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The Man from Red Vienna

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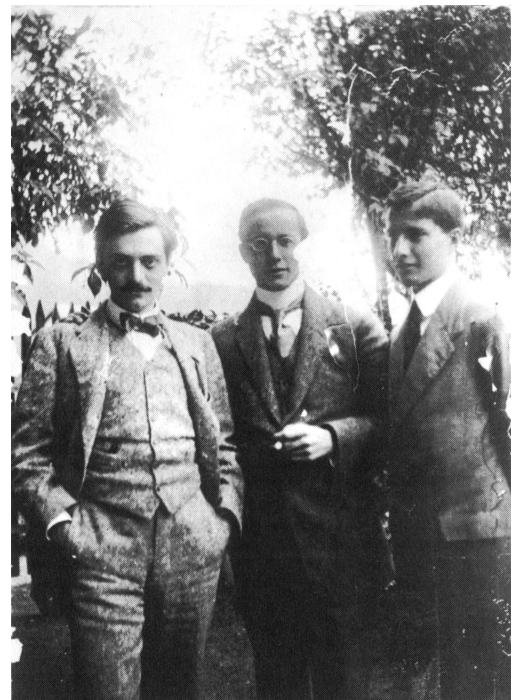
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Karl Polanyi: A Life on the Left

by Gareth Dale

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What a splendid era this was going to be, with one remaining superpower spreading capitalism and liberal democracy around the world. Instead, democracy and capitalism seem increasingly incompatible. Global capitalism has escaped the bounds of the postwar mixed economy that had reconciled dynamism with security through the regulation of finance, the empowerment of labor, a welfare state, and elements of public ownership. Wealth has crowded out citizenship, producing greater concentration of both income and influence, as well as loss of faith in democracy. The result is an economy of extreme inequality and instability, organized less for the many than for the few.



Leo Popper, Karl Polanyi, and Michael Polanyi, circa 1908

Not surprisingly, the many have reacted. To the chagrin of those who look to the democratic left to restrain markets, the reaction is mostly right-wing populist. And “populist” understates the nature of this reaction, whose nationalist rhetoric, principles, and practices border on neofascism. An increased flow of migrants, another feature of globalism, has compounded the anger of economically stressed locals who want to Make

America (France, Norway, Hungary, Finland...) Great Again. This is occurring not just in weakly democratic nations such as Poland and Turkey, but in the established democracies—Britain, America, France, even social-democratic Scandinavia.

We have been here before. During the period between the two world wars, free-market liberals governing Britain, France, and the US tried to restore the pre-World War I laissez-faire system. They resurrected the gold standard and put war debts and reparations ahead of economic recovery. It was an era of free trade and rampant speculation, with no controls on private capital. The result was a decade of economic insecurity ending in depression, a weakening of parliamentary democracy, and fascist backlash. Right up until the German election of July 1932, when the Nazis became the largest party in the Reichstag, the pre-Hitler governing coalition was practicing the economic austerity commended by Germany's creditors.

The great prophet of how market forces taken to an extreme destroy both democracy and a functioning economy was not Karl Marx but Karl Polanyi. Marx expected the crisis of capitalism to end in universal worker revolt and communism. Polanyi, with nearly a century more history to draw on, appreciated that the greater likelihood was fascism.

As Polanyi demonstrated in his masterwork *The Great Transformation* (1944), when markets become “dis-embedded” from their societies and create severe social dislocations, people eventually revolt. Polanyi saw the catastrophe of World War I, the interwar period, the Great Depression, fascism, and World War II as the logical culmination of market forces overwhelming society—“the utopian endeavor of economic liberalism to set up a self-regulating market system” that began in nineteenth-century England. This was a deliberate choice, he insisted, not a reversion to a natural economic state. Market society, Polanyi persuasively demonstrated, could only exist because of deliberate government action defining property rights, terms of labor, trade, and finance. “Laissez faire,” he impishly wrote, “was planned.”

