Paul Kennedy
I'm Paul Kennedy and this is *Ideas* on "Markets and Society."

SFX: CBC TV report on protests in Paris

Paul Kennedy
In the spring of 1998, protests from around the world derailed the so-called Multilateral Agreement on Investment, a kind of investors' bill of rights. It was an early sign that the rising tide of economic globalization had begun to turn. At the same time, a global financial panic, the so-called Asian Crisis, was devastating livelihoods from Russia to Brazil and giving a vivid demonstration of the dangers of globalization. A year later, the siege of the World Trade Organization meetings in Seattle made it clear that the campaign against the Multilateral Agreement on Investment had been just the beginning.

SFX: CBC TV report on protests in Seattle

Paul Kennedy
The fury in the streets of Seattle expressed a mounting popular reaction against 25 years of trade liberalization and financial deregulation. Karl Polanyi would not have been surprised. A Hungarian emigré who spent his last years in Canada and died in 1964, Polanyi was one of the 20th century's great critics of what he called "market society." He argued that before modern times, all societies had kept markets under careful social control. Markets, he said, were embedded in society. Only in the 19th century, was the market disembedded and allowed to regulate itself. The result, Polanyi said, was profound social disruption, disruption so severe that it expressed itself in fascism, war and all the catastrophic upheavals of the first half of the 20th century. It was Polanyi's hope that, by the end of World War II, this lesson had been learned and the market brought under control. At first, it seemed that it had. When Polanyi died in 1964, the strict regulation of the international economy that had been instituted after the war was still in place. But a new experiment with free markets and free movement of money was just around the corner.

In this final episode of his series on Karl Polanyi's life and thought, David Cayley looks at the world from 1945 to 2005 through Karl Polanyi's eyes, and he ponders Polanyi's legacy to a world trying once again to bring markets under social control.

David Cayley
In late 1944, with the end of the Second World War in sight, two books slipped into the world side by side, like warring twins. The authors were old antagonists who had first clashed in the 1920s, and both had high ambitions: to explain the conditions that had led to war and to show how things could be set right in the new era about to begin. The first book was called The Road to Serfdom, by Austrian economist Friedrich Hayek. Hayek claimed that behind the troubles of the 20th century lay a single great cause: the socialist dream of a planned economy and a planned society. It was the attempt to bring the free market under control, he said, that had produced economic collapse and opened the door to fascism. Wake up, was his advice, and recognize that the free market is the only alternative to tyranny. The Great Transformation, by Karl Polanyi, made the opposite claim. For Polanyi, the self-regulating market was the problem, not the solution. In his view, leaving humanity at the mercy of this supposedly self-adjusting machine had been a recklessly utopian experiment with disastrous consequences. Society, he said, will never submit for long to a regime in which livelihood is made a helpless hostage of so-called "economic laws," nor one in which politics is turned into an impotent bystander.

These two visions are the poles between which our times have oscillated. At first, Polanyi's view held sway. Here's the great British economist John Maynard Keynes announcing the creation of the new order in the summer of 1944…

John Maynard Keynes (archival)
There's never been such a far-reaching proposal on so great a scale to provide employment in the present and increase productivity in the future. We've been working quietly, away in the cool woods and mountains of New Hampshire, and I doubt, I doubt if the world yet understands how big a thing we are bringing to birth.

David Cayley
The big thing that was born in the White Mountains of New Hampshire was the Bretton Woods Agreement. The negotiating teams were led by Lord

Keynes for Great Britain and Harry Dexter White for the United States. Their mandate was to devise new institutions to regulate the world economy. And according to Fred Block, all the negotiators had one overriding objective: to make sure that what had happened in the 1930s, the Great Depression, would not happen again. Fred Block is professor of sociology at the University of California at Davis and the author of the introduction to a new edition of Karl Polanyi's The Great Transformation.

