

## Not the New Deal and Not the Welfare State: Karl Polanyi's Vision of Socialism

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AT THE "Freedom in a Complex Society" Conference, Kari Polanyi Levitt expressed her wish that her father be remembered not as an American but rather as a Central European.<sup>1</sup> This led to a heated discussion, which was not resolved. Many scholars, including Polanyi Levitt (2013), utilize Karl Polanyi's work as a fundamental resource for examining today's neoliberalism and for advocating social change. Polanyi Levitt understood her father's legacy within the socialist traditions of Central and Eastern Europe, where he spent his formative years. In 1933 at about 47 years old, he left for London and later, at 61 years old, moved to the United States.<sup>2</sup> Polanyi Levitt suggested that one's interpretation of her father's socialism depends on whether you view him as writing from a Central European perspective or an American one. Many scholars, especially in the US context, have used Polanyi to argue for re-embedding of the economy in a new welfare state, a new New Deal, or a European social democratic state (Block and Somers 2014; Blyth 2002; Krippner 2002; Stiglitz 2001). Fred Block and Margaret Somers also participated in the conference. While examining other time periods and texts, Block and Somers have focused on Polanyi's *The Great Transformation* (1944), written and published while Polanyi moved back and forth between England and the United States. Block, Somers, and other scholars engage actively and importantly with the concerns in the United States, which focus on the state. Thus, we can see a Central European Polanyi and an American Polanyi.

Here I step into this discussion with the goal of clarifying Polanyi's vision of socialism. I start by exploring the arguments for the welfare state made by Fred Block and Margaret Somers in their *The Power of Market Fundamentalism*. I then argue that, while Polanyi most definitely preferred the New Deal to other options such as fascism, Polanyi's socialism came out of Central and Eastern European experiences, debates, and concerns. I join other scholars in demonstrating that the New Deal and the welfare state were not socialism to Polanyi.<sup>3</sup> My contribution to this discussion is to demonstrate the specific anti-statist and anti-capitalist nature of Polanyi's socialism. I also argue that Polanyi should be understood not only within the Central and Eastern European context of the 1920s but also within the transnational context of anti-statist socialisms. Thus, I seek to recognize the resonance of his ideas with broader socialist worlds.

### The New Deal and Welfare State Argument

Throughout their work, Block and Somers have made a profound contribution to social scientific knowledge and political discourse in the United States. They have demonstrated the relevance of Polanyi's critique today and have developed an interpretation of Polanyi's work to understand the rise of the right-wing in the United States, the logic of the right's utopian free market ideas since the 1970s, and the devastating consequences of neoliberal policies based on these ideas. Thus, their work is a foundational resource for scholars, activists, and laypeople seeking to understand neoliberalism today. However, I take issue with their interpretation of Polanyi's socialism.

Block and Somers (2014) argue that markets have always been embedded.<sup>4</sup> They build on Polanyi's statement that the self-regulating free market has never existed, that it is "a stark utopia" (Polanyi 1957, 3). According to Polanyi, economic liberals condemn state regulation in the name of free markets while simultaneously calling for state intervention and regulation that helps their own interests, such as laws against union organizing, laws to protect private property, or *ad hoc* exceptions to laissez-faire policies (Polanyi 1957, 148). This liberal state, which embedded markets in the nineteenth and early twentieth centuries, was usually authoritarian and anti-democratic. Since the market is always embedded in a state, then, according to Block and Somers, the market or the economy more generally could be embedded in a more social democratic state. Block and Somers write:

The concept of the always-embedded economy suggests that there are no inherent obstacles to restructuring market societies along more democratic and egalitarian lines. After all, if it is not "nature" but political discourses and institutions that drive our markets, then it is those very same political dynamics that are ultimately vulnerable to the power of democratic and egalitarian forces. (Block and Somers 2014, 96–97)

Thus, by recognizing the always-embedded market, we might decide to establish another kind of regulatory state in place of the neoliberal ones we have today.

Block and Somers present European social democracy, the New Deal, and the welfare state more generally as the socialist or proto-socialist models Polanyi would likely have advocated (Block and Somers 2014, 57, 220–23).<sup>5</sup> First, working within the US debates, they argue that the state is a key element of these models and central to Polanyi's thought (Block and Somers 2014, 240). For Block and Somers, Polanyi would support these models because Polanyi called for democracy and these models have parliamentary or representative democracy. These models also regulate markets, especially those in fictitious commodities, and provide social protection and "societal repair" (Block and Somers 2014, 113). Block and Somers assert that Polanyi supported such state regulation of the economy and "follow[ed] Weber in recognizing that political authority and power

would inevitably continue into any future social order, especially as a countervailing source of power to that of the economy" (Block and Somers 2014, 36, 26–27). For Block and Somers, a democratic state is an essential countervailing force against the economic domination of market society.