Polanyi believed that the only way politically to temper the destructive influence of organized capital and its ultra-market ideology was with highly mobilized, shrewd, and sophisticated worker movements. He concluded this not from Marxist economic theory but from close observation of interwar Europe's most successful experiment in municipal socialism: Red Vienna, where he worked as

an economic journalist in the 1920s. And for a time in the post–World War II era, the entire West had an egalitarian form of capitalism built on the strength of the democratic state and underpinned by strong labor movements. But since the era of Thatcher and Reagan that countervailing power has been crushed, with predictable results.

In *The Great Transformation*, Polanyi emphasized that the core imperatives of nineteenth-century classical liberalism were free trade, the idea that labor had to “find its price on the market,” and enforcement of the gold standard. Today’s equivalents are uncannily similar. We have an ever more intense push for deregulated trade, the better to destroy the remnants of managed capitalism; and the dismantling of what remains of labor market safeguards to increase profits for multinational corporations. In place of the gold standard—whose nineteenth-century function was to force nations to put “sound money” and the interests of bondholders ahead of real economic well-being—we have austerity policies enforced by the European Commission, the International Monetary Fund, and German Chancellor Angela Merkel, with the American Federal Reserve tightening credit at the first signs of inflation.

This unholy trinity of economic policies that Polanyi identified is not working any more now than it did in the 1920s. They are practical failures, as economics, as social policy, and as politics. Polanyi’s historical analysis, in both earlier writings and *The Great Transformation*, has been vindicated three times, first by the events that culminated in World War II, then by the temporary containment of laissez-faire with resurgent democratic prosperity during the postwar boom, and now again by the restoration of primal economic liberalism and neofascist reaction to it. This should be the right sort of Polanyi moment; instead it is the wrong sort.

Gareth Dale’s intellectual biography, *Karl Polanyi: A Life on the Left*, does a fine job of exploring the man, his work, and the political and intellectual setting in which he developed. This is not the first Polanyi biography, but it is the most comprehensive. Dale, a political scientist who teaches at Brunel University in London, also wrote an earlier book, *Karl Polanyi: The Limits of the Market* (2010), on his economics.

Polanyi was born in 1886 in Vienna to an illustrious Jewish family. His father, Mihály Pollacsek, came from the Carpathian region of the Hapsburg Empire and

acquired a Swiss engineering degree. He was a contractor for the empire's growing rail system. In the late 1880s, Mihály moved the family to Budapest, according to the Polanyi Archive. He magyarized the children's family name to Polanyi in 1904, the same year Karl began studies at the University of Budapest, though he kept his own surname. Karl's mother, Cecile, the well-educated daughter of a Vilna rabbi, was a pioneering feminist. She founded a women's college in 1912, wrote for German-language periodicals in Budapest and Berlin, and presided over one of Budapest's literary salons.

At home, German and Hungarian were spoken (along with French "at table"), and English was learned, Dale reports. The five Polanyi children also studied Greek and Latin. In the quarter-century before World War I, Budapest was an oasis of liberal tolerance. As in Vienna, Berlin, and Prague, a large proportion of the professional and cultural elite consisted of assimilated Jews. In the mid-1890s, Dale notes, "the Jewish faith was accorded the same privileges as the Christian denominations, and Jewish representatives were accorded seats in the upper house of parliament."

Drawing on interviews and correspondence as well as published writings, Dale vividly evokes the era. Polanyi's milieu in Budapest, known as the Great Generation, included activists and social theorists such as his mentor, Oscar Jaszi; Karl Mannheim; the Marxist Georg Lukács; Karl's younger brother and ideological sparring partner, the libertarian Michael Polanyi; the physicists Leo Szilard and Edward Teller; the mathematician John von Neumann; and the composers Béla Bartók and Zoltán Kodály, among many others. In this hothouse Polanyi thrived, attending the Minta Gymnasium, one of the city's best, and then the University of Budapest. He was expelled in 1907 following a shoving match in which anti-Semitic right-wingers disrupted a lecture by a popular leftist professor, Gyula Pikler. He had to finish his doctor of law degree in 1908 at the provincial University of Kolozsvár (today Cluj in Romania). There, he was a founder of the left-humanist Galilei Circle and later served on the editorial board of its journal.

