

Michele Cangiani<sup>1</sup>

## **Crises and transformations. Suggestions from Karl Polanyi's works**

### **Introduction**

Neoliberal policies showed themselves to be a counterproductive attempt to face the structural crisis of capitalist accumulation beginning in the 1970s; moreover, they have had distressing consequences on human beings, society and natural environment. We are then compelled to reflect, not only on the neoliberal age and the present crisis, but on the most general traits of our society, its basic dynamics and transformations.

Karl Polanyi's theory, briefly recalled in Section 1, offers a clue on this subject.

Section 2 deals with some basic aspects of Polanyi's approach to the history of the market capitalist society that are still meaningful regarding corporative capitalism in general and its present phase in particular. A hint to Polanyi's similarity to authors of his time, such as Veblen, Tawney, Hobson and Gramsci, confirms the distance dividing him from 'new' sociologists and 'neo' institutional economists pretending to enroll him in their alignment.

Section 3 suggests some points concerning the neoliberal transformation as situated between two crises: that of the 1970s, to which it reacted, and that starting in 2007-2008, to which it has led. A reference to Polanyi's thought remains a point of reference, while other authors are mentioned.

The would-be conclusive Section 4 raises, in reality, the problem of the difficulty to see how a way out of neoliberalism could be possible.

### **1. Basic principles of Polanyi's theory**

Polanyi connotes the market capitalist society<sup>2</sup> at the most general, wide-comparative theoretical level, in its *differentia specifica*. The way production is instituted, then factors of production combined, characterizes each economic system. In the market capitalist society, Polanyi maintains (1977: 9), the factors of production, labor and land, are combined "into industrial units under the command of private persons mainly engaged in buying and selling for profit". The two fundamental institutions of this form of society, distinguishing it from any other, are, in fact, the market system and capitalist relations of production. The exchange, based on the market system, is the dominant form of integration (i.e. organization); also the labor-power of the "free worker" is the object of an exchange. Labor and land, as well as money, become commodities. Like Max Weber, Polanyi points out that, in this new kind of

---

<sup>1</sup> Università Ca' Foscari Venezia – cangiani@unive.it

<sup>2</sup> Ron Stanfield (1977) adopts this expression with reference to Polanyi's conception.

society, “hunger and gain” are *the* motives of economic behaviors and relationships – typically ‘economic’ motives. Becoming ‘economically’ organized, autonomous, “disembedded” (“rational” and differentiated, according to Weber), the economy is also dominant. The social system as a whole is constrained, if not determined, by the ‘rationality’ and dynamics of the economy: “embedded in the mechanism of its own economy” (ibid.)<sup>3</sup>.

The issue of “the place of the economy”, which is central in Polanyi’s comparative theory of economic systems, concerns not only the definition of the institutions on which the economic activity depends in each society, but also – he affirms (2014 [1950-52: 138) – “the relationship between the economic and the noneconomic institutions in it”. In pre-modern societies, not only the economic function was prevalently performed by the institutions each time dominant (kinship, political structure etc.), but also, and consequently, economic activities, motives and relationships were not distinguishable as such within the cultural whole. Modern economy, on the contrary, is ‘economically’ instituted, and therefore discernible as such and, in principle, autonomous. This is the most general and important sense of Polanyi’s concept of “self-regulation” as an essential trait of the market capitalist economy. He maintains that, instead, society should not have “a separate, self-regulating, and autonomous economic sphere”, “a separate set” of economic institutions (2014 [n.d.]: 214 and 215).

Contemporary “self-regulating” economic system depends on the existence of a surplus – “nothing is produced unless such a surplus exists” – and of the market system: that is, on “the whims of a blind mechanism removed by its very nature from the needs of the living community embodied in every human society” (ibid.: 216 and 217). If these conditions have to be fulfilled through the flexibility of prices, unbearable consequences can ensue for workers, society as a whole and capital itself. In other words, intervention is necessary; however, in Polanyi’s view, it is also ruinous. Not only rescuing one class inevitably damages the other, but society as a whole is thereby damaged. Polanyi’s analysis is correct, though we feel the want of a theory of capitalist accumulation explaining the inevitability of crises. Why is a permanent equilibrium impossible? Besides, the polemic with Robbins and Mises, who are mentioned in this Polanyi’s manuscript, leaves aside the opportunity Keynesian intervention offers – though partially and temporarily – of rescuing both classes from falling into the spin of the crisis.

Polanyi, anyway, is basically interested in highlighting the conflict between the market mechanism and such a good type of adaptation to environmental needs that would be able to take “social productivity” and preservation of “land” (natural resources) into account. Beyond the problem of economic crises and class conflict, there is that – typically raised by original institutional economists – of an inefficient resource allocation. The economic system, led as it is by the motive of monetary gain, tends to subordinate the needs of its human and natural environment to its own goals.

Polanyi points out a fundamental contradiction: the market capitalist system cannot but be “caught on the horns of a dilemma: either to continue on the path of a utopia bound for destruction, or to halt on this path” (ibid.: 217) thereby undermining the functioning of the system. His critique is addressed to neoclassical economics, but is also more general, its object being the market-capitalist form of society and its “unique peculiarity” of the “separation of

---

<sup>3</sup> “While social classes were directly determined, other institutions were indirectly affected by the market mechanism” (Polanyi 1977, p. 12).

the political and the economic sphere". The problem of this separation – considered by Polanyi irretrievably dangerous, indeed unnatural, thence utopian – goes well beyond that of the unreality of a perfect and complete competition presupposed by the general equilibrium theory. The paradox he alludes to is not merely that unavoidable interventions, by interfering with price formation, undermine the system because they hinder a self-regulating mechanism reductively understood in the terms of the general equilibrium<sup>4</sup>. It is important to consider, in this connection, the relevance of the class conflict inherent in the system. This clearly results, for instance, both in Polanyi's essay on the crisis (1933), where conflicting claims on the national product are highlighted, and in *The Great Transformation*, where he writes that "the conflict of class forces entered decisively" in the "final phase" of the crisis of the nineteenth-century capitalism (2001: 228).