Fred Block
They all recognized that the flaw of the global financial arrangements of the 1920s and 1930s was that, once the world's economy collapsed, that, even though Keynes clearly pointed to the way in which nations could recover, could restore a higher level of economic activity through borrowing and deficit spending and so forth, that the global financial arrangements that were in place in the '30s prevented that, because if a particular country decided to engage in deficit spending and strengthen its own economy, what would happen would be that its currency would immediately weaken in comparison to other currencies, and gold would flow out of that country, and it would be forced into a financial crisis, a balance-of-payments crisis — a kind of self-perpetuating system that locked the world economy into permanent stagnation. And so, the idea was to establish mechanisms at the global level that would avoid that downward spiral and give nations the ability, no matter what was going on in the broader economic environment, to move towards full employment.

David Cayley
The troubles of the 1920s and '30s, Karl Polanyi had argued in The Great Transformation — and Keynes held the same view — were the result of an ill-judged attempt to restore the international order that had prevailed before the First World War. The pillars of this order were free trade, limited government and the gold standard. Under the gold standard, there was, in effect, only one money, since all currencies had to backed by gold. It forced every country to keep balanced accounts or lose gold and thereby reduce the value of its money. This is generally called the "liberal order," but the term can be confusing because, in our time, those who have revived this program of free trade, free capital movement, and hands off government are often called conservatives, while their opponents on the political left are often called liberals. So, to be clear, in this program, "liberal" means liberal in the classic 19th century sense, and "neo-liberal" refers to those who have tried to restore the liberal project of a self-adjusting economy.

Eric Helleiner is a professor in Trent University's program in International Development Studies and the author of a number of books and articles on the international financial system. He says that the Bretton Woods Agreement represented a decisive break with the liberal tradition.

Eric Helleiner
For the very first time, you're setting up an international economic order that defends the policy autonomy of nation states, and in that sense, it's very, very different than the classical liberal 19th order. The Bretton Woods institutions are saying, you can have a welfare state at the national level, you can do Keynesian planning, you can provide social stability through all kinds of domestic intervention, and our international order will not just allow that, but reinforce it, it will be protected. And to that extent, it was a radically new vision inspired both by Keynes's own commitment to national planning techniques but also by Harry Dexter White, the American negotiator, by his New Deal commitments, and he and his advisors describe it as a "New Deal for international economics." They're trying to protect and expand what they've done domestically in the US in the 1930s. So, all of that does sound Polanyian in that you're building an order in which planning is permitted.

David Cayley
The Bretton Woods Agreement created two new institutions: the World Bank and the International Monetary Fund. And it created a framework for the conduct of international economic relationships. One of the most remarkable features of this framework, Eric Helleiner says, was its strict control of the movements of money.

Eric Helleiner
If you were someone who'd lived through the 1920s and '30s, the most unusual part of the Bretton Woods Agreements was the commitment to capital controls, and that's where the Bretton Woods Agreements break most dramatically with what had

been before and with the liberal tradition. Article 6 allows national governments to use capital controls under any circumstances and some other provisions in the agreement in fact encourage governments to use these controls. A key part of 19th century liberalism was not just free trade but free finance. People could move money in and out of their country with no restriction, and there are enormous international financial movements in the 19th century, especially in the late 19th century. You can just think of the movements of capital out of Britain to Canada to build infrastructure in the Canadian economy, and those are very large movements of capital. And it's all done on an unrestricted basis. There's no controls on that. And during the 1920s and '30s again, there are very large movements of both portfolio capital, which had funded much of Canada's development, and also short-term movements of money between London and Paris and Berlin and all the major financial centers. And what Keynes and White put in place was the possibility of ending that, that national governments will decide when someone is allowed to move money from one country to another. And that's quite a dramatic departure. Now, why are they doing that? They're doing that because Keynes is very keen on allowing each national government to retain its own ability to set interest rates, and he says quite correctly that if one country wants to have a 2 per cent interest rate and another country has 4, money will move to the higher interest rate country, and that will force that country that wanted to have a lower rate to raise it to stop the capital flight. And so, he says you should allow that country to keep its 2 per cent interest rate, and the consequence is that you can't allow the capital to flee a country.

