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Die Administration.

Dr. Gustav Stolper: Der Krieg.

War es vor Übereinkunft des Ultima-
tum in Belgrad hat Graf Trisse ihn un-
hmlichen Abgeordnetenhaus erklärt, daß
die erste Wiederholung nicht als wahr-
nehmlich anzusehen sei. Wer es versteht
t, den Drang auf den Grund zu setzen,
hat sich durch diese Erklärung nicht über den Ernst
der Situation täuschen lassen. Ob der, was geschehen,
außerhalb geschehen ist und nicht, wird die Geschichte
erwählen haben. An dieser Stelle, wo ein so zu
zweier Jahre die Politik das Genusshoffen immer
wieder den erhobenen Widerrufen hervorgebracht hat,
muß betont werden, daß ihre Bände seit dem Ausbruch
ist der Krieg, religiös und humanistisch ge-
vosen ist. Und das geht auch die Überzeugung, daß
die unvermeidbare Enttäuschung, unter deren die betreffende
Krise an Stecken gerichtet wurde, und der Tod dieser
Kriege, der eine glatte Unterweltung Østerreichs voraus,
in besonderen Erregergraben begründen sind.

Allerdings hat ihre Zahl die Monarchie doch, wo man
sich in Situationen halten zu müssen glaubt, ih
erstellt gemacht. In der ‚völkischen‘ und zwischen
Dauer ist die Frage ständig, dem, dem, daß wir
Unabhängigkeit steigern, bevor es zu spät ist. Die
Macht der Monarchie, als die die Mitte des Jahrhunderts
ist, Österreich-Ungarn hat, wie die Dinge einmal liegen,
konnte Grund, dieses Gedankengut zu überdenken. Daß es
warum der Krieg, gegen die größere
idee nicht gibt, hat gerade in diesen Monaten intensive
werden benutzt werden und auch die Polarisation, wel-
sche die betreffende Kriege, bezogen in Wirklich-
heit der Schmerz der Kriege gegen die Fortsetzung der alten
struktur des Krieges. Die Abrüstung, die, wie durchsein;
ich sind, die allergrößte Stelle, die
den Krieg, die der Staat nicht, wird die Geschichte
widerhaft geweckt. Heute handelt es sich um eine
richtige Behandlung der internationalen Verhältnisse durch Österreich-Ungarn.

Jürgen Georg Backhaus
Editor

The Beginnings of Scholarly Economic Journalism

The Austrian Economist
and The German Economist

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and socialism. In the article "Spaniens Blockade" (27 February 1937), for instance, Polanyi condemns as very dangerous the insensitivity to the destiny of Spanish democracy and to the fact that "the antithesis of internal policy in Spain has assumed the value of an axis of polarization of an inevitable international war". On the one hand, in Spain the alliance of "National Fronts" that would eventually lead to resistance and victory against Fascism was prefigured. On the other hand, the ambiguities and hypocrisy of the "non-intervention" policy failed to disguise the hostility of the so-called democratic governments towards any form of "popular government".

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Chapter 2
Polanyi on Markets, Democracy and the Crisis of Liberalism

Alexander Ebner

2.1 Introduction

Karl Polanyi, who was born in 1886 in Vienna and died in 1964 in Pickering, Ontario remains a most influential theoretical figure in the social sciences, in particular stimulating both analytical and policy-related concerns that are related with the new institutionalism in economics, sociology and political science. Polanyian insights on the political economy of economic development from an institutional perspective have persistently shaped a variety of discourses that range from the theory of the welfare state to research in comparative economic systems and economic anthropology. Polanyi's "Great Transformation" may be singled out as a key contribution to both the domains of economic sociology and political economy, as it addresses basic tensions between the developmental dynamics of the market economy and the institutional substance of political democracy (Block 2001). Indeed, the main thesis of Polanyi's "Great Transformation", originally published in 1944, proposes that the institutional separation and material connectedness of market system and democratic polity contributes to a destabilisation of both spheres, implicitly paving the way of illiberal views-and-authoritarian regimes. In this context, Polanyi highlights the normative requirement of embedding the market system in social communities as a means for sustaining societal coherence. This line of reasoning runs through all of Polanyi's major works — yet its intellectual roots in the crisis of liberalism during the 1920s has been mostly overlooked. Indeed, as the present paper illustrates, the main arguments of Polanyi's notion of the "great transformation" date back to these debates and have been made public in the various essays
Polanyi contributed to the Austrian economic weekly "Der Österreichische Volkswirt". He was employed by this journal as a joint-editor from 1924 to 1933 in Vienna and continued to provide essays from his London exile until 1938. These essays may be rightfully portrayed as pioneering representations of Polanyi's evolving socio-economic thinking.

