everywhere it was ... The consequence was the civilization organized around two contrary principles" [Bryant and Mokrzycki 1994: 5]. It is thus alleged that the failure of the capitalist system was caused by the disequilibrium of these two fundamental principles of capitalism, which occurred in the 1930s.

On the other hand, there is also an approach that interprets social protectionism as a part of the market pathology [Lacher 1999]. Accordingly, social protectionism is merely an aspect of the development of capitalism and its crisis. It is perceived as a feature of the market economy that inevitably leads to a disaster. A self-regulated market brings about the spontaneous response of social self-defence (i.e. social protectionism). The problem is that social protectionism interferes with the mechanism of the self-regulating market and leads to its destruction. Social protectionism thus dissolves the mechanism that it itself is a product of. "It is this countermovement to the imposition of the self-regulating market which Polanyi identifies as the *proximate* cause of the catastrophes of the first half of the 20th century" [Lacher 1999: 320].

The contradictions in these interpretations are of important consequence for the policy implications that can be drawn from *The Great Transformation*. While the balancing principle approach interprets Polanyi as an advocate of a third way between liberalism and socialism, the market-pathology standpoint views Polanyi as a Janus-faced supporter of either *laissez-faire* liberalism or socialism. Fred Block, a follower of the balancing-principle approach, contends:

Polanyi's thesis of the double movement *contrasts strongly* with both market liberalism and orthodox Marxism in the range of possibilities that are imagined at any particular moment. Both market liberalism and Marxism argue that societies have only two real choices; there can be market capitalism or socialism. [Block 2001: 13, emphasis mine]

Accordingly, Polanyi's analysis is used to legitimise market intervention and the range of institutional arrangements that protect society from the severe consequences of the market (e.g. the welfare state) and to deconstruct the ideology of neo-liberalism. Because the catastrophe of the Second World War was allegedly a result of the imbalance in the organising principles of civilisation, "Polanyi was in no doubt that the balance between economic liberalism and social protection would have to be re-established" [Bryant and Mokrzycki 1994].

On the other hand, Hanness Lacher, who supports the market-pathology approach, has a different opinion on the policy implications of Polanyi's understanding of social protectionism: "[i]n fact, Polanyi leaves us with *no other choice than* that between liberalism and socialism" [1999: 325, emphasis mine]. Lacher maintains that Polanyi would not find welfare capitalism sufficient for overcoming the pathologies of capitalism. Therefore, much more essential measures need to be taken in order to avoid the destructive effects of the self-regulating market.

3. Polanyi's theory of the economy and society

In order to comprehend Polanyi's notion of social protectionism, it is necessary to elucidate his theory of economic systems and society. Polanyi formulates his theory as an alternative (not complementary) to the political economy and neoclassical economy. His account challenges the theory of spontaneous market evolution, the very existence of the market as an economic institution in traditional societies, and the ahistorical notion of Economic Man (i.e. in anthropological terms, invariable human behaviour based on the motive of gain).

Polanyi distinguishes between the *substantive* and *formal* meanings of the term 'economic'. The substantive meaning refers to a human's existential dependence upon nature and to the process of the (social) transformation of nature in order to satisfy the material needs of humans. The formal meaning refers to the situation of the rational choice between the different uses of means to achieve a given end under conditions of insufficiency of means (i.e. the scarcity postulate). Only the substantive meaning of economic can provide concepts for an investigation of all the empirical economies of the past and present. The economy is an *instituted* process. Therefore, the interacting elements of nature and humanity form a coherent and stable unit. The institutionalising of the economic process produces a structure with a definite function in society; it adds significance to its history, and it centres interests on value motives and policy. The study (sociological and/or anthropological) of the shifting place occupied by the economy in society is the study of the manner in which the economy is embedded and enmeshed in institutions, economic and non-economic. This idea gave birth to the famous and notoriously misinterpreted concept of embeddedness.⁵ Formal economic analysis – economics – is appropriate only when applied to a definite type of institutional arrangement of economy, namely the market economy [Polanyi, Arensberg and Pearson 1957].