The target of Polanyi's critique is not merely the utilitarian and neoclassical myth of market competition, but the "separate" "place" of the market capitalist economy, making it autonomous and dominant. Partial interventions are inevitable, but cannot eliminate the problem; in fact, they only reveal the "dilemma". This implies strict limits to reforms: the system never allows them to reach the necessary extent, because, at this point, they would be non-reformist, that is, steps toward a different social organization. In fact, protectionism, the "countermovement" attempting at "the integration of society", though partial and provisional as it could have been, "*merely increased the strain on the social system*" (Polanyi's italics). The working class fought for protection, he writes, "the leaders of business, on their part, made use of industrial property and finance to weaken political democracy. This is the false integration of which late nineteenth-century society showed so many examples" (2014 [n.d.]: 218). The social conflict and the dilemma, "the strain on the social system", are unavoidable because they are rooted in the basic institutional organization of the market capitalist society – a class society.

Capitalism and democracy unavoidably reveal their incompatibility. "In postwar Europe the separation of economics and politics developed into a catastrophic internal situation". Then "the need for a reintegration of society was apparent"; however, it could give rise to opposed solutions. In the inter-war period – but not only, as we shall see below – "the alternative was between an integration of society through political power, on a democratic basis, or, if democracy proved too weak, an integration on an authoritarian basis, at the price of the sacrifice of democracy" (ibid.: 218-219).

The general-radical meaning of Polanyi's theory, his sharp characterization of the uniqueness of the market-capitalist form of society, is commonly repressed by contemporary social science. The same can be said of New Economic History, New Economic Sociology and New Institutional Economics, in spite of their alleged heterodoxy and frequent reference to Polanyi<sup>5</sup>. 'New' sociologists and neo-institutional economists like to distinguish the economy

---

<sup>4</sup> A reductive interpretation is e.g. that by Kurtulus Gemici (2015), who accurately analyzes the relevance of neoclassical economics in Polanyi's theory, but misses Polanyi's fundamental point.

<sup>5</sup> For a critique of those 'New' approaches see e.g. Ankarloo (2002), Ankarloo and Palermo (2004), Cangiani (2011a), Machado (2011), Krul (2016). See also Jens Beckert (2007), who rightly criticizes the micro-sociological approach and the insufficient analysis of the historical "specificity of the organization of modern capitalist economies" (ibid.: 19). Beckert, however, does not explain accordingly Polanyi's theory, his embedded/disembedded opposition in particular.

from 'institutions'. Stressing the relevance of the latter as opposed to the former allows, in their opinion, to overcome the naturalism and "economic determinism" Polanyi criticizes. However, insofar as 'the economy' is generically understood rather than analyzed as *specifically institutionalized* (as a market capitalistic economy), the paradoxical result is its naturalization. The only effective way of avoiding social naturalism in its modern economic version is, in fact, the analysis of the economic system as socially-historically institutionalized. This is what Marx does. Polanyi follows the same trail, since the core of his thought is his ability to question, both theoretically and politically, the market society as a specific form of social organization, characterized in particular by being "an 'economic' society to a degree previously never even approximated" (Polanyi 1947: 111). Revealing the ground in which economism and naturalism are rooted is indispensable for uprooting them, theoretically at least.

Polanyi's general theory is both the result and the premise of his analysis of the historical evolution of the market capitalist society. The fundamental traits of this society reproduce themselves under different "institutional arrangements" resulting from major crises and "transformations".

Neither the market system nor capitalism ended with the collapse of their nineteenth-century form. The very term of 'transformation' implies a subject that is transformed, the market capitalist society, whose fundamental institutions persist under different forms ("institutional arrangements"), and are to be taken into account in order to explain the different phases of an irreversible historical development. Corporative capitalism followed liberal capitalism, as Polanyi says, and, as we have realized in our times, neoliberal capitalism developed as a reaction to another structural crisis. Neoliberalism has tried, successfully, to reinforce the power of the ruling class, and, unsuccessfully, to lead accumulation again to a satisfactory level.

Polanyi, in fact, in *The Great Transformation*, carries on his analysis of *market society* at two different levels: in the general sense of capitalist society, within a wide-range comparison with preceding societies, and, at a more particular level, in the sense of liberal or "Victorian" capitalism. It is to the latter that the opening sentence of the book – "Nineteenth-century civilization has collapsed" – is addressed.

## **2. From liberal to corporative capitalism**

Presenting the long, hard-won process of the institution of the labor market, Thomas H. Marshall (1992 [1950]) makes reference to *The Great Transformation*, which he cites with the title of the British edition of 1945, *Origins of our Time*. Like Polanyi, Marshall considers that process as fundamental and typical of the making of capitalist society; they both point out that the Poor Law reform of 1834 institutionally ratified the existence of the new class of laborers-citizens, distinguished from the paupers, but continuing to be subject to systematic inequality and even exclusion.

With the Reform of 1834, Polanyi writes, "industrial capitalism as a social system" came into existence. The effects of a competitive labor market were "deleterious [...], until in the 1870s the recognition of the trade unions offered sufficient protection" (Polanyi 2001: 87 and 86). Both Polanyi and Marshall deal with the leading role of the working class in the "defense"

of society from the consequences of the institution of the market economy. This is, in Polanyi's view, a defense of a new type; its forms and meaning are consistent with the organization of the new society, which is connoted by the capitalist relations of production. In 1934 the Speenhamland Law – the last episode of the centuries-long history of the Poor Law – was repealed. The Speenhamland system was still consistent with the old type of defense; it “met the situation as judged by the ruling village interest, the squire's” (ibid.: 99). Its repeal, instead, was “the work of a new class entering on the historical scene, the middle classes of England”, and responded to “the need of society for a new class, a class of ‘independent laborers’” (ibid.: 105 and 104).

