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**KARL POLANYI**

on ethics & economics

GREGORY BAUM

Breaking new ground in Polanyi scholarship, Gregory Baum explores the relation between ethics, culture, and economics in Karl Polanyi's writings. He identifies and analyses key concepts of Polanyi's thought and shows how they apply to the contemporary debate on ethics and economics.

Exploring Polanyi's lesser-known works as well as *The Great Transformation*, Baum provides a more complete and nuanced understanding of Polanyi's thought. He examines Polanyi's interpretation of modern economic and social history, clarifies the ethical presuppositions present in Polanyi's work, and shows how Polanyi's understanding of the relation between ethics and economics touches on many issues relevant to the contemporary debate about the world's economic future. He argues that we should look to Polanyi's understanding of modern capitalism to reinstate the social discourse and, in political practice, the principles of reciprocity and solidarity and points to examples, both in Canada and abroad, of attempts to formulate alternative models of economic development and to create new forms of institutional and cultural intervention.

*Karl Polanyi on Ethics and Economics* provides fascinating insights into Polanyi's work and today's central social and political issues. It will be of great interest to sociologists, economists, political scientists, and philosophers.

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*Karl Polanyi on  
Ethics and Economics*

Gregory Baum

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## Foreword

There is currently widespread interest in the work of Karl Polanyi among progressive thinkers, activists, and a growing community of heterodox social scientists. Although *The Great Transformation*, published in 1944, is acclaimed in France as one of the ten classics of twentieth-century social thought and has been translated into eight languages, Polanyi's influence within North America was, until recently, largely within the discipline of anthropology. Those who acknowledged the broader significance of his writings to contemporary social thought were marginalized by the intellectual community.

The publication of *Trade and Markets in the Early Empires* in 1958 launched a historic debate in anthropology and led to the establishment of two rival schools of thought within this discipline. Polanyi's followers, the substantivists, emphasized the role of culture, history, and institutions in the economic life of so-called primitive and archaic societies. The opposing formalist school defended the prevailing neo-classical economic orthodoxy. Although this debate raged in the pages of major anthropological journals in the 1960s, Polanyi received little recognition elsewhere. His analysis of non-market societies shook the discipline of anthropology, which was firmly



committed to the universality of the principles underlying neo-classical economic theory, but the more radical conclusion of *The Great Transformation*, that these principles were universally inappropriate – for market as well as non-market economies – was not part of the debate. Polanyi's work rarely appeared on an economic syllabus; instead, the counterpoise to neo-classical orthodoxy was a vulgar Marxism. On the Marxist left Polanyi was considered to be a "circulationist" whose focus was on exchange and not on relations of production. The emphasis he placed on social and cultural dislocation further alienated him from the Marxist left.

How do we explain the current Polanyi revival? Polanyi's thesis that there can be no self-regulating market was confirmed by nineteenth-century liberalism, which enshrined a set of ideals it could not put into practice. The principles of *laissez-faire* prevailed despite the contradictory need for an institutional framework to protect society from the ravages of a free market economy and to establish the very conditions without which the economy could not function. *Laissez-faire* was quickly reduced to an ideology without a corresponding practice. It is that historic duplicity which guides policy makers today.

The international financial crisis and the depression of the 1920s and 1930s led to the welfare state and Keynesian economic policy, both to preserve capitalism and to protect those who were unable to participate fully in economic life. Sadly, the return of nineteenth-century ideals as we approach the end of the twentieth century is less hopeful. The "place of the economy in society" is not considered in a world driven by principles that have been stripped bare of their history. It is in this environment that progressive thinkers are discovering or rediscovering Karl Polanyi.

In 1986 the First International Karl Polanyi Conference was held in Budapest to commemorate the centenary of Polanyi's

birth. Papers were presented by historians, economists, political scientists, anthropologists, sociologists, and Hungarian political figures and intellectuals, among others. The presence of political figures and intellectuals reveals a great deal about the previously ambiguous reception of Polanyi. Because he was a socialist, communist intellectuals in Hungary paid tribute to Polanyi's work while ignoring his earlier critical writings on central planning and economic determinism. At the same time, however, dissident intellectuals in Hungary were discovering Polanyi as an important ally in their struggle against communism.

The collapse of communism in Eastern Europe in 1989 should have heightened interest in Polanyi's work in this part of the world. This did not happen. Instead the neo-liberal agenda adopted in the West for more than a decade, complete with its documented failures and contradictions, went unchallenged and indeed was embraced as the road to freedom. Polanyi's influence, celebrated only three years earlier in Hungary, was forgotten. The social degradation of nineteenth-century industrial capitalism so poignantly described in *The Great Transformation* was ignored as these countries, one by one, adopted the principles of *laissez-faire*.