The paper proceeds as follows. First, the Polanyian perspective on the institutional evolution of the market society is taken to the fore with an emphasis on the notion of "the economy as instituted process", which addresses diverse patterns of social integration. Second, Polanyi's concept of the "double movement" of market expansion and social protection is discussed in relation with the problem of policy interventions that may destabilise the market system - with far reaching political implications. Third, Polanyi's reasoning on the "great transformation" of economy and polity is taken to the fore - with a special consideration of Polanyi's essays in "Der Österreichische Volkswirt" during the late 1920s and early 1930s, bearing witness to the fact that Polanyi had already developed his basic conceptual schemes in these early German writings as he applied them to the crisis of liberalism and the rise of authoritarianism in Europe. Concluding remarks then outline the relevance of these ideas for current debates on the relationship between market and democracy.

2.2 Market, State and Liberal Ideology

Polanyi's comparative institutional analysis of economic systems is well represented by the notion of "the economy as instituted process", which serves as a leitmotif of his research programme. It means that an analysis of the institutional substance of economic processes is indispensable for understanding their social coherence and historical dynamism, which is derived from both economic and non-economic institutions that constitute a specific mode of social integration (Polanyi 1957b: 249–250). Polanyi contrasts this substantive perspective from the considerations of neoclassical economic theory, which is said to refer exclusively to the logic of choices on means-ends relationships that are marked by resource scarcity. In the Polanyian perspective of a substantive perception of economic life, interchanges with the natural and social environment for the means of material want satisfaction are taken to the fore, basically referring to subsistence constellations (Polanyi 1957b: 243–244). Only this substantive perspective approaches the economy in adequate terms as an instituted process of coherent interactions between society and natural environment (Polanyi 1957b: 248–250).

All historically recorded types of economies are integrated through historically specific support structures that institutionalise the movement of goods and services as well as rights of disposal in the economic process. These institutional structures are denoted as reciprocity, redistribution and exchange, highlighting integrative patterns of interaction that are relatively independent from deliberate interventions of government or the variable ideals of cultural frameworks (Polanyi 1944/2001: 50–51, 1977: 36–37). At this point, the matter of embeddedness emerges as a major analytical device, for Polanyi claims that all historically recorded economic systems except of the market system submerge the economy in social relationships, framed by non-economic institutions. Production and distribution would not follow economic interests shaped by acquisitive motives, but rather resemble social interests, based on collectively shared norms and conventions. These may differ in diverse economic systems over time and space, yet in all of these cases the economic systems were driven by non-economic motives (Polanyi 1944/2001: 48). According to this logic of embeddedness, the economic system was historically set to be a function of social organisation - a pattern that remained intact until the rise of the market economy in the nineteenth century, which reversed relationships between economy and society as economic requirements would come to determine social structures. This would actually imply a disembedding of the economic sphere.

With intellectual reference to the approaches of Maine and Tönnies, this disembodiment dynamism resembles a move from status to contract in terms of Maine, and from community to society in terms of Tönnies. Economic system are no more embedded in social relationships, as these are now embedded in the economic system, that is, they come to follow the commodity logic of the market (Polanyi 1947/1968: 70). Contract serves as the decisive feature of this disembedded economic sphere, in which legal aspects of exchange provide the institutional order of the market process. Status, in contrast to that, reflects the predominance of norms of reciprocity and redistribution which shape the embeddedness of production and consumption in societal institutions like family and kinship. The disembeddedness of the economic sphere is therefore analogous to the institutional separation of the market from social relationships apart form contractual exchange (Polanyi 1957a: 70–71). Accordingly, as the market becomes an institution in its own right that shapes the modern exchange economy, it coincides with legal concepts like the rule of law, which imply a reduction of social relations to the regulation of property and contract (Polanyi 1966: xvii).

