

KARL POLANYI ABOUT INSTITUTED PROCESS OF ECONOMIC DEMOCRATIZATION AND SOCIAL LEARNING

by Marguerite Mendell, Karl Polanyi Institute of Political Economy¹, Montreal, Canada

Before and after *The Great Transformation*, Karl Polanyi and the societalized individual

This text will not focus on *The Great Transformation* but will deal with previous and following writings from Karl Polanyi where his emphasis is on the constitutive elements that define us as social beings and as agents of social change.

To be sure, Karl Polanyi² is best known for *The Great Transformation*. This book published in 1944 has been translated into eleven languages and is considered a twentieth century classic. In *The Great Transformation*, Polanyi documents the contradictory political interventions that were necessary to install the self-regulating market economy in the nineteenth century and the subsequent protective measures to prevent social collapse. The utopian vision of a free market economy could not be realized. Polanyi's analysis is grounded in a historical and comparative framework that has challenged foundational arguments in economic theory and economic history. The failure of the self-regulating market economy was due to a misconception of how economic life is organized. All economies are embedded in social institutions; nineteenth century liberalism wrote its own obituary in its failure to understand how societies are constituted.

In 1953, while at Columbia University, Karl Polanyi, Conrad Arensberg and Harry Pearson launched the Interdisciplinary Project on the institutional aspects of economic growth. The result was the publication of *Trade and Market in the Early Empires* in 1957. Polanyi's chapter "The Economy as an Instituted Process" established the substantivist school in economic anthropology; he challenged the prevailing orthodoxy in economic anthropology and its application of the principles of neo-classical economics to non-market societies unreservedly. Polanyi's influence in economic anthropology is well known; his contribution created controversy; it generated debate; it established a school of thought. His objective was greater still, to develop a theory of the human economy.

The richness of Polanyi is found in his historical analysis of economies governed under very different principles, economies that feature production, consumption, exchange, but are not coordinated by the market system. His foray into non-market societies, (with extensive reference to the literature in economic anthropology) documents economic activity embedded in societal forms, an instituted economic process that can only be understood in its larger societal context. This is familiar to Polanyi scholars. What is perhaps less familiar are earlier writings by Polanyi in which he addresses the process of social transformation through another lens. In these writings, many foundational questions are also raised in particular, with Polanyi's insistence on *agency*³. As he would write much later in *The Livelhood of Man*:

"For the dogma of organic continuity must, in the last resort, weaken man's power of shaping his own history. Discounting the role of deliberate change in human institutions must enfeeble his reliance on the forces of the mind and spirit just as a mystic belief in the wisdom of unconscious growth must sap his

¹ The Karl Polanyi Institute of Political Economy is located at Concordia University, Montreal, Quebec, Canada. Marguerite Mendell is professor at Concordia University.

² Karl Polanyi was born in Vienna, in 1886. He was educated in Hungary, he fled to Austria in the 20s then to England in the 30s and finally went to work in the USA in the 40s. He lived there much of the time (he went back to England between 1943 and 1947) until his death in 1964.

³ Human agency is the capacity for human beings to make choices and to impose those choices on the world. It is contrasted to natural forces, which are causes involving only unthinking deterministic processes

confidence in his powers to re-embody the ideals of justice, law, and the freedom in his changing institutions". (Polanyi, 1977:iiv)

In contrast to both the atomistic individual in neo-classical theory and the socially embedded individual underlying network analysis, Polanyi adopts the Aristotelian conceptualization of the societalized individual. His foundational argument, influenced by Christian philosophy, is that each individual is social in essence. Among contemporary thinkers, Charles Taylor contributes most to our understanding of the societalized individual. It is our social, indeed, our dialogical nature that governs our lives as individuals, that determines how we identify ourselves in the context of and with others, as well as our membership in social groups. (Polanyi, 1935; Taylor, 1989,1991)⁴ This is markedly distinct from the current instrumentalist approach to social capital and trust. In Polanyi, the emphasis is on the constitutive elements that define us as social beings. The atomistic individual motivated by self-interest is a social artefact. "Society is not something between men, nor over them, but is within them....so that society as realityis inherent within the consciousness of each individual". (Polanyi Levitt and Mendell, 1987:24). Relationships are the 'key loci' of the self. This is a powerful conceptual tool with which to reject methodological individualism that denies the essence of individuals as socially constituted. Moreover, it does not slide into a collectivist approach that erases individuality.⁵

Individuals are also agents of social change; they are not passive actors constrained by their institutional settings. Today's reality increasingly confirms this as new institutional arrangements emerge and become part of a complex and interwoven institutional order that is increasingly fragile, despite pretences to the contrary.