The novelty and the progressive-democratic meaning of the defense of society by the working class is clearly represented by the extension of modern citizenship rights analyzed by Marshall<sup>6</sup>. The social struggle aimed at that extension met difficulties and defeats. It was partially successful, especially in the ‘golden’ phase of capitalist development after the Second World War. In our times we witness the neoliberal turnabout. The goal of equality and democracy has inevitably remained a horizon, since the motive of gain and the correlative class division constitute the ultimate constraint, an insuperable limit all along the history of the market capitalist society. Polanyi – like Marshall, who probably noticed this theme in *The Great Transformation* – points out the gap of several decades between the Poor Law Reform of 1834 and the achievement of workers' political citizenship with the right of suffrage. This gap reveals the relevance of class division: its meaning, its weight. The institution of the labor market and free workers was an essential requirement for capitalist development, while the universal suffrage risked undermining it, together with the class rule of capital. So collapsed “the liberal state”, one of the four basic institutions of the “nineteenth-century civilization” mentioned in the first page of *The Great Transformation* (the “balance-of-power system” among European states, “the international gold standard” and “the self-regulating market” being the three others).

Liberal democracy ceased to be functional to the existent class structure when democratic elections gave the working class the opportunity to conquer the majority in parliaments. Indeed, even the possibility of moderate reforms by “popular governments” was so worrying as to give rise to more or less antidemocratic reactions.

The defeat of the socialist alternative and the institutional transformation allowed the survival of capitalism, of market society in its wider sense. To this purpose, various strategies of “stabilization” have been carried out, involving various social forces and motives in view of removing “divisive issues from political determination”, that is, of stabilizing social hierarchies, together with the market capitalist system to which they belong (Maier 1987: 263). Already in the 1920s and 1930s, in his articles for *Der Österreichische Volkswirt*, Polanyi noticed and commented on the corporatist transformation, differently shaping in different countries and times. His reflection was addressed to “Capitalism in its non-Liberal, i.e. corporative, forms”, allowing it to continue “its existence unscathed under a new alias” (Polanyi 1935: 367).

A good part of Polanyi's articles deal with British events: the workers' movement and its organizations, the question of the coal mines, the struggles culminating with the 1926 General

---

<sup>6</sup> See also the fundamental historical analysis by Robert Castel (1995).

Strike. His conclusion is that possibilities of a radical change, if any, ceased very early after the war. In two articles of February 1928 Polanyi comments the corporative reorganization proposed by the report published on behalf the left wing of the Liberal Party by the Liberal Industrial Enquiry (1928), to which John M. Keynes collaborated. He points out that forms of economic coordination and class collaboration are not necessarily signs of a move beyond “a society whose substance is the cash-nexus”. Even if wage work would cease to be “a mere contractual relation by acquiring a legally guaranteed position with the clear social status”, the managerial power of employers could even grow and private property could get stronger (Polanyi 1928a and 1928b).

In 1934 several articles on the same weekly magazine analyze the reorganization of British industry, the government intervention and the collaboration of the Trade Unions and the Labour Party to the corporative transformation. He notes that little was left of social struggles of the first quarter of the 20<sup>th</sup> century. On the one hand, even Conservatives seemed to share the planning mood. On the other hand, Trade Unions no longer represented a “socialist tendency”, but only “the corporative interests of individual categories of workers” (Polanyi 1934), within the limits set by ‘technical’ managerial choices and the need to make profits<sup>7</sup>.

Polanyi’s analysis of the events of the interwar period in their historical peculiarity also highlights more general tendencies. In *The Great Transformation* he points out that the ruling class claims an exclusive control on political decisions about the quality and extent of reforms to be implemented when a systemic crisis has to be faced (Polanyi 2001: 236). Anti-democratic and anti-liberal attitudes tend then to prevail. Polanyi interprets in this sense the “fascist situation” of the 1930s. In his opinion, the “fascist virus”, endemic as it is in the market society<sup>8</sup>, can always rise up if necessary. The anti-democratic reaction can also assume softer forms, such as the British National Government of 1931. Ramsay MacDonald remained Prime Minister, after having occupied the same charge in the resigning Labour Government. In this case, Polanyi comments (1931), Labour statesmen espoused the reasons of the City, and caused a permanent damage to democracy by forming a coalition government which suspended the two-party system.

In *The Great Transformation*, the history of “nineteenth-century civilization” is meaningful with reference to, and within, the history of capitalist society. The institutions of the former were a particular way of implementing the general features of the latter in the first phases of its development, resulting in a major economic and political crisis. Part Two of *The Great Transformation* ends by alluding to the decisive relevance of “the conflict of class forces”. Part Three begins by the need to avoid a “popular government”, and the correlative crisis of the “liberal state”. There follows the analysis of the 1920s as a period of political tensions and economic policies preparing the Great Depression. This analysis is illuminating,

---

<sup>7</sup> For a more detailed review of Polanyi’s articles see Cangiani 2011b.

<sup>8</sup> “The Fascist Virus” is the title of two manuscripts of the second half of the 1930s (Karl Polanyi Archive, file 18-08, n.d.). Another manuscript contains a brief project for a book entitled *The Fascist Transformation* (Karl Polanyi Archive, file 20-08, 1934-35).

not only in regard to those times, but also to the current neoliberal epoch<sup>9</sup>. There is, in fact, continuity beyond the irreversible historical change, which can only be explained by making reference to the general features of a given social system, the market capitalist system.

Like Polanyi, many scholars of his time were able to both distinguish the two levels of conceptual generality and to connect them to each other. Richard Tawney (1947 [1926], p. 59) speaks of the twentieth-century new kind of capitalism characterized by the “control of industry by business and of both by finance, and its attempts to fix fair wages and fair prices”. These and other evident developments, Tawney continues, have made people not only “disillusioned with free competition”, but also longing for a more general mutation whereby “economic appetites” could be confined “to their proper sphere, as the servant, not the masters, of civilization”.

Many other theoretical contributions followed a similarly critical path. For example, Thorstein Veblen achieves a deep and detailed analysis of the new forms of business organization, showing their growingly parasitic relationship with a technologically developed industry. At the same time, he explains the non-coincidence, to say the least, between profitability and “serviceability for society at large” as an inherent *general* tendency of the market-capitalist productive system (see e.g. Veblen 1901). The “investment for a profit”, in particular that pursued by “business enterprises”, is presented by Veblen in the first page of his *Theory of Business Enterprise* (1904) as the “directing force” of the “Capitalistic System”. Polanyi, in his turn, mentions “the principle of gain and profit as the organizing force in society” (Polanyi 2001, p. 178).