David Cayley
Keynes and White cited other reasons for capital controls as well. They wanted to stop companies from moving capital to avoid taxes, and they wanted to protect political diversity by preventing capital from quitting countries that might elect disagreeable governments.

The Bretton Woods order was described by Canadian political scientist John Ruggie as "embedded liberalism." It was liberal in the sense that open markets were still recognized as ideal. It was embedded — a term Ruggie borrowed from Karl Polanyi — because national governments were given the sovereign right to act in their own interest as political communities. It was a compromise.

The Bretton Woods Agreement underwrote a period of prolonged prosperity, which lasted into the 1970s. Then a battle began over what to do about the new economic problems that had begun to crop up: problems like high inflation, the end of cheap oil and the strain of the Vietnam War on the American economy. Opinion divided. A curious sign of this division — Eric Helleiner drew my attention to it —was the awarding of the 1974 Nobel Prize for Economics. The prize was shared that year between Swedish economist Gunnar Myrdal and Friedrich Hayek, whose book The Road to Serfdom I mentioned a the start. Myrdal was in favour of retooling Bretton Woods and creating a new order with better terms for less developed countries; Hayek's book meanwhile had become holy writ for the free market forces who wanted deregulation. Their views could not have been more dramatically opposed.

In retrospect, of course, it's easy to see which way things were going. The election of Margaret Thatcher in 1979 and Ronald Reagan a year later sealed the case; but crucial decisions were already being taken much earlier. In 1973, for example, exchange rates between currencies were allowed to float. In the post-war period, they had been fixed and changed only occasionally. The effect, Fred Block says, was dramatic and instantaneous…

Fred Block
Rather than the promised result of making currency markets more stable, it immediately produced extraordinary volatility in exchange rates because it created all kinds of profitable opportunities for speculators. And so, rates start to fluctuate wildly with changes in a few months of 5 per cent in the plus or minus direction. So, in a period as little as a year, it was relatively routine that the dollar would gain 10 per cent against the German mark or vice versa. And 10 per cent starts to be a lot, if you're selling BMWs in the U.S. market, and your margin of profit is probably 7 or 5 per cent, and the exchange rate is fluctuating 10 per cent. It throws off everything. So, the first part of the story is that the floating exchange rates weren't the panacea that they were promised to be. They in fact created more

instability, which was in fact what Polanyi and Keynes would have predicted.

But the more devastating consequence was that as people began to see these fluctuations, they said, hey, we need to protect our portfolios. Over this period of time, all of our capital holdings, as the German mark has fallen by 10 per cent relative to the dollar, we're 10 per cent poorer overall, because we weren't able to protect ourselves from this. And so, they said, from the old days, you have all these capital controls in place. These are keeping us from being able to protect ourselves from exchange rate volatility. If you dismantle the capital controls, we can put more of our assets in dollars and not take such a big hit. So, over the period from the late '70s through the late '80s, all of the major countries dismantled the remaining capital control regimes because of this pressure from individuals and firms.

So, you have volatility leading to dismantling of capital controls. Well, what does dismantling of capital controls do? It increases volatility even more, and so you get this enormous, vicious cycle of more capital movements, more volatility, more instability. But the most important point is that, once you open the floodgates of the free capital mobility, you essentially eliminate the possibility for governments to pursue any kind of independent economic policies.

David Cayley
Once exchange rates were allowed to float and capital controls were eliminated, the international order created by the Bretton Woods Agreement was essentially finished. Its two great institutions, the World Bank and the International Monetary Fund, remained, but their purposes changed dramatically. The turning point for the IMF came with the so-called "debt crisis" of 1982, when it appeared that heavily indebted countries, like Mexico, Argentina and Brazil, might default. Keynes had seen the IMF in an enabling role, helping countries over the economic bumps. Now it became an enforcer, setting strict conditions in exchange for its help. The policy autonomy that the Bretton Woods Agreement had sought to foster was replaced by stringent policy prescription. And it was not just the debtor countries that found their room for manoeuvre shrinking. So did the rich countries. The classic case, Eric Helleiner says, involved the socialist government of François Mitterand in France. The year was 1983.