Polanyi became a leading member of Jaszi's political party, the Radicals, and was named its general secretary in 1918. He was drawn to the Christian socialism of Robert Owen and Richard Tawney and the guild socialism of G.D.H. Cole. He mused about a fusion of Marxism and Christianity. Polanyi is best classified as a left-wing social democrat—but a lifelong skeptic of the possibility that a capitalist society would ever tolerate a hybrid economic system.

After World War I broke out, Polanyi enlisted as a cavalry officer. When he came home in late 1917, suffering from malnutrition, depression, and typhus, Budapest was in the throes of a chaotic conflict between the left and the right. In 1918 the Hungarian government made a separate peace with the Allies, breaking with Vienna and hoping to create a liberal republic. Events in the streets overtook parliamentary jockeying, and the Communist leader Béla Kun proclaimed what turned out to be a short-lived Hungarian Soviet Republic.

Polanyi decamped for Vienna, both to recover his health and to get off the political front lines. There he found his calling as a high-level economics journalist and the love of his life, Ilona Duczynska, a Polish-born radical well to his left. Their daughter, Kari, born in 1923, recalls, as a preteen, clipping marked-up newspaper articles in three languages for her father. At age ninety-four, she continues to help direct the Polanyi Archive in Montreal.

Central Europe's equivalent of *The Economist*, the weekly *Österreichische Volkswirt*, hired Polanyi in 1924 as a writer on international affairs. He continued his quest for a feasible socialism, engaging with others on the left and challenging the right in ongoing arguments with the free-market theorist Ludwig von Mises. The debates, published in agonizing detail, turned on whether a socialist economy was capable of efficient pricing. Mises insisted it was not. Polanyi argued that a decentralized form of worker-led socialism could price necessities with good-enough accuracy. He ultimately concluded, Dale recounts, that these abstruse technical arguments had been a waste of his time.¹

A practical answer to the debate with Mises was playing out in Red Vienna. Well-mobilized workers kept socialist municipal governments in power for nearly sixteen years after World War I. Gas, water, and electricity were provided by the government, which also built working-class housing financed by taxes on the rich—including a tax on servants. There were family allowances for parents and municipal unemployment insurance for the trade unions. None of this undermined the efficiency of Austria's private economy, which was far more endangered by the hapless policies of economic austerity that were criticized by Polanyi. After 1927, unemployment relentlessly increased and wages fell, which helped bring to power in 1932–1933 an Austrofascist government.

To Polanyi, Red Vienna was as important for its politics as for its economics. The perverse policies of Dickensian England reflected the political weakness of

its working class, but Red Vienna was an emblem of the strength of its working class. “While [English poor-law reform] caused a veritable disaster of the common people,” he wrote, “Vienna achieved one of the most spectacular triumphs of Western history.” But as Polanyi appreciated, an island of municipal socialism could not survive larger market turbulence and rising fascism.

In 1933, with homegrown fascists running the government, Polanyi left Vienna for London. There, with the help of Cole and Tawney, he eventually found work in an extension program sponsored by Oxford University, known as the Workers’ Educational Association. He taught, among other subjects, English industrial history. His original research for these lectures formed the first drafts of *The Great Transformation*.

His mentor Oscar Jaszi was also now in exile and teaching at Oberlin. To supplement his meager adjunct pay, Polanyi was able to put together lecture tours to colleges in the United States. He found Roosevelt’s America a hopeful counterpoint to Europe. After war broke out, one of those lecture trips evolved into a three-year appointment at Bennington College, where he completed his book.