The First World War solicited an even greater attention to institutional transformations and the crisis of liberal 19<sup>th</sup>-century capitalism, then also menacing the existence of capitalism itself. John Hobson points to the control that “strong business organizations” have acquired over government, with a view to turning internal and external policies to their own advantage, thus compromising the interest – and, of course, the freedom – of most citizens and of the nation as a whole. The overcoming of this class supremacy seems to Hobson the condition for establishing a really democratic government, founded on the development of “intelligent co-operation” with a view to “clearly defined ends”. However, it seems likely that capitalism will be able to persist, in a new, corporative shape, where state control and intervention, and the management of public opinion, would be “consistent with the largest liberty and opportunity of private profiteering” (Hobson 1919: 75, 87, 143 and 200). In exchange for discipline, government and entrepreneurs would offer workers’ organizations – not unconditionally and permanently, as we well know today – guaranteed minimum wages, unemployment benefit, pensions, factory committees, and a share in possible profits resulting from the exploitation of other populations (see *ibid*: 164-65).

In March 1918 Antonio Gramsci envisaged an “organization of freedoms” for the future as being more “mature” than bourgeois individualism, whose advantages were nevertheless to be conserved. Shortly after, he warned against the opposite tendency emerging in the proposal, made in particular by the nationalist daily *L’Idea Nazionale*, to form a government from technical experts, in fact businessmen. A “professional state, a kind of capitalistic

---

<sup>9</sup> An interesting analysis on this point can be found in Polanyi Levitt (2013), particularly in Chapter 5, “Keynes and Polanyi. The 1920s and the 1990s”.

unionism”, a “*régime* of associations” represent, according to Gramsci, a regressive caesura in the evolution of modern society (Gramsci 1994: 19-20). The following year he affirms that “the War has destroyed all the achievements of liberal ideology”, both in internal and international politics. Politics is no longer separate from economic processes: monopolistic capitalism increases in strength, together with bureaucracy and militarism, and the state “distributes wealth to private capitalists”. While, then, “the liberal world disintegrates”, Gramsci observes, “liberal economics” shows itself to be “an abstract and mathematical utopia”, “separate from the general historical process of civilization” (ibid.: 21-22).

These examples of early reflection concerning the transformation from liberal to corporative capitalism parallel Polanyi’s approach. They find a historiographical and theoretical support in Charles Maier’s admirable research (1975) on the origin of corporative mentality and practice during and after the First World War.

### **3. From the crisis of the 1970s to neoliberal transformation**

Crises sharpen conflicts and open alternatives: this is the theme of the last two pages of the Nineteenth Chapter of *The Great Transformation*, “Popular Government and Market Economy”. There we find a definition of socialism as a break “with the attempt to make private money gains the general incentive to productive activities”, and a tendency toward a democratic control of a no longer autonomous economy (Polanyi 2001: 242). After the war, two tendencies were again confronting each other. The first one – Polanyi maintains (1947b: 117) – leads to “a truly democratic society”, where the economy would be organized “through the planned intervention of the producers and consumers themselves”. The second tendency leads to a society “more intimately adjusted to the economic system”, whose basic institutions (the market, the capitalist relations of production) will remain “unchanged”. The alternative between these two tendencies is rooted in the fundamental features and dynamics of capitalist society, and becomes evident when systemic crises occur.

Immediately after the Second World War, Polanyi renewed the hopes he shared with Austrian socialists after the First WW. Though clinging to a rational analysis of facts and a critical attitude<sup>10</sup>, he was looking, for instance, at the British Labour Government as an opportunity to attempt the construction of a radically different social organization, in the direction of socialism.

In fact, the continuity of the market-capitalist social organization and world order has been safeguarded through the second of the two tendencies Polanyi points out in 1947.

Even if we consider the most notable achievements of post-liberal capitalism in the post-war period – such as the pluralistic interest representation and the welfare state – labor remained a commodity. Limited democratic reforms and moderate popular governments were so worrisome as to contribute to starting a period of crisis in the 1970s. The crisis required the reversal of economic and democratic protections achieved by the working classes; at the same time, it was – as usual – instrumentally employed to make this reaction easier. Besides, the attack against democratic institutions, attitudes and practice, being both a preliminary

---

<sup>10</sup> See, for example, another article Polanyi published in the same year, 1947a, and his writings on adult education (1945b and 1946 in particular). See also 1945a.

condition and an effect of the neoliberal transformation, started in that decade<sup>11</sup>.

Joan Robinson and Stuart Holland, interviewed by Bertram Silverman (1980) on the British welfare state crisis, raise fundamental questions about the neoliberal turn. How effective can be Keynesian fiscal and monetary policies in a world “dominated by large transnational corporations” (p. 28), troubled by the crises of the 1970s and bewildered in the face of stagflation? In the interview, reference is made to a broader framework, which is normally neglected, but is traceable in Keynes and adopted by the post-Keynesian current. According to the latter, governmental functions should include social equity, the promotion and quality of investments, the control of large corporations, full employment, and the system of international relations. Besides, an effective planning requires a democracy made real through broad and informed public participation.

Silverman discusses with Robinson and Holland these problems, along with that of a Labour Party officially geared to alternative strategies, but disposed, in practice, to monetarist policies, cuts in public spending, privatizations, and to harness the initiatives and forces of the working class.

Robinson connects the issue of the welfare state to the historical context and basic dynamics of capitalism. That the boom could last indefinitely was an illusion, convenient to the ruling class. The Trade Unions, for their part, “didn’t take advantage of the prosperity to make a socialist policy in any sense”; they were merely “trying to get [their] stick into the cake” (ibid.: 30). A similar metaphor can also be found in the analysis of the development and crisis of the Fordist-Keynesian-neo-corporative institutional setup accomplished by C. B. Macpherson (1987 [1984]: 128), who suggests that each union seeks “to maintain its slice of pie, but does not question the methods of the bakery”.

Macpherson’s essay, as well as the interview conducted by Silverman, raise the issue of the transition to a new phase, fully launched by the government of Margaret Thatcher in 1979 and the Reagan presidency the following year. Important precedents were the economic liberalization promoted by Deng Xiaoping in 1978, while the Chinese regime did not cease to be illiberal, and the adoption of the economic policy recommended by the Chicago School by the Pinochet government in Chile, after the coup d’état of 1973.