Eric Helleiner
Mitterand was attempting what many of his supporters called "socialism in one country." It was really Keynesianism in one country. It was an attempt to have a unilateral domestic expansion in the context of the global recession of the early 1980s. Mitterand was saying, "We can get out of it on our own." So, he's launching some very ambitious spending programs and some redistributive programs too domestically, and he hits immediately some foreign exchange crises, where the French economy is expanding at a rate that's not the same as other European countries around him, and so France is pulling in imports. People have more money. They're pulling in imports. And there's capital flight from the country, because people are anticipating inflation, and French interest rates are falling below those of their European counterparts. And so, the combination of both the trade side and the capital account side, with capital leaving the country, produces an exchange rate crisis for Mitterand quite quickly.

And the choice of how to respond to that — that's the most interesting moment of that crisis. One response, which a large number of his advisors supported, was to introduce capital controls and also some trade controls to essentially preserve the national policy autonomy of the French socialist project. And that would have meant a rupture with both the international liberal institutions, but even within Europe, it would have meant a rupture with the European community, which wouldn't allow some of the things that he was proposing.

And on the other side were a group of more liberal advisors, many of whom then subsequently become famous figures — Michel Camdessus was a central figure in the French treasury, and he goes on to head the IMF after this episode; Jacques Delors, who's the most prominent figure in this liberal camp, who goes on to head the European Commission — and their argument to their colleagues is, it's too radical to have what they call the "siege economy," you have to accept the discipline of international market forces, and those forces have become stronger in the last decade, and then they're telling their colleagues, national Keynesianism is no longer

a viable option. It's a seminal moment for the European left because it's seen in very grand terms: Can you preserve the European national model? And all eyes are on the Mitterand experiment. And the government in fact hits a real crisis moment in 1983 with a split between these two camps, and nobody is sure which side Mitterand is going to come down on, and they're bolstering border guards, trying to stop people from taking their money out of the country, and it's quite dramatic. And Mitterand comes down and sides with the second camp, with the more liberal camp.

David Cayley
Interpretations of what happened in France in 1983 differ. Those who advised retreat did so partly in order to preserve European unity. Some of them, like Jacques Delors, who later headed the European Commission, hoped that policy autonomy could be recreated in the enlarged space of Europe as a whole. For him it was a strategic retreat in order to fight another day. Fred Block sees it as a clear sign that national governments had lost much of their ability to set independent economic policies.

Fred Block
Since this re-opening of the floodgates of international capital movements, we have a neo-gold standard world. We have recreated the discipline, the inability of governments to move against the tide or the herd, and the source on this that's most powerful is Thomas Friedman, *The New York Times* op-ed columnist, who, in the 1990s, was a kind of cheerleader for free market globalization. He wrote a book called The Lexus and The Olive Tree, and one of the early chapters of the book is called "The Golden Straightjacket," and he says just wonderfully explicitly that, under global market liberalism, there's no longer the opportunity for a variety of jackets: the Mao jacket, the Nehru jacket — different countries cannot put on the particular package of economic and political policies that they want. "The Golden Straightjacket" is "one size fits all," and it requires that you deregulate, that you roll back government measures to control various prices, that you privatize industry, you balance your budget, you cut back on public spending of various kinds.