Instead of the promised prosperity, Eastern Europe and the former Soviet Union are now experiencing widespread poverty, violence, and growing social malaise. The recent democratic election of communist parties in several countries comes as no surprise. They can only look back to their pasts, not toward the West, which has no lessons to impart. It took these events to spark a revival of the dialogue about Polanyi begun in 1986 in Budapest.

Those of us who returned to the West following the 1986 centenary began to establish the means to broaden Polanyi's influence among intellectuals and activists. The response was overwhelming. This counter-movement to the hegemonic

discourse of the right led to the establishment in 1988 of the Karl Polanyi Institute of Political Economy at Concordia University in Montreal. In a short period of time the Institute created an international network of scholars and activists that offers a vital intellectual space for critical social thought.

In the late 1980s I met Gregory Baum, who had recently arrived in Quebec. He welcomed the establishment of an independent institute for progressive scholarship and became actively engaged in all aspects of its life. His enthusiasm has been a driving force behind the many events the Institute continues to hold – from its Club Jeudi suppers, at which he has led many discussions, to our international conferences and publications. His commitment to the Institute has been important to its continued existence. With the Institute's founders and friends, he has helped to develop a unique interdisciplinary intellectual environment in Quebec.

Two summers ago Gregory Baum was a resident scholar at the Karl Polanyi Institute. Inspired by many discussions with Kari Polanyi Levitt about her father's early writings in German on fascism and socialism, he decided to research these documents. As our offices were next door to each other, I was privileged to discover these works with Professor Baum as he generously shared his readings and reflections with me. He was fascinated by the material and eager to communicate it to a wider audience. His findings were first presented in a lecture series – the Sproul Lectures – at McGill University in 1993 and are now woven into this book.

For Gregory Baum, Polanyi's early writings contribute significantly to his own "ongoing involvement in the church and [an] uninterrupted dialogue with critical social science." In the pages that follow he presents new insights into Polanyi's thought and advances a powerful argument against the philosophy of individualism that governs people's lives today. We need a new ethics of responsibility, Professor Baum writes,

which can be found in Polanyi's ethics applied to present circumstances, particularly Polanyi's concept of the *Lebensweg*, the day-to-day ethical task of living that is so severely compromised in a society dominated by material gain. Polanyi believed that the repository of social creativity lies in the culture of the common people, a creativity that today is expressed in the resistance to neo-liberal orthodoxy by progressive social movements. Although much has been written about these emerging democratic alternatives, a new theoretical perspective within which they can be understood is lacking. In *Karl Polanyi on Ethics and Economics*, Professor Baum breaks this intellectual impasse.

A critical discourse that speaks to the dehumanizing cultural consequences of the free market system is vitally needed today. Gregory Baum has found this discourse in Karl Polanyi's writings, adding to it a theory of ethics that is rooted in Enlightenment values and Christian social thought to show that only if people are free to live an ethical life can there be social or societal freedom – *gesellschaftliche Freiheit*. Professor Baum's compelling analysis is a critical contribution to an intellectual counter-movement in which he himself is a leading figure.

Marguerite Mendell  
Concordia University, Montreal

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## Preface

So much has happened in the world over the last decade that we seem to be living in a new age. The Gulf War of 1991 shattered hopes for a more peaceful world. At the same time, the collapse of the Soviet bloc communist regimes substantially transformed the geography of power in the world, while the collapse of Marxism and the decline of the Left have occasioned the waning of human solidarity in social theory and political practice. Contemporary capitalism, meanwhile, is revealing its inner contradictions by producing massive unemployment and economic disarray in the developed nations and allowing misery to worsen in the less developed world. The spread of that misery generates waves of emigrants and refugees and makes those who remain at home increasingly angry and restless. Even in the relatively prosperous West, people pushed to the margin are becoming angrier and the government's reaction to them weaker. Finally, the ecological crisis is impinging on our conscience as never before and raising questions we are not yet prepared to answer.

Today social scientists wonder whether their inherited concepts are adequate for the interpretation of what is taking place:

in the world. On what wisdom should they draw in their response to contemporary conditions? "Have we read the wrong authors?" asks a Canadian political scientist. Were there important thinkers whom we did not take seriously enough because at the time they did not fit into the dominant framework? Can we derive help from scholars whom we read too quickly in the past?