According to Macpherson, the historical evolution of capitalism has unmasked the illusion of the theoreticians of liberal democracy that pluralism had swallowed and metabolized class antagonism. When the era of development came to an end, it seemed no longer possible to redistribute, partly at least, the benefits of the increases in productivity and, in general, to meet the need for equality and well-being. An institutional transformation was needed to overcome the crisis – but what kind of transformation? In its most radical terms, the alternative was between “more participatory democratic institutions”, demanded by “popular movements”, and the dismantling of democracy in the direction of “some kind of corporatist

---

<sup>11</sup> When the *Report* of the Trilateral Commission (Crozier, Huntington and Watanuki 1975) was worked out. A continuity can be noted with a recent report, this time directly coming from a private corporation: the amendment of “Constitutions [that] tend to show a strong socialist influence” is recommended, in particular with the aim of avoiding “weak executives; weak central states relative to regions; constitutional protection of labor rights; consensus building systems which foster political clientelism; and the right to protest if unwelcome changes are made to the political status quo” (J.P.Morgan 2013: 12).

plebiscitarian state” (ibid.: 127). As Macpherson feared, the latter proved to be the dominant trend in the new phase.

Robinson interprets the crisis of the Seventies and its neoliberal solution as “almost a conscious class war of the rich against the poor” (Silverman 1980: 30)<sup>12</sup>. Flagging growth produced inflation by increasing competition for scarce resources. According to Robinson, inflation depends on distributive conflicts, as Keynes believed; therefore, it is a political problem. In her opinion, the monetarist indication of treating inflation by controlling the creation of money is erroneous, because it is confusing the effect with the cause; in fact, it aims at reducing welfare expenditure. Since, after all, government spending is required to prevent an excessive rise in unemployment, siphoning resources from welfare to arms industry seems to be the solution, particularly in the United States, where there are “enormous plans for rearmament” (ibid.). The reference is to Reagan’s policy; armaments have the advantage of being directly source of profits, while taxes to pay for them are only partially loaded on profits. In fact, another aspect of the Reagan policy was going to become a guideline of neoliberal policies: the reduction of the progressivity of taxation, going so far as to reverse it into regressivity, if indirect taxes, together with tax avoidance and evasion, are taken into account. State expenditure too changes in the same direction: a reduction of welfare corresponds to a ‘supply side’ political economy.

Robinson defends the cause of a productive expansion policy and income redistribution – against monetarism – also in order to ward off inflation, while government spending on welfare should not decrease, and could even increase. Post-Keynesians trace back to Keynes himself the principle that not only full employment should be the prime objective of economic policy, but the state should be the employer of last resort. Thus a floor for wages would be warranted and the problem of poverty solved, through full employment and fair wages. Such theoretical and political attitude typically belongs to the radical reformist tendency of the last years of the post-war boom. It inspires, for example, Hyman Minsky’s writings between the end of the 1960s and the first half of the 1970s (see Minsky 2013). The definition and achievement of the “public purpose” – which inevitably clashes with the “planning system” carried out by private corporations – is a crucial requirement for John K. Galbraith (1973)

In those times, it still seemed possible that a world could be built “where social and civil progress does not represent a by-product of economic development, but an objective consciously pursued” (Caffè 1977: 42; my translation – MC). The above recalled Polanyi’s “reintegration” of society goes in the same direction. Federico Caffè continued in the following years his critical analysis of neoliberalism. For example, he opposes the 19<sup>th</sup>-century mentality reviving in neoliberal policies to the prospect of “an economy ‘at the service of humanity’”, in which public intervention would take a “core function”, in contrast to the dominance of profit and individualism (Caffè 2014 [1986]: 33).

The problem is that reformist policies of this kind go beyond the limits within which capitalism is reformable. The neoliberal transformation took the opposite way. Its beginnings were marked by ‘monetarism’ and ‘supply side’ economics; state intervention, trade unionism

---

<sup>12</sup> A quarter of century later, the outstanding American financier Warren Buffet declares: “There’s class warfare, all right, but it’s my class, the rich class, that’s making war, and we’re winning” (Stein 2006).

and economic and social rights were attacked. Ronald Reagan, introducing the 1982 *Economic Report of the President*, declares, for instance, that

there is no long-term tradeoff between unemployment and inflation. The increasing role of the Federal Government in the economy – whether that role was to aid the poor and aged, to protect consumers and the environment, or to stabilize the economy – contributed to our declining economic performance. (Reagan 1982: 22)

Moreover, “increasing economic freedom will also provide greater assurance of our political freedom” (p. 28). The key word is then “reduction”: of government spending and regulations, of taxes (25%), of the growth of the money supply by the Federal Reserve System. In reality, as Paul Krugman (2009) points out at the beginnings of the current crisis, federal indebtedness began *rising* under Reagan. The 1982 Garn-St. Germain Depository Institutions Act made the *rise* in private debt possible by financial deregulation. New Deal restrictions on mortgage lending ended. The crisis of the savings-and-loan institutions took place in the following years, but the present crisis can also be a longer-term effect of the Reagan-era legislative changes – which the Clinton administration did not dismantle in the 1990s: on the contrary.

Government policies in the neoliberal era, rather than reduced, were more directly controlled and directed by great financial interests, those of the dominant part of a capitalist hierarchy becoming more and more centralized, global, and financial. Neoliberalism is the attempt to end the crisis of capitalist accumulation in ways consistent with its essential characteristics and responding mainly to those interests, even at the expense of the so-called competitive sector of small and medium entrepreneurs. The rate of profit is to be increased with the collaboration of governments, by increasing the exploitation of the labor force, of natural resources and the ‘social capital’. Greater and greater amounts of “social costs” are shifted to the human and natural environment (Kapp 1950). New fields for investment are looked for, preferably endowed with rent positions, by their own nature or thanks to governmental concessions and privileges.

The economic intervention of states and international organizations has not decreased, but has accentuated certain goals and ways rather than others. It can be said, indeed, that it has intensified, to the extent that ‘economic’ reasons – corresponding to the interest of the holiopolistic-financial élite holding economic power – have excluded the reasons of democratically policy aimed at citizens’ happiness. The neoliberal transformation – as a way of facing the crisis of the 1970s, as a new form of capitalist accumulation – implies the liquidation of the secular attempt to build “an economy ‘at the service of humanity’” instead of profit.