David Cayley
In the later 1990s, the drawbacks of "one size fits all" globalization were becoming widely evident. Inequality within countries and between countries was growing. The economies of the former Communist countries were not responding as promised to cold turkey marketization. Countries and regions left off the gravy train were sinking into poverty and anarchy. Then, on top of these troubles, came a dramatic display of the dangers of financial de-regulation: the so-called "East Asian Economic crisis." Eric Helleiner reconstructs what happened…

Eric Helleiner
The Asian crisis begins in Thailand with a small devaluation…or not so small a devaluation, but what appears to be a small financial crisis located in one country, but quickly spills over into other countries in the East Asian region who begin to experience capital flight by investors who perceive Thailand's problems to be characteristic of other countries' problems in the region. And then once you get into a financial crisis, it quickly can escalate. Financial markets are prone to manias and panics and crashes, as one famous financial analyst described them, and this, I think, was a good example of that, that even if you think Korea's economic prospects are good, you're wondering what the investor beside you is doing. Maybe they're going to pull out, and so you better pull out before they do, and there's a kind of rush to the exits, which began to just affect one country after another. It's initially in East Asia and then spreads to many Latin American countries and then affects Russia, which eventually defaults in 1998, and so it's a kind of a contagion effect across the whole world, which had not really been seen in quite a long time, and was made possible by that very freedom of financial movements, that you could move money anywhere. If people begin to panic, it will affect not just one country now, but will affect all those countries that are within that integrated system.

Fred Block
It was that episode, it seemed to me, that most dramatically revealed to people around the world that this market fundamentalist vision that's simply letting this money slosh around the world, was going to solve all the world's economic problems and create overnight prosperity was simply a fantasy.

David Cayley
This is Fred Block…

Fred Block
The consequences for ordinary people in country after country were absolutely devastating. The median family in one of these countries might, through no fault of its own, through no lack of diligence or hard work, suffer a 50 per cent fall in their real earnings from one year to the next because the currency has been devalued, unemployment has risen, and they've lost working hours, the purchasing power of the currency, the public services that they previously got are no longer being provided because of retrenchment.

David Cayley
The Asian crisis began a movement to re-regulate the international economy. A move that was then underway to scrap the article of the IMF's constitution allowing capital controls was defeated. Trade liberalization stalled. East Asian countries unhappy about the conditions imposed on them by the IMF began to talk about creating their own monetary fund, and until 9/11 warped the entire political field, popular protest against corporate and financial globalization swelled almost daily. All this was as Karl Polanyi had predicted. In The Great Transformation he shows that when the extension of the market is put above the good of society as a whole, society fights back. He calls it the "double movement" or the "protective response," and Eric Helleiner thinks that just such a movement is underway today.

Eric Helleiner
In all kinds of ways, we already see what Polanyi calls the "social counter-movement." It's happening at all levels, if you like, of social life. I think we've already seen the high point of the neo-liberal movement. The last time there was a liberal movement of the same kind that we saw in the '80s and '90s was in the mid-19th century, in the 1850s and 1860s, and it lasted about 20 years. It also combined with a technological revolution — railroads and the telegraph and everything — and it induced a reaction, and the reaction, as Polanyi described it, was a very long reaction. It was not until the interwar period that he thought it had fully unfolded. We are living through many reactions. In the East Asian region, there are increasing attempts to insulate themselves from IMF pressure, for example, in the wake of the East Asian crisis. And the European Community has, since Delors, been trying to build this alternative conception. In the '90s, neo-liberals used to talk about there being no alternative, and that argument is not made with the same confidence anymore today. So, I think, Polanyi would, were he alive today, be watching what he called "spontaneous social reactions" to what he considered to be a utopian project and be seeing them in many different contexts today, but not be seeing them as something that is going to change the world dramatically in a single year or even a decade, but it's a long-term kind of process.

David Cayley
In the years after World War II, Karl Polanyi, like many people, was in an optimistic mood. The sheer immensity of the cataclysm that lay behind gave a kind of confidence that permanent reform would now have to be undertaken. "Outside the United States," Polanyi wrote in 1947, "liberal capitalism can hardly be said to exist anymore." In another article, he speaks of the end of what he calls "universal capitalism," by which he meant an order in which economic power could flow, unplanned and unimpeded, through a global space. Polanyi did recognize, ominously, the persistence of what he called "our obsolete market mentality." But he was hopeful that people were ready to face the fact that they must make society and no longer displace the responsibility onto the "market."