The resulting type of market economy resembles a self-regulating system of markets. It is historically unique in its character as an economic system that is exclusively directed by market prices (Polanyi 1944/2001: 45). Yet self-regulation through market prices also implies that all production factors, goods and services - decisively involving labour, land and money - are turned into commodities, bought and sold at market prices while generating a market income (Polanyi 1944/2001: 72). Subjecting labour to the self-regulation of markets and thus separating it from other societal domains, however, tends to annihilate the organic interdependencies of the social whole. The underlying freedom of contract eliminates non-contractual organisations such as kinship. Indeed, the contractual exchange mode of the labour market, ideologically legitimised through the notion of non-interference in the spontaneous order of the market process, radically interferes with social relationships that are based on non-contractual interactions (Polanyi 1944/2001: 171). This tendency drives the formation of market society as an extended format of market principles beyond the economic domain. Consequently, the differentiation of economic and political spheres becomes a historically unique trend in the evolution of market economies. While in preceding formations the economic order served as a function of the social
order now these relationships are redefined, as the separate economic system of a market economy promotes the formation of a market society as a supporting device. The unfolding of the market pattern as the dominant system in the economy leads to the relegation of society as a mere adjunct to the market. The market society is thus adapted to the institutional pattern of the market economy (Polanyi 1944/2001: 60).

However, this extension of the market sphere all over society breeds a basic structural contradiction. The essence of society is subordinated to the market mechanism, for labour and land as representations of the human substance and natural environment of society also become commodities. Together with money as a mere representation of purchasing power promoted by the state and the banking system, they share the characteristic that they are actually not produced for sale. Their existence is not to be derived from a commercial rationale. Thus their characterisation as marketable commodities is fictitious. This commodity fiction becomes the organising principle of the market society (Polanyi 1944/2001: 75–76). Indeed, the rise of the market society is necessarily based on this commodity fiction involving labour, land and money (Polanyi 1977: 9–10). This implies that changes in the institutional status of labour as a substantial resource of economic activity actually suffice for differentiating economic systems in their historical evolution (Polanyi 1977: 43).

Indeed, Polanyi outlines the actual historical process that leads to the formation of market economy and market society by highlighting two distinct settings, that is, the establishment of national markets in the mercantilist age of Western European development since the fifteenth century, followed by the social and technological disruptions commonly associated with the Industrial Revolution in Western Europe—and here primarily in England—since the early nineteenth century (Polanyi 1944/2001: 5–7). Decisively, the formation of the market system is not a spontaneous process as liberal theory may have it, but the politically administered result of artificial stimuli based on socio-economic constellations shaped by the likewise artificial phenomenon of the machine as a representation of disruptive technological change (Polanyi 1944/2001: 39, 60). However, in contrast to early modern constellations, both the industrial dimension of the "machine age" and the commodity dimension of the market system characterised the socio-economic disruptions of the nineteenth century. The self-regulating market system served as an institutional adaptation induced by the factory system of the machine age and its industrial civilisation—which was soon accompanied by a counter-movement for social self-protection that would give birth to the welfare state (Polanyi 1977: xlvi–xlviii). The historical break of the Industrial Revolution thus combined technological and ideological factors.

Also economic motives needed to change, basically turning from subsistence to gain. Polanyi proposes that economic liberalism promoted the "utopian endeavour" of a self-regulating market system with a motivational emphasis on material gain, allowing for an institutional dominance that paralleled the homogenising intolerance of religious fanaticism (Polanyi 1944/2001: 31). Utilitarianism provided the backbone for market ideology as a sectarian creed that aimed at solving human problems through the provision of an unlimited amount of material commodities (Polanyi 1944/2001: 42). However, in liberal ideology, the ensuing "separateness" of economic and political spheres was well reflected by policy demands for a retreat of the state from economic regulation (Polanyi 1977: 47). Accordingly, the formation of market society implies a reassessment of the state as an institutional subordinate that should comply with the self-regulation of the market system (Polanyi 1977: 12).