A human's economic behaviour is therefore not led by individual economic interest but by his/her social interest. The principles of economic behaviour are determined by the socio-institutional patterns that are dominant in a given society. Consequently, humans act in order to gain particular social assets. A certain social asset need not have (and throughout history has not had) anything in common with obtaining material goods. A human appreciates material goods as long as they have a certain social value or when they serve as a means to reach a particular social end. Social interests/values differ among societies, as they are defined by the dominant institutional pattern.

According to Polanyi, the economy in pre-industrial societies was embedded in social, religious, and political institutions. There were no distinct institutions based on economic motives of individual behaviour (i.e. the motive of gain, work for a wage, and the principle of least effort). As a result, economic relations were regulated by non-economic norms and motives. For instance, under the guild system,

⁵ See Jessop's [2001] classification of different ways of using the concept of 'embeddedness'.

"[t]he relations of master, journey man, and apprentice; the terms of the craft; the number of apprentices; the wages of the workers were all regulated by the custom and rule of the gild and the town" [Polanyi 1944/1957: 70].

In the history of Western societies the production and redistribution of goods has been ensured by the behavioural principles of (1) *reciprocity*, (2) *redistribution*, and (3) *householding*. These behavioural principles, or their combination, integrated the economy, and they were sustained by the corresponding social patterns of (1) *symmetry*, (2) *centricity*, and (3) *autarchy*. The institutional nuclei of societies with the dominant principle of reciprocity were based on sex (e.g. family and kinship). Redistributive societies had a territorial character with a common authority. Householding was based on production for a single household (*oeconomia*). Its institutional nuclei were also based on sex (e.g. the patriarchal family) and locality (e.g. the village settlement).

There were indeed markets in pre-industrial societies; they were quite numerous since the 16th century. However, these markets were strongly regulated. There was no sign of the market gaining control over society. Despite the routine assumptions of classical economy, exchange could not evolutionarily expand in society, as it was restrained by the dominant social/institutional pattern of society. Exchange could not expand until the supportive social/institutional pattern had been established.

In the first half of the 18th century, a crucial change took place in the societies of Western Europe: the market economy was generated. The institutional pattern to support the behavioural principle of barter/exchange was established – the pattern of the *market*. This transformation substantially changed the organisation of entire societies. The economics ceased to be embedded in society. On the contrary, social relations became embedded in the economy. This was a milestone in the evolution of Western societies from the agrarian structure to modernity.

There is no parity between the principle of barter/exchange (i.e. the prerequisite of the market pattern) and the other principles of behaviour. Whereas the pre-modern principles are merely 'traits' of social behaviour, the barter principle is capable of creating an institutional system that is designed for one function only, and it is driven by only its own motives. The market pattern thus makes it possible to separate an institution of an economic nature from society – the institution of the self-regulating market. This transformation also implies the transformation of the dominant motive of economic action from subsistence to *gain*.

The 'great transformation' was brought about by two factors: first, the introduction of expensive machinery into the production process, and second, the emergence of the British political economy. Production with the aid of elaborate machinery required high, long-term investment. This risk was unbearable and unpredictable unless it was possible to reasonably ensure the continuation of production. As the sale of large amounts of products had to be guaranteed, production could not be interrupted for a want of primary goods (machine inputs). Consequently, both the inputs and the outputs of production – land, labour, and money – had to be con-

stantly available for sale, that is, organised by the market.⁶ Such a radical and uncertain transformation required ideological underpinning that was provided by Ricardo's utopian belief "in man's secular salvation through the self-regulating market" [Polanyi 1944/1957: 135]. The idea of the self-regulating market was born.

According to Polanyi, the institutionalisation of the self-regulating market was possible only as a result of the very 'artificial' and conscious intervention of government into the social system in order to meet the demands of machinery production. The word 'intervention' does not stand for anything less than the frequent use of brutal physical force.⁷ The introduction of the market organisation of society and the establishment of a *laissez-faire* environment were accompanied by a sudden increase in state intervention and administration. The function of the state shifted from a legislative to an administrative role.

The institutionalisation of an autonomous self-regulating market had profound consequences for the logic of the organisation of society. It led to a way of organising economic life that is, according to Polanyi, entirely unnatural and empirically exceptional. The economy is no longer embedded in society, but rather society is embedded in the economy. In order to allow the disembedded market to function, humankind must be subordinate to the peculiar logic of the market.