Obviously, the history I have just narrated proved him wrong. Economic liberalism did come around again and again engendered a defensive social reaction. So it seems fitting, and urgent, to ask, at the end of this series on his thought, what Polanyi's work has to say to the present moment. 2005, of course, is not 1945 or 1870, when the first wave of reaction to liberal capitalism began to hit. One critical difference is the end of communism and, therefore, the end of the sense that some fully developed alternative to liberal capitalism sits waiting in the wings. Marxism no longer overshadows other ways of thinking about alternatives, and this has created an opening for the distinctively different style of socialism espoused by Karl Polanyi. Here's Fred Block…

Fred Block
Polanyi was deeply sensitive to Marxist theoretical contributions, but he was also deeply dissatisfied with the political vision of Marxist-inspired political movements, and he felt there was too much of the idea that the working class needed to fight for its own interests against the capitalists and that that was sufficient and that somehow history was automatically going to put your class and your party in the driver's seat. In that sense, Polanyi had a view in which oppositional politics had to embrace a vision of the whole society and how that society should be organized, that we want economic justice, and we're going to achieve it by this kind of policy and this kind of policy. And through enunciating that vision, you broaden the social base for the movement. You bring in other groups because you've given a vision of how society could be organized that's a positive vision, that's appealing to people. Whereas much of the left had embraced this, "We'll just fight and heighten the contradictions, and ultimately we'll win," and that Polanyi saw as a kind of irresponsible politics.

David Cayley
Karl Polanyi stood for a politics of responsibility, rather than a politics of class, and this devotion to a common, rather than a class, good was his first great difference with Marxism. The second was Polanyi's opposition to any form of determinism. He did not believe, as did Marx, that history follows some grand scheme, nor did he believe, with Marx, that the character of a society is determined by its economy. The importance of this second difference for social thought today was the theme of a seminar that Fred Block gave at the University of Toronto's Munk Centre in the fall of 2004. He entitled his talk "Towards a Polanyian Theory of Contemporary Capitalism," and he began by suggesting that Marxism had been wrong in thinking of capitalism as a unified system. Paul Sweezy, whom he mentions, was a prominent American Marxist and the long-time editor of The Monthly Review.

Fred Block
I once had a conversation with the late Paul Sweezy where I was talking about some visions about reforming capitalism, and he said, "Well, you can't get the capitalist leopard to change its spots," or it might have been the "capitalist tiger to change its stripes" — I can't remember exactly — but that capitalism was very powerfully being described as a beast. And it seems to me that that natural imagery is there very deeply in Marx's work. He used it, I think, very self-consciously as a way to protect Marxism from reformism, from the threat that workers would accept half a loaf rather than radical transformation, and so he always said that you had to transform capitalism root and branch, you had to pull the whole thing out, you couldn't just change a little bit. So, he used the image of capitalism as a natural system that had to be completely destroyed, and I think that natural imagery is part of what has gotten us into deep trouble. And the kind of alternative metaphor that I've been trying to work with is to think rather of market societies and the contemporary global economy as not a natural entity at all but rather as a kind of jerrybuilt structure, a bunch of elements put together at different times that fit together very uneasily, which are constantly having to be patched and readjusted. And so, the notion is that it's a system which is always under construction because the parts of it don't fit together very well. It's riven by contradictions, tensions, lack of fit. And it's precisely that "always under construction" quality which is what gives the political openings, because that which is recognized to be under construction can be reconstructed in different ways, in better ways to promote different kinds of values.

David Cayley
Marxism, and Marx, held that capitalist society got its nature — its being a "beast" — from the exploitation of labour by capital and that this fundamental relationship coloured every other social relation in capitalist society. Polanyi, on the other hand, did not accept this idea that societies are derived from their economies. Before the 18th century, he said, economic life was so completely integrated with other social relationships that people didn't recognize a distinct economy at all. Economy was embedded. The market system had disembedded the economy and so brought about a situation where society is subordinate to the economy. But this was not a necessary or a sustainable condition. Indeed, Polanyi argued, the primacy of the social must be restored if humanity were, as he said, "to continue on earth." And this challenge to the primacy of economics, Fred Block told his audience at the University of Toronto, opens possibilities that neither Marxism nor liberalism could recognize.