With the Structural Adjustment Programmes (SAPs), neoliberal policies have been imposed to many countries since the 1970s, and continued without being able to avoid crises generated by diverse causes, but also by those policies themselves. In 1991-92 the pressure of foreign debt coupled with the decision to establish the exchange at parity between peso and U.S. dollar led to ruin the Argentine economy, preparing the devaluation and the plundering of its resources, in particular of assets owned by the state. The plan to save Mexico from bankruptcy in late 1994 was developed by the IMF and the U.S. to protect foreign investors, mostly North-Americans, but involved the limitation of the sovereignty of Mexico, with the control of its budget and a mortgage on the export of its oil. The countries of Southeast Asia

and Korea were affected by the 1997 financial crisis and the ensuing recession. Meanwhile, the United States, with President Clinton, continued to show the way by reducing spending on welfare and completing the de-regulation of financial activities. The current crisis has supplied the opportunity of enforcing austerity and so-called structural reforms also on the 'central' countries of capitalist development, with the same disastrous results as the SAPs.

The synergy between the norms, and above all the practices, of the European Union and the neoliberal transformation is profound and effective. Neoliberalism, though specifically characterizing the current form (or institutional arrangement) of capitalism, has deep roots. A similarity is shown by Claus Thomasberger (2015) between the EU institutions and the international order outlined by Friedrich Hayek (1937) and Lionel Robbins (1937), including a monetary union and therefore a currency immune from interference by national governments. According to such projects, governments should have dramatically reduced interventions to protect workers and the environment, as well as social policy, customs barriers, controls on capital movements and prices. According to Hayek, the free market and competition between countries was to function both as effect and cause of that wide reduction concerning not only the economic and social policies, but also the function of democratic institutions. Politics would simply put into practice the free-market principles, through a congruous legislation essentially addressed to the discipline of property rights and private contracts. The mission of the union should have essentially been that of preventing the interference of states on economic activity (see Thomasberger 2015: 193).

The ideas of Hayek and Robbins have finally succeeded<sup>13</sup>.

Neoliberalism has been the way in which the ruling classes have sought a solution – corresponding to their interests (true or supposed as they could be) – to the political and economic crisis that began in the Seventies. They have regained all the power, at the expense of democracy, and resolved for a small elite the difficulties caused by the over-accumulation, which, however, tend to recur and even worsen precisely because of the policies adopted. The new economy is based on the devaluation of the workforce and the intensification of its exploitation<sup>14</sup>, and growing social costs shifted to the natural and human environment. New investment fields are looked for: alongside those taken away from public management, there are the huge development of financial activities, 'land grabbing' and the exploitation of natural resources. Scientific discoveries offer the opportunity to extract rent from patents. Investments of this type allow maintaining a certain level of profit in the short term, but are only able to contrast over-accumulation partially and temporarily, insofar as they occupy monopoly positions and produce rent rather than profit. Often, in fact, those investments merely take possession of existing resources, profit of the growing inequality, or, like financial speculation, appropriate value that is produced by other activities. As David Harvey writes (2005: 159), the main result of neoliberalism has been "to redistribute, rather than to generate

---

<sup>13</sup> The Transatlantic Trade and Investment Partnership (TTIP) under discussion between the US and the EU, in spite of the cautions the European Parliament recommended on July 8, 2015, is – for the moment – a radical point of arrival of neoliberalism and of the function the EU tends to have thereupon.

<sup>14</sup> The share of wages and salaries on the GDP decreased on the average by 10% from the half of 1970s to 2007 (for example, U.S. from 70 to 63%, France from 76 to 65%, Italy from 68 to 53%) (OCDE 2008: 38).

wealth and income”: an “accumulation by dispossession”, in which the credit system is used “as a radical means” and the state “plays a crucial role”.

Depression and over-accumulation also stem from shifting costs on the natural and human environment, in order to increase short-term profits and investments. This causes, in fact, the increase of costs in the medium and long run. James O’Connor (1991) speaks in this sense of the “second contradiction of capitalism” – the first being the tendency to over-accumulation. He maintains that the economic growth is sustained at the expense of its environment, to the extent that the latter is spoiled beyond repair. This procedure leads to increased costs for the economic activity itself and then to further attempts to transfer them to the environment. There is thus the risk of a cumulative, runaway process. Indeed, the trend toward a counter-adaptive relationship of the economy with its environment has been strengthened after the Second World War, as a consequence of the development and dissemination of industrial activities, and even more in the neoliberal era, as a result of the so-called deregulation and the creeping or overt crises. The issue of natural resources – the “Limits to Growth”, to recall the research commissioned by the Club of Rome (Meadows D. H. *et al.* 1972) – has evidently become a factor of the structural crisis of accumulation, after having been meaningfully proposed to public attention at the beginning of the epochal crisis of the 1970s.

#### **4. Conclusion. Is there a way out?**

The new ‘Great Depression’ we are experiencing appears as the result of the vicious circle of neoliberal policies, which, however, precisely from it derive more strength. Numerous and well-documented analyses reveal this paradox, but protest movements remain limited and short-lived. The opposition is ensnared by the increase of structural unemployment, the fragmentation of the working class and the so-called globalization. The effect of the creation of a global labor market – which, in fact, is fragmented, then theoretically incompatible with the liberal principles and the very concept of the market – is the downward pressure on wages. This is one of the good reasons for the “non-death of neoliberalism”, which Colin Crouch (2011) defines “strange”. He vainly wishes reforms making large corporations socially responsible; the opposite trend continues unabated and has the zealous complicity of governments, international institutions and mass media. Crouch himself notes that the crisis, rather than diminish the domination on markets and political bodies by global corporations, especially financial ones, has increased it.