[I]t means no less than the running of society is an adjunct to the market. ... For once the economic system is organized in separate institutions, based on specific motives and conferring a special status, society must be shaped in such a manner as to allow the system to function according to its laws. This is the meaning of the familiar assertion that a market economy can function only in a market society. [Polanyi 1944/1957: 57, emphasis mine]

As a result, in modern societies the economy is 'directed by market prices and nothing but market prices'. Disembedded economic action is driven by the motive of *gain*. In a modern market society, "human beings behave in such a way as to achieve maximum money gains" [Polanyi, Arensberg and Pearson 1957: 43, 68].⁸

⁶ Note the compatibility of this account of the nature of capitalism and its emergence with both Marx's notion (e.g. the emphasis on the role of the commodification of land, labour, and money) and Weber's theory of capitalism (the role of predictability/possibility of risk calculation) [Collins 1980; Marx 1887/1990; Weber 1923/1961].

⁷ Polanyi's account of enclosures is no less horrifying than that of Marx's primitive accumulation [Marx 1887/1990].

⁸ This implies that the common use of Polanyi's concept of embeddedness in economic sociology to characterise economic behaviour as socially situated and not explainable by reference to individual, form-rational calculation is inadequate. For instance, the main proponent of this concept, Mark Granovetter [see, e.g., 1985], explicitly refers to Polanyi when characterising socially embedded economic behaviour in modern capitalist societies. However, according to Polanyi, the 'great transition' created the 'disembedded' Economic Man. Surpris-

4. Against the ravages of the satanic mill

In a market society, the distinct economic system is separate from society, which is completely subordinate to it. The institutionalisation of the market economy entails the commodification of all elements of industry – including labour, land, and money. The commodification of labour and land, which represent human beings and their environment, subordinates the substance of the society to the market. It requires the state to not allow anything to inhibit the operation of the market. Therefore, there can be no other source of income but from sales and no interference in the mechanism of price adjustment. The state is required to make the market the only organising force in society.

The problem is that the separation of the market and the subordination of society to it are not actually feasible. Such a situation has never actually been achieved in the history of humankind. It was just a utopian goal of the ideology of market liberalism. The key to understanding the impossibility of the above-described *laissez-faire* utopia is Polanyi's distinction between *real* and *fictitious* commodities.⁹ Commodities are understood as objects produced for sale on the market. Obviously, labour, land, and money are not produced for sale on the market; they are only treated as if they were: they are fictitious commodities. Allowing the market mechanism to organise fictitious commodities as real ones would result in the annihilation of society or even humankind. For Polanyi, the biggest danger the market poses is not economic in nature – it is neither that it is unstable and volatile, nor that it produces recurring economic crises, nor that it impoverishes workers.¹⁰ The danger is the annihilation of social institutions and cultural degradation. The commodification of land and labour is “only a short formula for the liquidation of every and any cultural institution in an organic society” [Polanyi 1944/1957: 159].

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. [Polanyi 1944/1957: 73]

Society inevitably and spontaneously responds through protection “against the ravages of this satanic mill” [Polanyi 1944/1957: 73]. Hence, the state is forced to intervene in the money market by adjusting the supply of the market in order to avoid the dangers of inflation and deflation. It responds to the changing labour demand with unemployment relief and other employment policies. In addition, it protects farmers against the market in order to secure the continuity of food production.

ingly, further reading of Granovetter's work reveals that he must already be aware of this fact [Swedberg and Granovetter 1992]. Nevertheless, Granovetter rarely finds it worth emphasizing that he actually attributes a different meaning to embeddedness than Polanyi did.

⁹ Note the affinity with Marx's analysis of contradiction in the commodity form.

¹⁰ Polanyi even admits that the introduction of the market economy was accompanied by an increase in living standards.