The timing of publication was auspicious. The year 1944 included the Bretton Woods Agreement, Roosevelt’s call for an Economic Bill of Rights, and Lord Beveridge’s epic blueprint *Full Employment in a Free Society*. What these had in common with Polanyi’s work was a conviction that an excessively free market should never again lead to human misery ending in fascism.

Yet Polanyi’s book was initially met with resounding silence. This, I think, was the result of two factors. First, Polanyi belonged to no academic discipline and was essentially self-taught. Dale writes that when he was finally offered a job teaching economic history at Columbia in 1947, “the sociologists saw him as an economist, while the economists thought the reverse.” Midcentury America was also a period when political economy, institutionalism, the history of economic thought, and economic history were going into a period of eclipse, in favor of formalistic modeling. Polanyi’s was not a hypothesis that could be tested.

Second and more important, Polanyi’s ideological adversaries enjoyed subsidy and promotion while he had only the power of his ideas. Mises, like Polanyi, had no academic credentials. But he conducted an influential private seminar from his post as secretary of the Austrian Chamber of Commerce. The seminar developed

the ultra-laissez-faire Austrian school of economics. Mises's prime student was Friedrich Hayek. As a laissez-faire theorist financed by organized business, Mises anticipated the Heritage Foundation by half a century.

Hayek later contended in *The Road to Serfdom* that well-intentioned state efforts to temper markets would end in despotism. But there is no case of social democracy drifting into dictatorship. History sided with Polanyi, demonstrating that an unrestrained free market leads to democratic breakdown. Yet Hayek ended up with a chair at the London School of Economics, which was founded by Fabians; the "Austrian School" got dignified as a formal school of libertarian economics; and Hayek later won the Nobel Memorial Prize in Economic Sciences. *The Road to Serfdom*, also published in 1944, was a best seller, serialized in *Reader's Digest*. Polanyi's *Great Transformation* sold just 1,701 copies in 1944 and 1945.

When *The Great Transformation* appeared in 1944, the review in *The New York Times* was withering. The reviewer, John Chamberlain, wrote, "This beautifully written essay in the revaluation of a hundred and fifty years of history adds up to a subtle appeal for a new feudalism, a new slavery, a new status of economy that will tie men to their places of abode and their jobs." If that sounds curiously like Hayek, the same Chamberlain had just written the effusive foreword to *The Road to Serfdom*. Such is the political economy of influence.

Yet Polanyi's book refused to fade away. In 1982, his concepts were the centerpiece of an influential article by the international relations scholar John Gerard Ruggie, who termed the postwar economic order of 1944 "embedded liberalism." The Bretton Woods system, Ruggie wrote, reconciled state with market by "re-embedding" the liberal economy in society via democratic politics.² The Danish sociologist Gøsta Esping-Andersen, a major historian of social democracy, used the Polanyian concept "decommodification" in an important book, *The Three Worlds of Welfare Capitalism* (1990), to describe how social democrats contained and complemented the market.³

Other scholars who have valued Polanyi's insights include the political historians Ira Katznelson, Jacob Hacker, and Richard Valelly, the late sociologist Daniel Bell, and the economists Joseph Stiglitz, Dani Rodrik, and Herman Daly. On the other hand, thinkers who seem quintessentially Polanyian in their concern about markets invading nonmarket realms, such as Michael Walzer, John Kenneth Galbraith, Albert Hirschman, and the Nobel laureate Elinor Ostrom, don't invoke

him at all. This is the price one pays for being, in Hirschman's self-description, a trespasser.

Having been exiled three times—from Budapest to Vienna, from Vienna to London, and later to New York—Polanyi had to move yet again when the US authorities would not grant Ilona a visa, citing her onetime membership in the Communist Party in the 1920s. They ended up in a suburb of Toronto, from which Polanyi commuted to Columbia until his retirement in the mid-1950s.