According to Wolfgang Streek, alternatives should be found to neoliberal (counter-) reforms, which generate vicious circles threatening the very existence of capitalism. He is convinced that capitalism needs regulatory institutions, capable of reversing the growing commodification of labor, land and money – Polanyi’s “fictitious commodities”. Only this path of radical reforms would be able to fight against the “five systemic disorders of today’s advanced capitalism”: “stagnation, oligarchic redistribution, the plundering of the public domain, corruption and global anarchy” (Streek 2014b: 55). His tentative answer to the question whether capitalism has reached the end of his days is that, anyway, “what is to be expected [...] is a long and painful period of cumulative decay” (p. 64).

In the final chapter of a book of his (2014a) Streek makes meaningfully reference to Polanyi concerning such issues as the risk of instability and popular consensus to extreme right-wing organizations, the decay of democracy, the need to bring markets (those of “fictitious commodities” in the first place) back under the control of society. As Polanyi criticized market “universalism” and the Gold Standard, so Streek refuses the rules and policies imposed by the European Union as suggested by “market fanaticism institutionalized in the common currency” (175). Like Polanyi observed in the inter-war period, again authoritarian strategies are put into practice in the name of market freedom, that is, with the aim “to smooth the path to Hayekian governability”(177). In his essay on fascism Polanyi (1935) pointed out the incompatibility between capitalism and democracy. The neoliberal transformation – Streek affirms eighty years after (2014a: 173) – produced a situation in which “the alternative to capitalism without democracy is democracy without capitalism or at least the capitalism we know”.

The problem is to be raised, at this point, that typically Keynesian reforms, such as deficit financing of public investment and increasing demand through income redistribution, are at present not merely rejected by the dominant ideology, but practically unrealizable in the actual economic and political condition. Trying to face a systemic crisis, capitalism is only able to try to survive by increasing the exploitation of labor, sucking up the savings of the middle classes, containing at most public regulation and the welfare state, favoring big tax evaders and avoiders, condemning weak countries to failure<sup>15</sup>, and diffusing disorder, famine and war around the world. More radical reforms, such as those supported by Post-Keynesian economics, are unfeasible for a better reason. Past illusions of a ‘mixed economy’ or a ‘third way’ have fallen. Political institutions are occupied by the economic oligarchy, while political forces capable of imposing, and even conceiving, incisive reforms are lacking. Further research, and a titanic work of political organization, would be necessary to save humanity from an entropic drift, and, in case, capitalism from itself.

Our socio-economic organization reveals to be counter-adaptive. The economic system is dramatically inefficient, if its effects on its human, social and natural environment are accounted, beyond the closed playground of conventional economics. These questions lead us to a demanding negentropic conception of *positive freedom*, understood as the ability of human beings to democratically adapt social institutions in view of a growing wellbeing, obviously implying an intelligent, non-destructive relationship of the social system, of its economic organization in the first place, with its environment.

Such demanding conception of freedom and democracy, constituting the core of Polanyi’s political philosophy (see Cangiani 2012-2013), is grounded on his theoretical achievements (as outlined in Section 1).

---

<sup>15</sup> On the absurdity of such policy concerning Greece see for example Stiglitz (2015).

## References

- Ankarloo Daniel (2002) "Using Karl Polanyi as a stepping stone for a critique of the new institutionalist orthodoxy", Paper presented at the CRIC Workshop – University of Manchester, 23-25 October.
- Ankarloo Daniel and Giulio Palermo (2004) "Anti-Williamson: a Marxian critique of New Institutional Economics", *Cambridge Journal of Economics* 28, pp. 413-429.
- Beckert Jens (2007) "The Great Transformation of Embeddedness. Karl Polanyi and the New Economic Sociology", *MPIfG (Max-Planck-Institute für Gesellschaftsforschung) Discussion Paper* 07, 1, pp. 1-24.
- Block Fred and Margaret R. Somers (2014) *The Power of Market Fundamentalism. Karl Polanyi's Critique*, Cambridge, Mass. & London: Harvard University Press.
- Caffè Federico (1977) "Intervista", in Fernando Vianello, "Federico Caffè e l'intelligente pragmatismo", in *Federico Caffè. Realtà e critica del capitalismo storico*, a cura di Attilio Esposito e Mario Tiberi, Catanzaro: Meridiana Libri, 1995, pp. 36-42.
- (2014 [1986]) *In difesa del welfare state*, a cura di P. Ramazzotti, Torino: Rosenberg & Sellier. (Prima ediz.).
- Cangiani Michele (2011a) "Karl Polanyi's Institutional Theory: Market Society and Its 'Disembedded' Economy", *Journal of Economic Issues* XLV, 1, pp. 177-197.
- (2011b) "'A Staggering World'. Karl Polanyi's Contribution to *Der Österreichische Volkswirt*", in Jürgen G. Backhaus ed., *The Beginnings of Scholarly Economic Journalism: The Austrian Economist and The German Economist*, New York: Springer, pp. 1-14.
- (2012-13) "'Freedom in a Complex Society'. The Relevance of Karl Polanyi's Political Philosophy in the Neoliberal Age", *International Journal of Political Economy*, 41, 4, pp. 34-53.
- Castel Robert (1995) *Les métamorphoses de la question sociale*, Paris: Fayard.
- Crozier Michel, Huntington Samuel P. and Watanuki Joji (1975) *The Crisis of Democracy: Report on the Governability of Democracies to the Trilateral Commission*, with an introduction by Z. Brzezinski, New York: New York University Press.
- Crouch Colin (2011) *The Strange Non-death of Neo-liberalism*, Cambridge: Polity.
- Galbraith John K. (1973) *Economics and the Public Purpose*, Boston: Houghton Mifflin.
- Gemici Kurtulus (2015) "The neoclassical origins of Polanyi's Self-Regulating Market", *Sociological Theory* 33, 2, pp. 125-147.
- Gramsci Antonio (1994) *Scritti di economia politica*, ed. by G. Lunghini, Torino: Bollati Boringhieri.
- Harvey David (2005) *A Brief History of Neoliberalism*, Oxford: Oxford University Press.
- Hayek Friedrich A. (1937) *Monetary Nationalism and International Stability*, London: Longmans, Green.
- Hobson John A. (1919) *Democracy after the War*, London: George Allen & Unwin; New York: Macmillan. (A previous version was published in 1917).
- J.P.Morgan (2013) "The Euro area adjustment: about halfway there", *Europe Economic Research*, 28 May.
- Kapp K. William (1950) *The Social Costs of Private Enterprise*, Cambridge (Mass.): Harvard Univ. Press.
- Krul Matthijs (2016) "Institutions and the Challenge of Karl Polanyi: economic anthropology after the neoinstitutionalist turn", *Max Planck Institute for Social Anthropology – Working Paper* No. 168.
- Krugman Paul (2009) "Reagan Did It", *The New York Times*, May 31.