Historically, the heyday of liberalism hit England in the 1830s, carried by an ideology which rejected any political-administrative measure that could obstruct the unimpeded flow of marketable resources and their self-regulation by market prices (Polanyi 1944/2001: 72). Yet this ideological coverage tended to hide the fact that the evolution of the market system and persistent interventionism were not mutually exclusive. Instead, it should become obvious that the formation and maintenance of market institutions requires persistent interventions, involving antitrust regulations as well as union laws—and at times even violent means (Polanyi 1944/2001: 155–156). The establishment of markets is thus not the result of spontaneous institutional change. Rather it is the outcome of conscious and often violent interventions on the part of the government (Polanyi 1944/2001: 238). Indeed, when viewed as a historical sequence, the institutional design of the market system in England during the first half the nineteenth century advanced primarily through legal instruments. The Poor Law reform of 1834 promoted a deregulated labour market and the commodification of labour, followed by the Bank Act in 1844 that established the gold standard for the self-regulation of the monetary sphere, whereas the repeal of the Corn Law in 1846 allowed for free trade in grain, thus promoting the transformation of land into a marketable commodity (Polanyi 1947/1968: 67–68). Yet the corresponding reign of an unhampered market regime was short-lived, if ever realised in history, for society was soon endangered in its totality. In particular, the institutional status of labour as a commodity included real humans that would become socially exposed and dislocated objects of market volatility. Thus, for society at large, the need of protection arose as a condition in safeguarding the reproduction of its substantial components (Polanyi 1944/2001: 76–77). Thus, both economic and political regime become subject to the conflict-ridden dynamics of a historical scheme that is denoted as "double movement".

### 2.3 The Double Movement and the “Great Transformation”

The extension of markets was historically paralleled by efforts in the self-protection of society, amounting to a "double movement" of market forces and social regulation (Polanyi 1944/2001: 79). In particular, a double movement of distinct organizational principles in society could be observed, namely economic liberalism promoting self-regulating markets, socially based in the trading classes vs. social protectionism as an effort to shield human and natural resources from the grip of the market forces through interventionist measures in legislation, administration and associative self-organisation, socially based primarily in the working and landed classes (Polanyi 1944/2001: 138–139). This interventionist countermovement against the expansion of markets and its underlying commodity fiction was incompatible with the working mechanism of the market itself, leading to a further
intensification of institutional tensions (Polanyi 1944/2001: 136–137). Measures of social protectionism that lay the foundations for the welfare state since the 1860s in Western Europe obstructed price-based adjustments of labour markets by stabilising earnings beyond volatile market incomes as well as by regulating institutional features such as professional standards, thus reconstituting the human character of labour beyond the commodity fiction (Polanyi 1944/2001: 185–186). As the countermovement and its protectionist stance came to disturb the self-regulation of the market system ever severely since the 1880s all over Western Europe, the national domain became the decisive terrain for political identity – implying a drive for national rivalry. Economic and political crises then culminated in World War I, followed by a prolonged period of instability afterwards that would pave the way for totalitarian solutions to the crisis of the market system (Polanyi 1944/2001: 210–212).

During the same period of liberal restructuring, the contradiction between the formation of markets and political democratisation became apparent. While the Chartists demanded universal suffrage, which could potentially empower those strata of society that were to be turned to wage labourers, the separation between economic and political sphere became decisive for upholding the market system under democratic conditions. Liberal ideas of constitutionalism, which were originally directed against the danger of the confiscation of private property through despotic rulers, were now reinterpreted for safeguarding private property against the impoverished masses. In particular, the US-American constitution represents such a type of “legally grounded market society” with its separation of powers that could hold voters relatively powerless against the interests of the owners of private property (Polanyi 1944/2001: 233–234). The double movement of market liberalisation and social protectionism is thus accompanied by increasing difficulties with the effective implementation and democratic legitimisation of related policy interventions. In consequence, the institutional stability of the market system is at stake.