Though his enthusiasts tend to focus only on *The Great Transformation*, Dale's book is valuable for his discussion of Polanyi after 1944. He lived for another twenty years, working on what was then known as primitive economic systems, which gave him yet another basis to demonstrate that the free market is no natural condition, and that markets in fact do not have to overwhelm the rest of society. On the contrary, many early cultures effectively blended market and nonmarket forms of exchange. His subjects included the slave trade of Dahomey and the economy of ancient Athens, which “demonstrated that elements of redistribution, reciprocity, and market exchange could be effectively fused into ‘an organic whole.’” Dale writes, “For Polanyi, democratic Athens was truly antiquity's forerunner to Red Vienna.” Athens, of course, was far from socialist, but its precapitalist economy did blend market and nonmarket forms of income.

Dale also addresses Polanyi's views on the escalating cold war and on the mixed economy of the postwar era that many now view as a golden age. The *trente glorieuses*, combining egalitarian capitalism and restored democracy, should have felt to him like an affirmation. But Polanyi, having lived through two wars, the destruction of socialist Vienna, the loss of close family members to the Nazis, four separate exiles, and long separations from Ilona, was not so easily convinced. While he admired Roosevelt, he considered the British Labour government of 1945 a sellout—a welfare state atop a still capitalist system.

Half a century later, that concern proved all too accurate. Others saw the Bretton Woods system as an elegant way of restarting trade while creating shelter for each member nation to run full-employment economies, but Polanyi viewed it as an extension of the sway of capital. That may also have been prescient. By the 1980s, the IMF and the World Bank had been turned into enforcers of austerity, the opposite of what was intended by their architect, John Maynard Keynes. He

blamed the cold war mostly on the Allies, praising Henry Wallace's view that the West could have reached an accommodation with Stalin.

Dale makes no excuses for Polanyi's blind spot about the Soviet Union. At various points in the 1920s and 1930s, he notes, Polanyi gave Stalin something of a pass, even blaming the 1940 Molotov–Ribbentrop pact on Whitehall's anti-Sovietism. And he was sanguine about the intentions of the Russians in the immediate postwar period. As a member of the émigré Hungarian Council in London, he broke with its other leaders over whether the Red Army should be welcomed as a harbinger of democratic socialism. The Soviet liberation of Eastern Europe, Polanyi insisted, would bring “a form of representative government based on political parties.”

Having been proven badly wrong, Polanyi cheered the abortive Hungarian revolution of 1956, yet after it was crushed by Soviet tanks he also found reasons for hope in the mildly reformist “goulash communism” that followed. This was naive, yet not totally misplaced. Though Polanyi was no Marxist, there was enough openness in Hungary that in 1963, a year before his death and well before the Berlin Wall came down, he was invited to lecture at the University of Budapest, his first visit home in four decades.

On the centennial of his birth in 1986, Kari Polanyi-Levitt organized a symposium in his honor in Budapest. The conference volume makes a superb companion to the Dale biography.⁴ The twenty-five short articles are written by a mix of writers based in the West and several from what was still Communist Hungary—where Polanyi was widely read. The writing is surprisingly exploratory and nondogmatic. Even so, when her turn came to speak, Polanyi-Levitt took a moment to plead: “If I may be permitted one more request to the Hungarian Academy of Sciences...it is that *The Great Transformation* be made available to Hungarian readers in the Hungarian language.” This was finally done in 1990. Like many in the West, the Communist regime in Budapest was not quite sure what to do with Polanyi.

Today, after a democratic interlude, Hungary is a center of ultra-nationalist autocracy. Misguided policies of financial license played their usual part. After the 2008 financial collapse, Hungarian unemployment steadily rose, from under 8 percent before the crash to almost 12 percent by early 2010. And in the 2010 election, the far-right Fidesz Party swept a left-wing government out of power, winning more than two thirds of the parliamentary seats, which made possible the

“illiberal democracy” of Prime Minister Viktor Orbán. It was one more echo, and one more vindication, that Polanyi didn’t need.