5. Towards the capitalist crisis: The contradiction of the market economy

We have now approached the contradiction in the notion of the self-regulating market and/or market economy, that is, the contradiction of capitalism itself. The market organisation of fictitious commodities (labour, land, and money) is essential for the institutional separation of the market economy and its very operation. Every policy that inhibits the self-regulating market mechanism endangers the self-regulating mechanism of the economy (i.e. the material reproduction of society). However, no society can withstand the severe consequences of market organisation. Consequently, every society develops measures to protect itself from them. Capitalist societies are governed by a *double movement* of (1) market expansion and, its unavoidable counter-movement, (2) social protectionism. The main function of social protectionism is to regulate market actions with respect to the market organisation of labour, land, and money. The problem is that social protectionism is incompatible with the self-regulation of the market and thus with the market system itself. As Polanyi remarked to one of the supporters of market protectionism, Robert Owen, “[h]e did not, at this time, foresee that the self-protection of society for which he was calling would prove incompatible with the functioning of the economic system itself” [Polanyi 1944/1957: 129].

Polanyi understood the dynamics of modern 19th-century civilisation as a tension between the two organising principles of society. Each had its own aims and methods (i.e. policies) and its own support in definite social forces. The first principle was the *principle of economic liberalism*. Its aim was to establish the self-regulating market using *laissez-faire* methods and free trade. This principle was supported by the trading class. The second principle was the *principle of social protectionism*, aimed at preserving man and nature. This movement had no stable base. It was supported ad hoc by those who were affected by the consequences of the self-regulating market (e.g. the working class, peasants, and merchants). Its methods involved protective legislation, restrictive association (e.g. unions) and other instruments of intervention. This latent tension developed into the fascist crisis at the beginning of the 20th century, when the social support of both principles became localised. The crisis turned into a catastrophe when the conflict of principles turned into the conflict of classes.

[Nineteenth century civilization’s] ... failure was not the outcome of some alleged laws of economics such as that of falling rate of profit or of underconsumption or overproduction. It disintegrated as the result of an entirely different set of causes: the measures which society adopted in order not to be, in its turn, annihilated by the action of self-regulating market. [Polanyi 1944/1957: 249]

Polanyi analyses the particular expression of the market-society contradiction on both the international and the national level. On the national level, Polanyi analyses the pathological consequences of social protectionism in a market society for both society and the market itself using the case of the Speenhamland system (England, 1795–1834) of subsidies for workers, who were provided subsistence re-

ardless of whether they worked or not. Polanyi concludes that the system, by not allowing the commodification of labour, not only impeded the market, as it reduced productivity, but also led to the deterioration of the workers' situation, as it prevented them from understanding their actual social position and from developing into a class.¹¹ The workers were selling their labour in a situation where it was deprived of its market value.

A new class of employers was being created, but no corresponding class of employees could constitute itself. ... "Maladministration" of the Poor Law" precluded them from gaining a living by their labor. No wonder that the contemporaries were appalled at the seeming contradiction of an almost miraculous increase in production accompanied by a near starvation of the masses. [Polanyi 1944/1957: 80]

At this point Polanyi argues the introduction of the protectionist institutions into the market society, such as trade unions, and the legal regulation of factory conditions that are adapted to the requirements of the capitalist system. However, even these institutions were trapped in the contradictions of capitalism. "Though the new protective institutions ... were adapted, as far as possible, to the requirements of the economic mechanism, they nevertheless interfered with its self-regulation and, ultimately, destroyed the system" [Polanyi 1944/1957: 77].

On the level of inter-state relations, the utopian character of the belief in a self-regulating market was demonstrated in the practical impossibility for most countries of adhering simultaneously to free trade and to the gold standard. Thus, the capitalist contradiction was articulated in the contradiction between international free trade and the spread of the gold standard.

Although everybody agreed that stable currencies ultimately depended upon the freeing of trade, all except dogmatic free traders knew that measures had to be taken immediately which would inevitably restrict foreign trade. ... While the intent was the freeing of trade, the effect was its strangulation. ... The whole arsenal of restrictive measures, which formed a radical departure from traditional economics, was actually the outcome of conservative free trade purposes. [Polanyi 1944/1957: 26-27]

These strains remained latent in the nation states as long as the world economy continued to function on the *laissez-faire* principle.¹² In the 1930s, major world states left the international economic system in order to protect their societies.

Less and less could markets be described as autonomous and automatic mechanisms of competing atoms. ... Economic adjustment became slow and difficult. The self-reg-

¹¹ Block and Somers [2003] have convincingly demonstrated the inadequacy of Polanyi's analysis of the Speenhamland system.