- Liberal Industrial Enquiry (1928) *Britain's Industrial Future*, London: E. Benn Ltd.
- Machado Nuno Miguel Cardoso (2011) "Karl Polanyi and the New Economic Sociology: Notes on the Concept of (Dis)embeddedness", *RCCS Annual Review* 3, pp. 1-22.
- Macpherson Crawford B. (1987) *The Rise and Fall of Economic Justice*, London: Oxford University Press.
- Maier Charles S. (1975) *Recasting Bourgeois Europe*, Princeton University Press.
- (1987) *In Search of Stability*, Cambridge: Cambridge University Press.
- Marshall Thomas H. (1992 [1950]) *Citizenship and Social Class*, in T.H. Marshall and T. Bottomore, *Citizenship and Social Class*, London, Pluto Press.
- Meadows Donella H., Meadows Dennis L., Randers Jorgen & Behrens William W. III (1972) *Limits to Growth*, New York: New American Library. (Updated editions later on).
- Minsky Hyman Ph. (2013) *Ending Poverty: Jobs, not Welfare*, Annandale-on-Hudson, NY: Bard College Publication Office.
- OCDE (2008) *Croissance et inégalité. Distribution des revenus et pauvreté dans les Pays de l'OCde*, Paris.
- O'Connor James (1991) "On the Two Contradictions of Capitalism", *Capitalism Nature Socialism*, II, 3, pp. 107-09.
- Polanyi Karl (1928a) "Liberale Wirtschaftsreformen in England", *Der Österreichische Volkswirt*, Vol. 20, No. 20, pp. 544-45. Now in Polanyi 2002, pp. 90-94.
- (1928b) "Liberale Sozialreformer in England", *Der Österreichische Volkswirt*, Vol. 20, No. 22, pp. 597-600. Now in Polanyi 2002, pp. 95-103.
- (1931) "Demokratie und Währung in England", *Der Österreichische Volkswirt*, Sept. 19. Now in K. Polanyi, *Chronik der großen Transformation*, Band 1, ed. by M. Cangiani and C. Thomasberger, Marburg: Metropolis-Verlag, 2002, pp. 120-128.
- (1933) "Der Mechanismus der Weltwirtschaftskrise", *Der Österreichische Volkswirt*, Sonderbeilage (supplement), pp. 2-9.
- (1934) "Labour und die Eisenindustrie", *Der Österreichische Volkswirt*, Vol. 26, No. 48. Now in Polanyi 2002, pp. 251-52.
- (1935) "The Essence of Fascism", in *Christianity and the Social Revolution*, ed. by John Lewis, Karl Polanyi and Donald K. Kitchin, London: Gollancz, pp. 359-394.
- (1945a) "Universal Capitalism or Regional Planning?", *The London Quarterly of World Affairs*, January, pp. 1-6.
- (1945b) "What Kind of Adult Education?", *The Leeds Weekly Citizen*, Sept. 21.
- (1946) "Adult Education and the Working Class Outlook", *The Tutors' Bulletin of Adult Education*, Nov., pp. 8-11.
- (1947a) "British Labour and American New Dealers", *The Leeds Weekly Citizen*, January 10, p. 5.
- (1947b) "Our Obsolete Market Mentality", *Commentary* 3, 2, pp. 109-117.
- (1977) *The Livelihood of Man*, ed. by H.W. Pearson, New York, S. Francisco, London: Academic Press.
- (2001) *The Great Transformation*, Boston: Beacon Press. (New York: Holt, Rinehart & Winston Inc., 1944).
- (2002) *Chronik der großen Transformation*, Band 1, ed. by Michele Cangiani and Claus Thomasberger, Marburg: Metropolis Verlag.
- (2014) *For a New West*, edited by Giorgio Resta and Mariavittoria Catanzariti, Cambridge, UK: Polity Press.

- (2014 [1950-52]) “General Economic History”, Ms. Now in Polanyi (2014), pp. 133-147.
  - (2014 [n.d.]) “The Trend toward an Integrated Society”, Ms. Now in Polanyi (2014), pp. 214-219.
- Polanyi Levitt Kari (2013) *From the Great Transformation to the Great Financialization*, Black Point, Nova Scotia: Fernwood; London: Zed Books.
- Ramonet Ignacio (1995) “La pensée unique”, *Le Monde Diplomatique*, Janvier, p. 1.
- Reagan Ronald (1982) *Economic Report of the President*, Washington, D.C.: United States Government Printing Office.
- Robbins Lionel (1935) *An Essay on the Nature and Significance of Economic Science*, London: MacMillan & Co.
- Silverman Bertram (1980) “The Crisis of the British Welfare State”, *Challenge*, Vol. 23, 4, pp. 28-39.
- Stanfield J. Ron (1977) “Institutional Economics and the Crises of Capitalism”, *Journal of Economic Issues* XI, 2, pp. 449-460.
- Stein Ben (2006) “In Class Warfare, Guess Which Class Is Winning”, *The New York Times*, 26 November.
- Stiglitz Joseph (2015) “Greece, the Sacrificial Lamb”, *The New York Times*, Jul. 25.
- Streeck Wolfgang (2014a) *Buying Time. The Delayed Crisis of Democratic Capitalism*, London & New York: Verso.
- (2014b) “How Will Capitalism End?”, *New Left Review*, 87, May-June, pp. 35-64.
- Thomasberger Claus (2015) “Europe at a Crossroads: Failed Ideas, Fictional Facts, and Fatal Consequences”, *Forum for Social Economics*, 44, 2, pp. 179-200.
- Veblen Thorstein (1901) “Industrial and pecuniary employments”, in Id., *The Place of Science in Modern Civilisation*, London: Routledge / Thoemmes Press, 1994.
- (1904) *The Theory of Business Enterprise*, New York: Ch. Scribners.