What, finally, are we to make of Karl Polanyi? And what lessons might he offer for the present moment? As even his champions admit, some of his details were off. Earlier friendly critics, Fred Block and Margaret Somers, point out that his account of late-eighteenth-century Britain exaggerates the ubiquity of poor relief. His famous case of the poor law of Speenhamland of 1795, whose public assistance protected the poor from the early perturbations of capitalism, overstated its application in England as a whole. Yet his account of the liberal reform of the poor laws in the 1830s was spot on. The intent and effect were to push people off of relief and force workers to take jobs at the lowest going wage.

One might also argue that the failure of liberal democracy to take hold in Central Europe in the nineteenth century, which paved the way for right-wing nationalism, had more complex causes than the spread of economic liberalism. Yet Polanyi was correct to observe that it was the failed attempt to universalize market liberalism after World War I that left the democracies weak, divided, and incapable of resisting fascism until the outbreak of war. Neville Chamberlain is best remembered for his capitulation to Hitler at Munich in 1938. But at the nadir of the Great Depression in April 1933, when Hitler was consolidating power in Berlin and Chamberlain was serving as Tory chancellor of the exchequer in London, he said this: “We are free from that fear which besets so many less fortunately placed, the fear that things are going to get worse. We owe our freedom from that fear to the fact that we have balanced our budget.” Such was the perverse conventional wisdom, then and now. That line should be chiseled on some monument to Polanyi.

A recent article by three Danish political scientists in the *Journal of Democracy* questions whether it was reasonable to attribute the surge of fascism in the 1920s and 1930s to the long arc of laissez-faire and economic collapse.⁵ They reported that the well-established democracies of northwest Europe and the former British colonies Canada, the US, Australia, and New Zealand “were virtually immune to the repeated crises of the interwar period,” while the newer and more fragile democracies of southern, central, and eastern Europe succumbed. Indeed, fascists briefly assumed power in northwest Europe only through invasion and occupation. Yet that observation makes Polanyi a more prophetic and ominous

voice for our own time. Today in much of Europe, far-right parties are now the second or third largest.

In sum, Polanyi got some details wrong, but he got the big picture right. Democracy cannot survive an excessively free market; and containing the market is the task of politics. To ignore that is to court fascism. Polanyi wrote that fascism solved the problem of the rampant market by destroying democracy. But unlike the fascists of the interwar period, today's far-right leaders are not even bothering to contain market turbulence or to provide decent jobs through public works. Brexit, a spasm of anger by the dispossessed, will do nothing positive for the British working class; and Donald Trump's program is a mash-up of nationalist rhetoric and even deeper government alliance with predatory capitalism. Discontent may yet go elsewhere. Assuming democracy holds, there could be a countermobilization more in the spirit of Polanyi's feasible socialism. The pessimistic Polanyi would say that capitalism has won and democracy has lost. The optimist in him would look to resurgent popular politics.

1 I treated the Mises-Hayek-Polanyi conflicts in "Karl Polanyi Explains It All," *The American Prospect*, May–June 2014. [↗](#)

2 John Gerard Ruggie, "International Regimes, Transactions, and Change: Embedded Liberalism in the Postwar Economic Order," *International Organization*, Vol. 36, No. 2 (Spring 1982). [↗](#)

3 Gøsta Esping-Andersen, *The Three Worlds of Welfare Capitalism* (Polity, 1990). [↗](#)

4 *The Life and Work of Karl Polanyi: A Celebration*, edited by Kari Polanyi-Levitt (Montreal: Black Rose, 1990). [↗](#)

5 Agnes Cornell, Jørgen Møller, Svend-Erik Skaaning, "The Real Lessons of the Interwar Years," *Journal of Democracy*, Vol. 28, No. 3 (July 2017). [↗](#)