Standing out in the current revival of long-neglected authors is Karl Polanyi, economist, economic historian, and anthropologist, whose magnum opus, *The Great Transformation*, published in 1944 and translated into many languages, is gradually becoming a classic in social science and political economy. Born in Vienna, Polanyi lived and worked in Hungary, Austria, England, and, from 1950 on, in Canada, where he died in 1964. His brilliant analysis of the crisis of our times, explored in many publications, is now receiving wide attention among scholars belonging to several disciplines.<sup>2</sup> Original in his political economy is the importance he attaches to ethical values and cultural issues.

In Montreal, Kari Levitt, professor emeritus of McGill University, and Marguerite Mendell, professor of economics at Concordia University, have founded the Karl Polanyi Institute of Political Economy, which promotes dialogue and interdisciplinary research regarding the present social and economic crisis by taking seriously – as did Polanyi – the role of culture and the need for ethics. I became a member of this institute soon after I arrived in Montreal in 1986 to take up a teaching position in the Faculty of Religious Studies at McGill University.

In 1993 I was invited by my faculty to give the Sproule lectures on Christian ethics, offered in February of each year. Since social ethics – the subject I teach at McGill – is a discipline engaged in dialogue with social, economic, and political theory, I decided to address in my lectures the

contemporary relevance of Karl Polanyi's work. The present book represents a slightly edited version of these lectures.

In chapter 1 I present Polanyi's original and now celebrated theory of "the double movement," introduced and demonstrated in *The Great Transformation*. The scholarly commentary on Polanyi's social theory is ample, but his work has rarely been examined from the perspective of social ethics. This is what I attempt to do. In the second chapter I examine the ethical foundation of Karl Polanyi's thought. Although he did not write as a professional philosopher, he held that humans had an ethical vocation and that ethics played an essential role in the making of society and in the scientific endeavour to understand it. In chapter 3 I investigate to what extent Polanyi's social theory is relevant to the historical conditions of the present. Since Polanyi thought that humanity was addressed by a universal call to solidarity, responsibility, and respect for nature, I examine in the final chapter whether there are resources for such an ethic in today's liberal, pluralistic society.

I do not wish to close this preface without thanking Dean Donna Rinnalls of McGill's Faculty of Religious Studies for the support she has given me over the years in my activities as an author and editor, and Professor Marguerite Mendell of Concordia University, currently the director of the Karl Polanyi Institute, for her challenging ideas and her friendship.

Gregory Baum  
Montreal, Quebec



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*Karl Polanyi on Ethics and Economics*

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## Polanyi's Theory of the Double Movement

In *The Great Transformation*, Karl Polanyi analyses the crisis of modern society. He does not claim that his idea is wholly original, for he finds aspects of it in the thought of the nineteenth-century social reformer Robert Owen. Owen argued that the new capitalism had caused not simply the material impoverishment of the workers but also the disruption of the ethical culture to which they belonged and through which they defined their identity. He was among the first to recognize that economic institutions have an impact on people's cultural self-understanding. He advocated – and actually established – an alternative organization of industrial production, one that allowed workers to define their lives through mutual respect and cooperation. These were ideas that Polanyi pursued in a systematic way.

In *The Great Transformation* Polanyi offers a critical examination of the industrial capitalism set up in England in the early part of the nineteenth century. Whereas Karl Marx accused capitalism of exploiting workers, Polanyi – without denying this – concentrates on the dehumanizing cultural consequences of the free market system. The predominance of the unregulated market removed people from the socio-

cultural framework which constituted the matrix of their human existence. In the past, Polanyi argues, economic activity was embedded in the social relations that made up the community as a whole. What was new and startling with the self-regulating market was that it "disembedded" the economy from its social base, created widespread cultural alienation among workers and owners, and left society and the natural environment without protection. This "disembedding" of economic activity from people's social relations remains a key concept in Polanyi's analysis.

The self-regulating market, advocated in England at the end of the eighteenth century and legally consecrated by the Poor Law Reform Act in 1834, was a *novum* in human history. Polanyi analyses the destructive impact of the new economic system by focusing on the transformation of labour and land into market commodities. In the new industrial capitalism, both labour (human beings) and land (the natural endowment) were bought and sold, used and destroyed, as if they were simply merchandise, even though they were in no sense the products of human industry. They were commodities only fictitiously. With regard to the commodification of "land," Polanyi, as early as the 1940s, draws attention to the ecological devastation produced by the self-regulating market. "Nature would be reduced to its elements, neighbourhoods and landscapes defiled, rivers polluted ... and the power to produce food and raw materials destroyed."