Summarising these tendencies, Polanyi outlines two paradoxical aspects in the co-evolution of market and state that contradict liberal ideologies of the market system. First, as the English example illustrates, laissez faire principles were historically enforced by the state and did not evolve spontaneously in a natural market order. Indeed, even utilitarian liberalism of the Benthamite creed would favour strong government as the most indispensable agency of knowledge and power needed to make markets work (Polanyi 1944/2001: 145–146). In practice, as the expansion of markets required a massive restructuring of social affairs, particularly relevant regarding the public treatment of poverty, it was paralleled by an extension of interventions and regulations that eventually fuelled a bureaucratisation of government, endowed with extended powers for social control (Polanyi 1944/2001: 146). Second, while the establishment of the laissez faire economy was the product of deliberate state action, the political counter-movement that organised its resistance in England since the 1860s resulted from spontaneous activities scattered all over society, pragmatically assembling diverse social interests and political ideologies ranging from socialism to conservatism (Polanyi 1944/2001: 147). Obviously, this is a pointed counter-position to liberal worldviews, as represented most prominently in Hayekian liberal reasoning on the spontaneous order of the market.
support of a competitive order became ubiquitous, leading to an increasingly bureaucratic and corporatist setting that persistently distorted prices and prolonged recessions. The institutional separation of economic and political spheres intensified the disruptions emanating from destabilised markets. Thus, the transformation of the market system towards an authoritarian solution following World War I was not driven by new economic motives, but by new institutional mechanisms in coping with the market civilisation (Polanyi 1944/2001: 227–228). Because of the interconnectedness between the separated societal domains, market strains would affect other institutional zones such as national government and thus even affect international politics (Polanyi 1944/2001: 220).

Policy interventions into the market system therefore escalate a socio-economic destabilisation that leads to the "great transformation" of the market society with the option of an authoritarian solution. Underlying the controversial impact of these theses is Polanyi’s belief in the socially disruptive yet economically equilibrating capacities of markets that are unhampered by policy interventions. Thus, in Polanyi’s account, also business cycles are basically derived from policy interventions; a position which radically contradicts contemporary Keynesian ideas on the endogenous instability of markets (Dalton 1968: xxv). Indeed, with regard to the self-stabilisation of markets, Polanyi remains close to the positions of the Austrian School of Mises and Hayek with their monetary theory of the business cycle. Polanyi’s positions thus remain paradoxically close to the Viennese milieu of their origin, in particular shaped by Mises’s rejection of policy interventions into market processes. In other words, Polanyi is overdoing the case of market distortion by policy interventions, as he seemingly relies on a type of flawless market process that should become most prominent with general equilibrium theory (Hejeebu and McCluskey 1999: 302). Yet Polanyi’s reconsideration of structural tensions arising from the separateness as well as connectedness of the diverse domains of economy, policy and other spheres of society which follow a distinct functional logic has also invited sympathetic interpretations in terms of systems theory. The market system is accordingly viewed as an autopoietic system, which exhibits a distinct logic that may conflict with the alien rationale of systems from which outside interventions emerge (Jessop 2001: 222–223).

From the consideration of policy interventions follows that the tensions, which arise from the protective regulation of the market system have consistently fuelled a transformation of the liberal bourgeois civilisation that had become prominent during the nineteenth century, leading to an upsurge of socialism and fascism as conflicting solutions to the turmoil of the 1920s. Socialism represents an inherent tendency of industrial civilisation towards a conscious subordination of the market to democratic principles by means of adequate public policies, basically confronting private efforts in achieving monetary gain as an exclusive motivation for productive activity, while abolishing private property of the means of production (Polanyi 1944/2001: 242). Fascism, however, as a non-socialist response to the failure of the market society resembles an interventionist reform of the market economy on the condition of eliminating democratic institutions in economy and policy (Polanyi 1944/2001: 245). The corresponding crisis of liberalism and the rise of authoritarian alternatives to the market system and the democratic order – to be termed as key components of a “great transformation” later on – has been a key issue in Polanyi’s early German writings all the way through the 1920s, well before the World Economic Crisis emerged. In particular, as outlined in the following section, most of Polanyi’s ideas on the crisis of liberalism and the “great transformation” can be traced in his essays in “Der Österreichische Volkswirt”.

2.4 The Crisis of Liberalism in Polanyi’s Early German Writings

Reference to a mixed economy with democratic planning in a setting of industrial associations have been prevalent with Polanyi’s thought ever since his first major publication addressed the socialist accounting debate in the theoretical discourse of the Austrian School, fuelled by Ludwig von Mises and his companions in response to the socialist advance after World War I (Mendell 1989: 577–578). While acknowledging the infeasibility of accounting in a socialist command economy, Polanyi proposes a decentralised model of guild socialism that should combine elements of market supply and demand with socio-political regulations, thus satisfying the diverse needs of society as articulated by industrial associations and consumers. According to Polanyi, the differentiation between capitalism and socialism should not be reduced to the dichotomy between market and plan, for it is rather to be associated with aspects of social productivity and the societal character of production and distribution at large, meant to benefit the common good (Polanyi 1922: 378–379). Polanyi’s advocated type of guild socialism thus resembles a corporatist system of industrial democracy with communal property of the means of production that is governed by industrial associations and consumer organisations. Wages and prices are regulated in terms of social values, subject to democratic bargaining arrangements among the involved associations (Polanyi 1922: 403–405).