Fred Block
One of the things that Marxists and market liberals share is a belief that there's a profound tension between democratic self-governance and the development of an efficient and productive market economy. Well, Polanyi, it seems to me, suggests — he doesn't say this explicitly, this is my own interpretation — he suggests very powerfully to me a different history, a hidden history of modernity in which the great, popular struggles to expand democracy through establishing the rule of law and a universal system of rights, including the social rights won in the 20th century, those struggles have contributed enormously to the vitality and strength of market economies and in fact have made the economic advances of the past two centuries possible. And we have elements of that alternative story. E.P. Thompson talked about how the rule of law in England came about through popular struggles from below that won limits on the power of the nobility, of the rich and the establishment of rights, which then became central to the possibilities of market-led development by clarifying property and other kinds of rights and establishing a rule of law.

Or to use another example, the struggle against the slave trade and the later civil rights movement, the struggles for full incorporation of women and minorities — these struggles didn't undermine the economy. They in fact contributed to economic vitality. And so, one of the ironies of U.S. history is that these social movements in fact created the possibility for expanded economic growth.

But the most obvious example I want to emphasize is that the creation of the post-World War II Social Democratic and Christian Democratic welfare states were not at odds with efficient elaboration of market economies, but underwrote this enormously productive period of economic growth in the first several decades after World War II, and even longer, up to the very present.

So, the key idea here is that in the creation and development of market societies — and this is the fundamental Polanyian point — that the political moment is the dominant moment. In other words, Marx insisted that, in the last instance, the economic was the determinant, and the Polanyian framework is fundamentally the opposite. In the last instance, it's politics.

David Cayley
Fred Block admits here that he is interpreting Polanyi, and perhaps taking him further than Polanyi himself went. In fact, Block has written that in The Great Transformation, Karl Polanyi was moving towards a concept that Block calls the "always embedded economy," but was held back by a contradiction in his argument. Polanyi had said that in market society, the economy is disembedded. But he had also shown, Block says, that the economy can never really be disembedded because markets can't operate unless governments establish and maintain the political and legal frameworks that markets require. The economy, therefore, is always embedded; it's just a question of how it's embedded. And this recognition opens the door to the kind of incremental and pragmatic reform that Fred Block wants to promote. But here, a difference of opinion emerges.

Kari Polanyi Levitt is professor of economics at McGill, now retired, and Karl Polanyi's daughter. She disagrees with Fred Block on this point. The idea that politics trumps economics does not, by itself, she argues, give an adequate account of Karl Polanyi's position.

Kari Polanyi Levitt
My problem with that is that what disappears from view is Karl Polanyi's most important, single insight, which is that the market system or capitalism, as you wish to call it, has disembedded the economy, whereby it operates according to laws and rules of its own, and indeed in order to keep itself functioning, to maintain the accumulation of capital, to maintain the rate of profit, it has to penetrate into the private spaces, private spaces of family, by commercializing private spaces, and, of course, into public spaces by privatization and all of that. So, I am saying that these are examples basically of diminishing society and the economy taking over, taking more and more, more and more the governing principles of daily life, of social life, of every kind of life, and that is disembedding the economy, lifting the economy out of society.

David Cayley
Kari Polanyi Levitt thinks that the idea that market capitalism disembeds the economy is Karl Polanyi's central and irreplaceable insight. She does not deny that the market requires various institutional

supports to function and that these have to be politically instituted, but that for her does not invalidate the idea that the economy, in the last analysis, dictates its requirements. She cites the past 20 years as an example. The international economy was effectively regulated for a time, she says, but then the argument began to be heard that regulation was strangling the market, and it must be set free.