¹² It was guaranteed by the gold-standard system of the world economy, which minimised the ability of governments to intervene in the system.

ulating market was gravely hampered. Eventually, unadjusted price and cost structures prolonged depressions, unadjusted equipment retarded the liquidation of unprofitable investments, unadjusted price and income levels caused social tensions. And whatever the market in question ... the strain would transcend the economic zone and the balance would have to be restored by political means. Nevertheless, the institutional separation of the political from the economic sphere was constitutive to market society and had to be maintained whatever the tension involved. [Polanyi 1944/1957: 218]

These protectionist measures dissolved the world system, released stress between nations, and triggered the distress that resulted in the Second World War. Fascism responded to the needs of the situation: it offered a solution to this institutional deadlock.

6. Conclusion: Karl Polanyi on the politics of the market

I have investigated Polanyi's theory of the market and society in order to assess the validity of the contradictory interpretations of the notion of social protectionism in this theory. I have distinguished two interpretations of Polanyi's understanding of social protectionism. The first view understands social protectionism and the market economy as two balancing principles. In assessing this point of view, I drew mainly – and in this final analysis – on the work of Bryant and Mokrzycki [1994] in order to avoid criticism of the fictitious straw man. The second interpretive perspective sees social protectionism as part of the market pathology. I used the work of Lacher [1999] as a representative of this approach.

In order to comprehend the role of social protectionism in the history of modern society, it is crucial to understand Polanyi's account of the double movement. Modern 19th-century civilisation was organised according to the two contrary principles of economic liberalism and social protectionism. Social protectionism spontaneously emerged as a reaction to the liberal attempt to disembed the economy from society and to subordinate society to the logic of the self-regulating market. Social protectionism was therefore a *counter-movement* to market liberalism, but these two principles were not *counter-balanced*, as interpreted by Bryant and Mokrzycki [1994: 5]. Instead, Polanyi insists that there was no balance between these principles, since social protectionism disrupted the social pattern of the self-regulating market mechanism and – when social protectionism became a dominant force – led to the catastrophe of the Second World War.

Polanyi refers to this market-society deadlock in the frequently cited introductory summary of *The Great Transformation*. Nevertheless, the meaning of the part in italics is famous for being ignored.

Our thesis is that the idea of a self-adjusting market implied a stark utopia. Such an institution could not exist for any length of time without annihilating the human and natural substance of society; it would have physically destroyed man and transformed his surroundings into a wilderness. 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. [Polanyi 1944/1957: 3, emphasis mine]

The balancing-principle approach focuses on an interpretation of Polanyi's theory with regard to the horrifying consequences of the free market and the inevitable emergence of the self-protection of society (as summarised in the unemphasised part of the quotation).¹³ But it omits the serious consequences of social intervention. This allows Bryant and Mokrzycki to legitimise the social and economic policy of striving for "balance between economic liberalism and social protectionism" [1994: 6] by using Polanyi's theory. I think that Polanyi would consider this 'balance' as a contradiction in terms.

In contrast, Lacher [1999] is very well aware of the deadly dialectics of social protectionism in Polanyi's work.

Necessary from the point of view of society as it is, protectionism is not simply the solution to the ravages of capitalism, but an actualisation of the contradictory relationship between market economy and market society. The consequences of protectionism were catastrophic rather than benign precisely because the market pattern remained at the heart of social organization. [Lacher 1999: 320]

I personally identify with Lacher's interpretation of Polanyi's understanding of the role of social protectionism. However, I do not agree with Lacher's account of Polanyi's policy proposal. As we have seen, Lacher concludes that since social protectionism and the market are incompatible, Polanyi offers two ultimate choices: liberalism and socialism. But Polanyi regards liberalism as a utopia or a secular religion – the protectionist intervention is an inevitable response to the attempt to disembed the economy, which would annihilate society; moreover, intervention is essential for the very installation of a self-regulating market. "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" [Polanyi 1944/1957: 141].