Polanyi's critique of market liberalism is well known and increasingly adopted within mainstream thinking.⁶ Ideas do eventually have to catch up with reality. What is less often referred to are the principles that underlie his critique - the foundational principles that challenge both utilitarian and collectivist views of individuals. Polanyi's writings both before and after the publication of *The Great Transformation* provide the basis for a methodology that we can only begin to explore. These writings, in a sense, foreground the powerful analysis and critique of market society in *The Great Transformation*, of systemic breakdown, as the separation of the economy from society calls for continuous intervention to ensure the survival of the system, and for what we may call instituted sub-systems or "liberatory alternatives" that are the result of a different conceptualization of humanity. (Harvey, 2000:186) These are alternatives that, for the time being, exist within the dominant system but are forcing change, however uneven this may be. Their emergence or visibility (many have existed for a long time) is now being documented extensively around the world.⁷ The conceptual work remains to be done. But for this, we need to join those who are calling for a broader interdisciplinarity. With

⁴ John Dewey also began with "sociable individuals". Today, there is a great deal of interest in Dewey's "deliberative democracy". His notion of the "public" must, however, not only be understood as functional, as people coming together to reduce the "burden of their separate actions" <sic> and to engage in "collective self-regulation" but as foundational in his recognition of the "unbreakable distinction between individuals and society". (Sabel, 1997: 182).

⁵ Philosophers, theologians and more recently, feminist scholars address this in ways that economists and other social scientists do not. Julie Nelson, in her book, *Feminism, Objectivity and Economics* emphasizes that "...connection and relation do not necessarily imply the dissolving of individual identity... and the need for...the reconfiguration of selfhood as including both individuality and connectedness or relatedness". The "feminist approach to economics" she is proposing "is by no means only 'more sociological' than current economics, if what is meant by that is a turn to analysis assuming that agency lies entirely outside the individual". (Nelson, 1996:33-34)

⁶ The Karl Polanyi Institute of Political Economy, located at Concordia University in Montreal is currently researching the web for references to Polanyi since 1989. There are approximately 25,000 references in this period alone. A similar search will be conducted for the 1980's. It is not surprising that there was a surge of interest after 1989.

⁷ Some experiences, such as the participatory budget in Porto Alegre or the Grameen Bank in Bangladesh are well known. These are often showcased to demonstrate the capacity of civil society to successfully initiate alternative socio-economic strategies and institutions. The experiences and initiatives are so numerous that many analysts increasingly refer to the emergence of a parallel economy. Others speak of a citizens economy. Still others continue to maintain that these experiences remain on the margins. Clearly, we disagree. Whether we address the growing social investment movement worldwide and its international networks, individual experiences such as Mondragon in Spain, the social economy and its supporting institutional context in the North and in the South, as well as new instruments, tools and practices such as fair trade, while these are, in many cases, fragmented and differentiated, they are increasingly networked internationally are influencing policy at national and supra-national levels, the European Union, for example. Many of these experiences emerged in the South; many of these have inspired alternative strategies in the North.

few exceptions, those theorists who refer to themselves as heterodox economists have not reached out sufficiently to philosophy, epistemology and feminist studies.

Polanyi provides important guideposts for such a methodology. Moreover, to Polanyi's insistence on the need for conceptual and empirical work, we must add strategy. The gathering of experiences that are contesting the dominant paradigm through lived realities is itself a strategy for change in different settings. While differences distinguish experiences from each other, they share the capacity to build alternatives within a larger institutional setting and force change when reality is increasingly in conflict with theory and policy. Polanyi's analysis also helps to understand why barriers to change are erected, but as Hugo Radice (2000) states, the contrast between innovative practices by "peripheral actors" and the tenacious grip on a model that corresponds less and less with reality and reveals the intransigence of its advocates, eventually gives way, even if a coherent new model is yet to be invented, let alone applied.

Instituted processes of economic democratization

How do institutional arrangements emerge, interact with each other? How do they survive within the larger society? What gives rise to this institutional hybridity in the first place? We know that interaction between these various institutional settings is key to larger social innovation and transformation. Do the same conditions hold within each of these individual institutional settings, that is, the need for interaction between social actors committed to designing new institutional spaces?

While the impact of these institutional arrangements on larger institutional change varies, their increasing visibility and success contributes to growing pressure for broader institutional change. How is this transmitted? What are the processes of transmission and transformation at each level? As we try and answer complex questions such as this, we discover quickly that a binary view of the world is not helpful. Systemic breakdown does not reveal the institutional complexity and processes of adaptation and transformation of contemporary society.