Kari Polanyi Levitt
We had what the French call the "golden years" or the glorious years in the '50s, '60s and '70s. But we then had a counter-movement of capital, both in ideology and economics and most importantly in policy that came in with Thatcher and Reagan, with deregulation and privatization and structural adjustment of developing countries and the whole program of the '80s and '90s. And it was really one of turning the tables. It was one of turning the clock back on the gains made by labour, and it continues in Europe today, of putting a stop to certain kinds of developments in Third World countries, which appeared to be too radical in the '70s, if you think back to that, and putting these countries in a way into a straightjacket of financial and fiscal discipline enforced by the IMF and the WTO et cetera, et cetera. We know the story. So, you might say that from the mid-'70s, the initiative passed, if you like, to capital. Capital struck back.

David Cayley
At issue between Kari Polanyi Levitt and Fred Block is the central question that has been posed in this series: the relationship between markets and society. Fred Block asserts, if I've understood him well, that there is no inherent contradiction between the two; that a market economy can, in principle, be made to work for the good of all. Kari Polanyi Levitt, on the other hand, senses what she called, in an earlier program, an "existential tension" between markets and society, a tension which she thinks is summed up in the idea that a market economy is disembedded. She wants to hold on to what she calls the "radical edge" in her father's thought.

Kari Polanyi Levitt
The radical edge ultimately is that there has never before been an economic organization of society which is based on individual gain or the fear of individual hunger, as was instituted in the 19th century and as actually we see that continues to operate in this way. People are socialized and forced and molded into having to act as producers and consumers within the market system, and we are a victim of this. But that does not mean to say that there is anything natural about this or that indeed this can continue forever, because, like Adam Smith, like Karl Marx, like Joseph Schumpeter and John Maynard Keynes, my father also believed really that this capitalist system cannot go on forever.

David Cayley
The disagreement between Kari Polanyi Levitt and Fred Block over the idea of disembedding represents a real and consequential difference, I think, and indicates that Polanyi's legacy, like any other, will have to debated and thrashed out. But there are many more points, I would say, on which they agree. One such is what I called earlier the "politics of responsibility," and it is on this point I think that Polanyi comes closest to the concerns of the movement that has recently arisen against economic globalization. The core of Karl Polanyi's thought is the idea of personal responsibility. His critique of market capitalism hinges on the idea that the market as a mechanism forecloses the possibility of responsible action. And if we cannot be responsible, he argued, we cannot be free, because to be free is to be answerable for the society in which we live, the society which we are invisibly weaving at every moment and which is invisibly weaving us. The freedom to be responsible was always the goal of Karl Polanyi's quest, and Fred Block believes that his hope remains alive in those who are struggling for justice today.

Fred Block
The global justice movement has unified around the slogan of "another world is possible," and I think it's a very Polanyian slogan. It explicitly says that there's no necessity to this particular market liberal nightmare. We have within us the power to create something different. And implicitly, it says, we, the movements, have to fill in the vision of what that world is. And so, it has within it that grain of taking responsibility for the social order. We're not simply making demands for more this, more that, less this, less that. We're saying, we need a transformation that realizes the possibilities of another world.

Paul Kennedy
On *Ideas*, you've listened to the concluding episode of "Markets and Society: The Life and Thought of Karl Polanyi." It was written and presented by David Cayley. The words of Karl Polanyi were read by Ker Wells. Our thanks to Ana Gomez, Margie Mendell and Kari Polanyi Levitt of the Polanyi Institute at Concordia University in Montreal for their help in the preparation of these programs. The programs also drew on the research of Berkeley Fleming of Mount Alison University, who's preparing an intellectual biography of Karl Polanyi. Technical direction: Dave Field. Editorial consultants: Alison Moss and Richard Handler. Associate Producer: Liz Nagy. Archival research: Ken Puley and Norbert Boily. The Executive Producer of *Ideas* is Bernie Lucht. I'm Paul Kennedy.

Transcription: Ian Godfrey