These normative positions on an associational type of socialist market economy that should be to be based on the democratic structuration of economic and social affairs have remained a cornerstone of Polanyi’s assessments of contemporary political-economic development tendencies. Decisively, at the end of the 1920s, the crisis of liberalism and the decline of democracy became a major topic in a series of Polanyi’s essays that were published in “Der Österreichische Volkswirt”. These essays would lay the groundwork for Polanyi’s concept of the “great transformation” of liberal market society. Of particular importance in this regard is a series of essays that was published in February 1928, highlighting the comprehensive reform proposals of the Liberal Party in the United Kingdom, which were debated well before the onset of the World Economic Crisis of 1929. In particular, Polanyi comments on the liberal reform movement within the Liberal Party as a political force that wanted to transcend the frontiers between individualism and socialism – and thus alienated itself from the world-views of classical liberalism. Indeed, the reform proposals are characterised as an illustration of the political-economic process that
should be labelled subsequently as the "great transformation". The essay "Liberale Wirtschaftsreformen in England" points out that reform programme is based on safeguarding private property by making it subject to extended political regulations: Underlying attempts follow Keynesian recipes of a policy-related active role of the Central Bank, accompanied by an extension of the public sector (Polanyi 1928a). However, as outlined in the follow-up essay "Liberale Sozialreformer in England", the related proposals in the domain of social reform rather hint at a pattern of reform that provides solutions from the domain of political psychology to problems that originate from the sphere of political economy, that is, the matter of labour co-determination in large firms becomes more important than basic questions of wage formation and labour organisation. Yet this does not imply that the question of re-embedding de-commodification is ignored. Instead, quite to the opposite, Polanyi maintains that the reform programme of the Liberal Party addresses labour relations in a manner that transforms the character of wage relations – and wage labour in general – from a purely contractual relationship, as classical liberalism would define it, to a socially embedded and legally framed relationship among status groups. In other words, the commodity character of wage labour is transformed into a social relationship that accounts for distinct social values of labour without affecting the system of private property and market allocation (Polanyi 1928b).

Yet according to Polanyi the crisis of liberalism is also related to misconceptions in academic knowledge, and here in particular in the knowledge sphere of economic theory. Polanyi's essay "Schmalenbach und Liberalismus", also from 1928, takes issue with these misconceptions. As the title of the essay suggests itself, the key thrust of Polanyi's arguments is directed against Eugen Schmalenbach, a Professor at the Faculty of Economics and Social Sciences at the University of Cologne in Germany, who had claimed that the fixed cost profile of large firms could promote the formation of industrial cartels – with disastrous consequences for market competition. In this context, Polanyi also discusses the Keynesian vision of the economic process, namely Keynes's stagnation thesis, which hinted at the relative decline of investment opportunities in the course of the process of economic development. This kind of argument actually implied a denial of the persistent relevance of technological innovation. In empirical reality, however, the 1920s have been a decade of major innovations and radical technological changes. Thus, the Keynesian stagnation scenario is at odds with the unfettered technological dynamics of the market system. The political importance of this assessment lies in the requirement of market regulation. While certain strands of liberalism tend to deny the need for monopoly control in the face of growth stagnation, it would be adequate to keep a focus on the issue of technologically driven monopoly power in a setting of regulated markets (Polanyi 1928c).

In exploring the underlying developmental tendencies, as examined in the essay "Wirtschaft und Demokratie" from 1932, Polanyi comes forward with the thesis that the World Economic Crisis has contributed to a long-standing rift between economy and politics. Both have become autonomous systems that remain almost unconnected, each following a distinct rationale. This separation of economic and political concerns leads to functional disturbances in the interaction between the systems.