Second, Block and Somers view these three models as socialist or proto-socialist. Recognizing that "Polanyi is not explicit on this point," they assert that Polanyi viewed the New Deal "as the beginning of a transition to socialism" (Block and Somers 2014, 57). Block and Somers present the New Deal as a socialist way out of crisis, which they equate it with Red Vienna. For them, Red Vienna is "a prototypical welfare state in which a healthier, more educated, and better housed labor force brought benefits to workers and employers alike" (Block and Somers 2014, 25), farther down the path to socialism than the New Deal but still on the same socialist path. However, Block and Somers interpret Polanyi's socialism as a regulated capitalist system: "Polanyi's vision depends on the possibility of a political-economic compromise by which businesses would continue to earn profits, but they would accept regulatory restraints, taxation, and the steady expansion of social welfare institutions" (Block and Somers 2014, 221). In the US context, such regulated capitalism appears socialist because popular political debates have long assumed that the market is capitalist and the state is socialist. Block and Somers have created a new, though related, dichotomy in which: a) the free market and its authoritarian state are capitalist, and: b) the New Deal, European social democracy, or the welfare state and their regulated markets are socialist or are on the path to socialism. Thus, in the US context, a system with private ownership of the means of production and profit-making companies can be understood as socialist if a democratic welfare state manages it.

In their work, Block and Somers focus on the urgent concerns of the US, especially the rise of the New Right, the pernicious logic of free market ideas, and the destruction of the welfare state. They do talk about Europe, such as in regards to Speenhamland and the European social democracies, but their concerns are primarily US concerns and they work within the framework of US debates. In these debates, welfare state capitalism is understood as socialist or leading to socialism, in opposition to free market capitalism. This dichotomy obscures socialisms that Polanyi supported, as well as others that he might have supported.

### Polanyi's Vision of Socialism

On the first page of *The Great Transformation*, Polanyi wrote, "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 1957, 3–4). Polanyi found that market society impels countermovements, but these countermovements are primarily for protection and survival. For Polanyi, without the implementation of specific forms of socialism, capitalism would remain in systemic crisis and any intervention in that

system would further intensify this crisis (Polanyi 1934).<sup>6</sup> Furthermore, he believed that capitalism and democracy were mutually incompatible and that only socialism and democracy were mutually compatible: "Either Democracy or Capitalism must go. Fascism is that solution of the deadlock which leave Capitalism untouched. The other solution is Socialism. Capitalism goes, Democracy remains" (Polanyi 1934, 159). Polanyi did not view the state as the savior of society. For him, the state had a role to play in markets, but he did not call for the state, rather he recognized the state's role in the economy of the current system. Polanyi, of course, greatly preferred the protective countermovement of New Deal to that of fascism, but he would have still found it crisis-ridden and devastating to society. Only socialism of a particular sort will lead out of the crisis of capitalism.

Until 1933, Polanyi lived in a socialist world—the world of the Bolshevik Revolution, Hungary's Aster Revolution of 1918–19, the short-lived Soviets in Hungary and Germany, and Vienna's municipal socialism.<sup>7</sup> Central European discussions revolved around markets and socialism, especially in the liberal socialist circles he entered sometime after 1908 and remained within during his life in Central Europe (Dale 2010a, 7, 2010b, 377–79). Of course, when he moved to London and then to the United States, he developed new ideas, but his notions of socialism, I argue, developed in the socialist world of Central and Eastern Europe.

Red Vienna and its Central and Eastern Europe environment were quite different from that of the New Deal. Polanyi admired Red Vienna for its socialism beyond its state. The many workers' associations in Vienna at the time greatly inspired Polanyi. In the world of Viennese municipal socialism, it seemed bewildering to Polanyi to ignore such institutions and instead call for a centrally administered economy as Otto Neurath, Karl Kautsky, and others did. In 1925, Polanyi criticized these socialists: "the presently existing capacity of the trade unions, industrial associations, co-operatives and municipalities to contribute to a socialist economy is entirely overlooked by the theoreticians of the administered economy" (Polanyi in Dale 2010a, 23).<sup>8</sup> The distinction between the New Deal and Red Vienna is obscured when one focuses on the state. As Kristin Ross states, "if we begin with the state, we end with the state" (Ross 2015, 14). For Polanyi, socialism should be built on a wide variety of autonomous organizations, not led by the state or a representative parliament.