In his critique of the emerging economy, Polanyi – as we shall see – transcends the traditional debate between capitalism and socialism. In fact, he rarely uses the word "capitalism." The object of his sustained criticism is the self-regulating market system. Polanyi holds that markets are important institutions: complex societies cannot get along without them. He has no sympathy whatsoever for the centralized command economy advocated by and practised in

the communist Soviet Union. Yet he distinguishes between markets and the market system, that is to say, the integration of all markets into a single national or international economy. The market system is a modern phenomenon. What concerns Polanyi, and what he criticizes vigorously, is the self-regulating market system – a market economy unconstrained by society and operating simply according to its own law of supply and demand.

Polanyi's examination of industrial capitalism in nineteenth-century England does not stop at this negative result. He shows in great detail that, after a relatively short period during which the market remained unregulated, a political and cultural counter-movement emerged in England. Originating in the late 1840s, this movement sought to protect society – both its people and the land – from unrestrained market forces. "Not until 1834," Polanyi writes, "was a competitive labour market established in England; hence, industrial capitalism as a social system cannot be said to have existed before that date. Yet almost immediately the self-protection of society set in: factory laws and social legislation, and a political and industrial working class movement sprang into being. It was in this attempt to stave off the entirely new dangers of the market mechanism that protective action conflicted fatally with the self-regulation of the system."<sup>1</sup>

Polanyi argues that the self-regulating market is a new human invention for which there are no parallels in past history. But new does not mean progressive. Greater sanity belongs to the earlier phases of human development when economic activity exercised a social function and thus helped to constitute society as a whole. Labour was then embedded in social relations. The production and distribution of goods in tribal, feudal, and mercantile societies did not create a separate economic system. Polanyi claims that the self-regulating market, created by state intervention, was so foreign to human

ways and so devastating in its consequences that it provoked almost immediately a significant counter-current that sought to protect society and the land.

The conclusion at which Polanyi arrives, then, is that modern capitalist society is characterized by "a double movement": on the one hand, the self-regulating market supported by the owning and trading classes, and, on the other, the safeguarding of society by social forces that seek to protect the people, their land, and their culture. Sometimes he speaks of the first movement as seeking blind "economic improvement" and of the second as protecting "habitation."<sup>7</sup>

Because of this double movement, Polanyi argues, modern industrial society, despite the newness of the free market, remains in continuity with the great social orders of the past. Modern society continues to protect itself against the forces that undermine its social solidarity and threaten to distort its relationship to the natural environment. This counter-movement is what Polanyi calls the Great Transformation.

Is the double movement a theory that can be trusted? Are there social forces in our day that move against the stream and seek to protect people and safeguard habitation? When I first read Karl Polanyi, I asked myself whether this great economic historian was a functionalist social thinker who, like Emile Durkheim, looked upon society as an organic unit that would, whenever disturbed, return to equilibrium by its own inner vitality.<sup>8</sup> Such assumptions about the nature of society are, in my mind, unwarranted. By contrast, some students of Polanyi have suggested that his theory of the double movement was inspired by a dialectical understanding of history in the tradition of Hegel and Marx. Did Polanyi believe in necessary progress?

For the Christian ethicist these are important questions. Both functionalist and dialectical theory presuppose that history moves according to certain laws, that the direction of human

development is predictable, and that the human enterprise is governed by necessity. Christian thinkers – with very few exceptions – take a much different view. For Christians, history remains always open, open to the self-chosen, human destructiveness called “sin” and open to the surprising powers of generosity and reconciliation called “divine grace.” The course of human history cannot be predicted by science. What the sciences can discover in historical developments are currents or trends, not laws; and on the strength of these trends, scientists are able to make modest predictions, suggest what is likely to happen, and propose courses of action that promise to serve human well-being.

Is Polanyi’s work based on necessity or freedom? To reply to this question, we must analyse in greater detail the demonstration he offers for his theory of the double movement. In *The Great Transformation* Polanyi proposes two distinct arguments, one historical and the other anthropological. The first argument he draws from his research into the economic and social history of England from the late eighteenth century to the end of the nineteenth century. Here he shows that the concrete history of one country, the country in which industrialization began, was the locus of the double movement.

The second argument is of a different kind. Here Polanyi appeals to what he calls “the changelessness of man as a social being.” Relying on extensive anthropological research, he demonstrates that throughout known human history economic activity has always been embedded in social relations. Since the self-regulating market, a unique and unparalleled institution, separates the economy from society and endangers the latter in the process, it can be expected that, following age-old wisdom and practice, society will generate a counter-movement and protect itself against disintegration. Let us look at these two arguments in greater detail.



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