2 Polanyi on Markets, Democracy and the Crisis of Liberalism Forces that originate from the terrain of political democracy persistently aim at interventions into the economy, arguing that the allocative and distributive results of the market mechanism require political adjustment. Economic interest groups, however, confront the democratic spectrum with arguments that highlight the lack of efficiency and responsibility in the political domain – putting a focus on issues such as increasing inflation, expanding subsidies, extended protectionism, mismanagement of currencies and the unimpeded growth of social expenditures and welfare benefits. Thus, both democracy and the market system have come under fire from opposing sides – as they are on the retreat all over Europe, while fascism and communism gain in intellectual relevance (Polanyi 1932).

Three essays from 1934, titled "Probleme der Demokratie in England", "Labour in Southport" and "Tory-Planwirtschaftler" shed further light on this issue, which is discussed in the context of political programmes for economic recovery in the United Kingdom – a debate that was most prominently influenced by the idea that economic planning would become the most effective way of organising the recovery process, thus heralding a foreseeable hegemony of socialist ideas. In this setting, the relationship between socialist planning and representative democracy is at stake. Accordingly, Polanyi identifies the danger of a hollowing out democracy, which could lead to its transformation to a politically neutral institutional form that would be compatible with both socialism and fascism – regardless of ethical content (Polanyi 1934a). These dangers are also prevalent with regard to contemporary debates within the Labour Party, as exemplified by Labour's Southport Party Congress of 1934 – a controversial event that was identified as a representation of political stands of thought running parallel to fascist ideas. The proposal of a corporatist model in the management of socialised industries was indeed compatible with both socialist and fascist concepts of the corporate state. Thus, according to Polanyi, both the Labour Party and the Unions could be portrayed as promoters of a corporatist solution to the question of socialisation with potentially fascist leanings (Polanyi 1934b). Also the Conservatives would join this drive for economic planning, although with a distinct preference for industrial self-governance. As Polanyi points out with regard to proposals that were discussed at the Bristol Congress of the Conservative Party, a group of young conservatives led by Harold Macmillan – who would become Prime Minister from 1957 to 1963 – stood out with their idea that industrial planning should be enforced by government in order to promote the coordinated recovery of the British economy. In Polanyi's words, this would actually amount to a "bourgeois planned economy" – quite in line with the perception that market solutions to the matter of industrial growth and development had already lost much of their former appeal even within conservative intellectual circles (Polanyi 1934c).

In accordance with these statements, also Polanyi's comments on Roosevelt's New Deal, as published in the "Österreichische Volkswirt" during the mid-1930s highlight the tendency towards industrial coordination through governmental planning efforts. At the same time, the indispensability of participative and transparent democratic procedures is accentuated as a preventive measure against authoritarian tendencies (Polanyi 1935: 763–765). Indeed, Polanyi is persistently sensitive to the
danger of an insulation of the state from society that would parallel the separation of market system and political sphere, resembling the evolution of a "self-regulating state" that combines the political power of a welfare bureaucracy with extended social control and undemocratic authoritarianism (Godbout 1991: 128–129).

Preventing an authoritarian degeneration of the state and maintaining the democratic character of social protection and economic planning is of utmost importance to Polanyi, because the formation of the welfare state is decisive his policy approach as it directly affects the status of labour – the crucial characteristic for specifying the rationale of an economic system. Indeed, as Polanyi suggests, the formation of the welfare state represents a protective venture that could offer workers social status, secure income, teamwork, and a creative role in industry (Polanyi 1977: 1).

Historically, these endeavours are most positively associated with the experience of "Red Vienna", that is the socialist municipality of Vienna after World War I with its extended welfare programmes. It could be argued with some justification that the heyday of Viennese social democracy after World War I was a most affirmative point of reference for Polanyi's political beliefs. Interpreted as a major cultural achievement in European economic and social history, it was said to differ markedly from the reactionary Speenhamland system in nineteenth century England due to successful efforts of the Viennese social democrats in transcending the commodity production of capitalism while retaining the positive effects of the industrial system of labour and technology – including the aspect of regulated market allocation (Polanyi 1944/2001: 258–299).

Crucially, in the Polanyian perspective, the distributive function of the welfare state is not to be separated from its impact on the democratisation of the labour process with all of its various political and social implications.