In 1922, Polanyi laid out his vision of a functional socialist society (Polanyi 2016).<sup>9</sup> First, this society would abolish the private ownership of the means of production (Polanyi 2016, 406). Second, this society, in effect, would abolish the state. Importantly for Polanyi, this was not anarchy. In this society, there would be two main economic organizations, the commune (*Kommune*) and the production associations. The commune is the political community and the owner of the means of production. The production associations include "productive

cooperative, guilds, 'self-managed factory,' 'business partnership,' 'social workshop,' 'autonomous enterprise,' producing trade union, industrial union or producers' general labor association, One Great Union" (Polanyi 2016, 414). The production associations have the right to use the means of production. Production associations could unite or federate to administer industrial branches democratically on the behalf of society, but at their base, these associations are directly democratic. For Polanyi, socialism requires both the commune and the production associations in negotiation with each other. These associations, in fact, represent the many sides of every person: everyone is both a consumer (and thus a member of the commune and possibly of local consumer cooperatives) and a producer (and thus a member of one or more production associations). People negotiating within and among these multiple institutions can, in Polanyi's view, consciously organize society and thus attain freedom. According to Polanyi, this freedom is founded upon *direct* democracy across, in multiple ways, the illusory divide between the economy and the polity.

This socialism is not the extension of regulations into the market as in the New Deal and the welfare state, but rather a movement through which the economy and the polity themselves are made social. By institutionally bringing together the polity and the economy, by "a true restructuring of society!" (Polanyi 2018, 298), Polanyi seeks to recognize and expand the social, a relational domain. Society *itself* creates markets and democracy simultaneously.<sup>10</sup> This expanding, relational social sphere is socialism itself. According to Polanyi, the task of the socialist is "one of overcoming the state by resolving this social relation into a direct one that is no longer mediated by the state" (Polanyi 2018, 298). By advocating representative government as a polity intervening in or regulating the economy, Block and Somers ignore Polanyi's call for direct participation in the commune. By moving beyond the reification of the state and the market, we come to realize our mutual human relations, socialism, and freedom.

Polanyi did not turn away from this ideal after he moved to the United States. In 1947, Polanyi repeated his call for such a society:

[In America, there are two tendencies] some believe in elites and aristocracies, in managerialism and the corporation. They feel that the whole of society should be more intimately adjusted to the economic system, which they would wish to maintain unchanged. This is the ideal of the Brave New World, where the individual is conditioned to support an order that has been designed for him by such as are wiser than he. Others, on the contrary, believe that in a truly democratic society, the problem of industry would resolve itself through the planned intervention of the producers and consumers themselves. Such conscious and responsible action is, indeed, one of the embodiments of freedom in a complex society. (Polanyi 1947, 117)

The "planned intervention of the producers and consumers themselves" is an unmediated, democratic relationship across and within the economy and the polity. Thus, freedom in a complex society would not be realized by a welfare state in a capitalist system, but rather would require the restructuring of the entire society around democracy practiced by producers and consumers.

In 1922, Polanyi specifically used the term *Kommune* rather than a word for "state" (*Staat*). We can see Polanyi and others in 1920s Central and Eastern Europe as developing the socialist ideas of the Paris Commune of 1871. Kristin Ross recently explored the continuing legacy of the Paris Commune. According to Ross, the Commune entailed "the simultaneous dissolution of Capital, State, and Nation," thus abolishing private property and the state (Ross 2015, 112, 142). At its core, this legacy is based on the idea that the state is oppressive and must be dismantled, and that society itself, in the form of autonomous associations of workers, should organize social, economic, and political life. Freeing themselves from the state, those participating in the Commune had "a vision of social transformation predicated on a large voluntary federation of free associations existing at the local level... [and] the free union of autonomous collectives against the state" (Ross 2015, 111, 20). As discussed by Ross, Frederick Engels told August Bebel in 1875 that the Commune "ceased to be a state in the true sense of the term."<sup>11</sup> The Commune thus enabled equality and individualism (Ross 2015, 108), which Polanyi greatly valued. Only after the violent defeat of the Commune could the bourgeoisie use the Commune to bolster the state, but the legacy of the Commune—these ideas and especially the rejection of the state and capital—flowed to Central and Eastern Europe and other places worldwide.

Socialism and socialist thinking are transnational or global, not merely national or regional phenomena. While the Soviet Union and official communist parties supported centralized states and central planning, socialists around the world early on criticized Stalinism and state-centered, authoritarian socialism, as well as welfare state capitalism and free market capitalism. Within international discussions about socialism, Yugoslavia was particularly popular as a model because, after 1948, the Yugoslav government had implemented, though did not fully realize, worker self-management socialism. Socialists around the world found the Yugoslav model attractive because it sought to realize international socialist 'best practices': the decentralization or dismantling of the state, the creation of worker-organized economic and political democracy, (non-state) social ownership, and free markets (Bockman 2011: chapter 3). For example, in contrast to members of the Chilean Communist Party, who supported the Soviet Union, Chilean socialists showed great interest in anti-statist socialism and Yugoslavia. By 1947, the Socialist Party of Chile (PSC) publicly condemned Stalinism and Soviet central planning, suggesting a form of self-managing socialism. In general, the Socialist Party rejected Statism, as in 1953 when PSC leader Eugenio Gonzalez told the Chilean Senate:

We must not nationalize [estatizar] the economy but socialize it, that is, humanize it... Socialism does not aspire to reinforce the political power of the State with the management of economic power. Socialism does not aim to be a State which plans, regulates, and manages complex process of production and distribution of goods and services... On the contrary, socialism wants that workers and technicians themselves, through their organizations, plan, regulate, and manage, directly and democratically, economic processes for the benefit of themselves, their security, and real and living society. (Martner and Joignant 2005, 25–26)<sup>12</sup>

The social—and not the welfare state nor the New Deal—had transnational socialist resonance. Thus, we can see Karl Polanyi as part of transnational socialist networks, which rejected state socialism and state capitalism either authoritarian or democratic, as well as market fundamentalism.

At the conference, the heated discussion about whether we should consider Polanyi as an American or a Central European was not new. Block and Somers have provided an interpretation of Polanyi for today, which brings his ideas into current-day debates in highly effective ways. Yet, the US debates are unique in their focus on the state as the key actor that brings socialism, while leaving the market tied to capitalism. I discussed Fred Block and Margaret Somers' *The Power of Market Fundamentalism* to demonstrate how the US scholars use Polanyi to call for the welfare state, the New Deal, and European social democracy. By turning to Polanyi's youth and adult life in Central and Eastern Europe, we can see the transnational debates there. Broader transnational socialist networks called for the abolition of private ownership of the means of production and workers' associational power against the state. The spirit of the Paris Commune, 1920s Central and Eastern Europe, and 1950s Yugoslavia and the non-aligned world continues their anti-statist socialist legacies. While he developed his socialist ideas in Central and Eastern Europe, Karl Polanyi also worked within these transnational socialist worlds.

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## NOTES

- 1 I am grateful to Michael Brie, Gareth Dale, Kari Polanyi Levitt, Claus Thomasberger, Andrew Zimmerman, and all the participants at the "Freedom in a Complex Society" Conference in November 2015 for their insightful comments.
- 2 While living in England from 1933 to 1947, Polanyi visited the US for lecture tours and was a Rockefeller fellow at Bennington College in Vermont (from early 1940 to early 1943, during which he wrote much of *The Great Transformation*). In 1943, Polanyi returned to London and became involved in Hungarian politics. In 1947, at the age of 61, he moved to the United States to take up an appointment at Columbia University.
- 3 For example, Dale has demonstrated "that it is a caricature to present him either as a champion of Keynesian social democracy and 'embedded liberalism' or as an uncompromising opponent of market economy. Unlike many of his followers he was a radical socialist, committed to the replacement of capitalism by a socialist order" (Dale 2010b, 390). Mendell (1990) and Rosner (1990) made early English-language contributions to understanding Polanyi's socialist ideas.
- 4 Here I focus on *The Power of Market Fundamentalism*, which brings together previously published texts with the authors' most recent interpretative frame.
- 5 Block and Somers contrast these, as well as Polanyi's ideas, with Keynesianism. They criticize Keynes for elitism and for officially supporting the idea that the economy was an autonomous space. For them, Keynesianism led to further technocratic elitism (Block and Somers 2014, 22–25).
- 6 Drachokoupil (2004) discusses in a much more rigorous way the arguments that the countermovement against market society is primarily a movement for survival and is part of market pathology remaining within capitalist crisis.
- 7 By "socialist world," I do not mean that socialism or communism were fully realized, rather I mean that, in the early twentieth century, Central and Eastern Europe erupted with socialist experiments, practices, conversations, and futures that would continue, in various forms, through the post-1945 socialist era.
- 8 In a 1922 newspaper article, Polanyi criticized Karl Kautsky for "an almost flabbergasting lack of comprehension towards the forms and future possibilities of the cooperative idea and movement" (Polanyi in Dale 2014, 41).
- 9 Many others, including Block and Somers (2014), have discussed this 1922 work (Dale 2010a; Mendell 1990; Rosner 1990).
- 10 Polanyi spoke of socialism as "consciously subordinating [the self-regulating market] to a democratic society" (Polanyi 1957, 234). However, while markets would be subordinated to a functional socialist society, they would also be social and united with social life.
- 11 Engels continued, "We would therefore suggest that *Gemeinwesen* ['commonality'] be universally substituted for state; it is a good old German word that can very well do service for the French *Commune*." While Ross discusses this letter, I am using the translation from [https://www.marxists.org/archive/marx/works/1875/letters/75\\_03\\_18.htm](https://www.marxists.org/archive/marx/works/1875/letters/75_03_18.htm).
- 12 This is my translation.