Polanyi does not offer this choice, as there is no choice between a utopia and a real possibility. Utopia is not an option. However, Polanyi offers a real possibility. He concludes his masterpiece with a sketch of an alternative, the germ of which was present at the time he wrote *The Great Transformation*. The only inherently stable alternative is a system where the primacy of society over the economy is ensured, a system in which the economy does not govern society. This system may be achieved in a variety of ways.¹⁴ The basic feature that the possible alternatives must share is

¹³ I found it quite surprising that Bryant and Mokrzycki [1994] quote this entire passage without dealing with the problem of the compatibility of social protectionism and economic liberalism.

¹⁴ However, according to Polanyi it is not possible to restore the pre-industrial system of the past.

the decommodification of land, labour, and money. “[T]he market system will no longer be self-regulating, even in principle, since it will not comprise labor, land, and money” [Polanyi 1944/1957: 251]. The only alternative then that Polanyi leaves to modern industrial society is the planned economy, a model with a high degree of affinity with the Soviet economy.

Inevitably, the question arises as to whether Polanyi’s account of the double movement is relevant for contemporary social inquiry at all. I am sceptical about the utility of Polanyi’s theory of the protectionist double movement and I do not think that the theory is useful for explaining (present) social reality. There are several reasons for this. First, Polanyi’s analysis of the particular articulations of the capitalist contradiction on the international level can hardly be applied to the current situation, since international economic competition today follows a fundamentally different path.¹⁵ Second, as far as the national level is concerned, one could argue, and quite a few people actually do, that the crisis of European welfare-state capitalism supports the thesis that protectionist measures are deleterious to the operation of the self-regulating market. Fortunately, there is no need to deal with this question here since social reality provides a more convincing negation of Polanyi’s theory. The core of Polanyi’s explanation is that society inevitably and spontaneously responds to attempts to introduce the market mechanism by taking protectionist measures. However, the case of the United States suggests that the commodification of labour, land, and money does not necessarily result in a protectionist response. Comparatively, among the advanced capitalist countries the United States is probably where labour, land, and money are the most commodified.¹⁶ Applying the logic of Polanyi’s double movement, one would expect a substantive protectionist reaction in the United States, but this is evidently not the case.

Finally, and most fundamentally, I do not think that Polanyi’s general assumption about the inevitable protectionist response of society against its annihilation from market forces is theoretically strong. As I have attempted to show, Polanyi provides a rather functionalist account of the mechanical social response to the deleterious consequences of the self-regulating market. He works with an organic (solidaristic) notion of society. The market does not threaten a particular group or class but society as whole.

[B]ecause not the economic but the social interests of different cross sections of the population [are] threatened by the market, persons belonging to various economic strata unconsciously [join] forces to meet the danger. [Polanyi 1944/1957: 154–55]

¹⁵ In Polanyi’s time, the main form of inter-enterprise competition was the ‘price war’, and the main capitalist countries adhered to the self-regulating mechanisms of the gold standard, which made the devaluation and revaluation of currencies impossible. Governments supported their domestic industries through protectionist and mercantilist practices. In contrast, in the post-war period commodity prices have been rising. To compete the main capitalist countries have been intervening in currency exchange rates (e.g. the Plaza accord and the reverse Plaza accord). See Arrighi [2003] and Silver and Arrighi [2003] for a comprehensive comparison.

¹⁶ For instance, Haila [1991] offers evidence of the commodification of land.

According to Polanyi's theory of class leadership, in which some analogies with the Gramscian conceptualisation of hegemony can be found, the ruling class/group must protect the interests of other social groups in order to maintain its leadership; therefore, the protectionist defence is ensured. "Indeed, no policy of a narrow class interest can safeguard even that interest well" [Polanyi 1944/1957: 156]. However, I do not think that this account is adequate, as it underemphasises power relations among the classes [cf. Silver 2003]. Instead, I believe that the Gramscian conceptualisation of hegemony, based on a combination of political, intellectual, and moral leadership and the domination of antagonistic groups, provides a more appropriate account of class/social relations [cf. Gramsci 1971; Jessop 1990]. Consequently, I do not think that the protectionist response is something that can be assumed as inevitable; on the contrary, it is something to be explained.

However, despite my scepticism regarding the validity and utility of Polanyi's theory of the double movement, I firmly believe that his work provides invaluable insights into the dynamics of capitalism and the mutual constituting of the economy and society, which can provide fruitful stimuli for contemporary thought on these issues.

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