Yet Polanyi’s policy proposals reach well beyond the domains of labour organisation and welfare state. Indeed, based on his theoretical positions on the primacy of technological requirements in the institutional evolution of the market system, Polanyi was keen to suggest that reform attempts would have to reach beyond the institutional grounds of capitalism with its primacy of material gain and rather challenge the set up of modern industrial civilisation at large, that is, the Machine Age in Polanyian terms (Polanyi 1947/1968: 59–60). Polanyi's normative position highlights the socialisation option, yet amended in terms of safeguarding "freedom in a complex society" as a means for restoring the "habitation" of society through a democratically regulated industrial system (Polanyi 1944/2001: 257). Moral freedom and independence of mind would represent values of the market economy and its system of private enterprise that should be preserved, although set in a different institutional context that fosters the common good while confronting bureaucratisation (Polanyi 1944/2001: 263–264).

Crucially, according to Polanyi, this deliberative way of confronting the problem of the technological civilisation is ignored by liberals like Hayek in their defence of the market system, for they do not acknowledge that democratically founded market interventions of producer and consumer associations hold the key to freedom in a complex society (Polanyi 1947/1968: 75–77). Again, this line of reasoning underlines Polanyi's normative concerns with a re-integration of economic and political spheres in the setting of a democratic type of polity.

2.5 Conclusion

In current discussions on globalisation, a specific "Polanyian problem" has been singled out, asking how the globalisation of the market system as a disembossing process is to be reconciled with re-embedding moves aiming at social security and cohesion (Munck 2004: 251–252). This problem corresponds with Polanyi's fear of a degeneration of the liberal project into political authoritarianism on a national scale, framed by economic pressures emanating from international rivalry (Harvey 2005: 70). As such a perception of the demise of liberal capitalism belongs to the set of ideas that are shared by both Karl Polanyi and Max Weber, it also highlights tendencies of a widespread understimation of the reproductive capacity of the market system, in particular in its combination with a democratic polity (Roth 2003: 276–277).

In this manner, globalisation represents a specific institutional constellation in the historical evolution of markets and democracy. Such an interpretation of the dialectics of movement and counter-movement in Polanyi's approach also allows for bringing back politics into the setup of the institutional evolution of states and markets. The insistence on the conflict-ridden potential of socio-economic change is a decisive analytical advantage of Polanyian reasoning in comparison with other institutionalist approaches to comparative capitalism (Streeck 2009: 254–256). Actually, such a perception of Polanyi as an icon of socio-economic analysis with a normative drive for social reform is bound to have him replace Marx as a point of critical reference on economic and political affairs (Hart 2008: 1136, Hart and Hann 2009: 8–9).

Supposedly, a Polanyian diagnosis of globalisation would denounce global finance for undermining the coherence of national economies while spreading Polanyi’s false utopia of self-regulating markets (Polanyi Levitt 2006: 152–153). Such a Polanyian view might consider financial deregulation as an economic trend that is cultivated by state action, meeting the counter-movement of efforts that aim at bringing global finance under social control, particularly in a transactional setting of rules and regulations (Holteiner 2000: 12–13). At this point, re-embedding efforts through state intervention provide the major terrain for future conflicts in the double movement. These efforts may be accompanied by the internationalisation of political initiatives for the de-commodification of labour (Munck 2002: 18). Polanyi’s notion of the double movement then qualifies as a device for assessing the organised criticism of globalisation as a counter-move against the formation of a globalised commodity fiction (Birchfield 2005: 581–582). Policy implications that may be distill from Polanyian considerations then highlight a reflexive, dialogical mode of governance as the solution to a sustained co-existence between market economy and the wider social and ecological system (Jessop 2001: 228–229).

Such a reflexive mode of governance may also allow for those qualities of democracy, which were emphasised by Polanyi – and are currently contested by transformative political-economic pressures (Crouch 2004). Indeed, the evolution of markets and democracies remains undetermined in Polanyi’s reasoning – thus adding to its enduring relevance beyond normative confines (Ebner 2010). Polanyi’s essays in "Der Osterreichische Volkswirt"
provide most convincing evidence for this kind of assessment, as they actually laid the groundwork for Polanyi’s subsequently formulated concept of the “great transformation” of liberal market society.

References

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