Karl Polanyi's writings on economic democracy, his proposal for a functional democracy (functional socialism), influenced by the guild socialism of G.D.H.Cole, the writings of Robert Owen, and especially those of Otto Bauer and the experience of 'Red Vienna' (1917-34), and his writings on education, contribute towards a conceptualization of contemporary processes of institutionalization, in particular, to what I have called *instituted processes of economic democratization*.

Polanyi provides a framework, however incomplete, that allows us to explore how he envisaged a transformation to a functional democracy might come about. The seeds were there. Vienna had constructed a municipal socialism that was participatory, inclusive and democratic. In response to Ludwig von Mises who insisted that a socialist economy was impossible, Polanyi argued that a democratic associative model of socialism was indeed feasible and contrary to Von Mises, that a system of prices and a well functioning economy could be built on principles other than the free market. I recall this socialist pricing debate briefly because of its contemporary resonance. (Mendell, 1990) Today, these writings by Polanyi provide an important historical reference for the current references to associational democracy or democratic associationalism that try to capture many alternative institutional arrangements.⁸ Community based or locally organized socio-economic initiatives are developing viable organizational forms with functioning economies that challenge the prevailing model through practice. Like the many contemporary writers who are conceptualizing these democratic sub-systems of regulation or parallel systems of socio-economic organization, that exist and co-exist within a larger institutional context and in sharp contradiction with the dominant paradigm, Polanyi was engaged in debates to dispel the impossibility of socialism thesis and in conceptualizing an alternative grounded in the lived reality of socialist Vienna.

In his proposal for a functional democracy that was dynamic and interactive, Polanyi designed an institutional arrangement of associations of producers and consumers and an overarching "kommune", a citizen's assembly of sorts, to work in the collective interest. For this functional democracy to succeed, it required both the commitment to the collective well-being as well as the "effective performance of each individual within his particular occupation and function". This, however, is only possible if each individual is

⁸ See Cohen and Rogers, 1995 and Amin, 1996.

conscious of his particular function.

Consciousness of particular economic functions requires, as its precondition, an overview and collective comprehension of all the elements of the economy....Bauer is absolutely correct in his insistence that the educational work to be done is the problem of social organization....consciousness without context, without specific circumstances, without - in the case of a collectivity - *Ubersicht* (overview) is an impossibility. (Polanyi, 1922).

Polanyi emphasized the need to study the processes of transformation in which people participate and how these processes respond to needs. He referred to this as the 'inner-overview' or democratic surveillance *ubersichtleitung* - from the inside out - in which our lives and our lived experiences are foundational. Associations, trade unions, can provide this information, as civil society organizations (social movements, community groups) are well placed to do so. This data is essential to an 'overview' *ubersichtsproblem* of the economy- the macro picture. The link between the micro and the macro is provided by associations. This resonates with the emergent and hybrid institutional sub-systems that, in many cases, reconfigure relations between the private, public and community sectors, often in the form of partnerships. And with the key role that social groups are playing in constructing a body of knowledge in which people are the agents of socio-economic organization and transformation. Today we speak of capacity building, empowerment, learning environments and so on. While one has to carefully evaluate how these concepts are being applied, I believe that they help to understand dynamic processes of institutional change; they do matter. Polanyi's emphasis on collective learning provides us with a very important strategic and transformative tool. And his insistence that the laws of the economy can be negotiated applies to market liberalism as well in which laws of the economy are negotiated to serve the imperatives of the market economy.

Democracy and Social Learning

In an article on the international crisis, written in 1933, Polanyi wrote that a reconstituted democracy requires an active citizenry; in an alienating environment, this can only occur through social learning. "Knowledge" of the situation is both necessary and sufficient to dispel the myth of inevitability and powerlessness. "Knowledge" of the prevailing political and economic environment and the realization that one can resist, mobilizes individual and collective action. This requires institutional innovation. In Polanyi's words, "the more richly, deeply and diversely the institutions of democracy are cultivated, the more realistic it is to devolve responsibility on the individual". (Polanyi, 1933)

The market as an instituted process relies on a social construction of knowledge that reinforces the prevailing orthodoxy through text, through interpretation, through language, through the media and the formation of public opinion. Polanyi argued passionately for curriculum reform and universal access to education. In the 1940's, he participated in the debates on educational reform in the UK, on socialist education within the labour movement, and on adult education. He spoke of the need to develop the intellectual and cultural equipment of the working class to enable it to transform society, to construct a body of valid knowledge that denies the inevitability of a class society and the impossibility of democratic planning. This required a radical reorganization of knowledge to reflect the reality of working-class experience. This is very close to the critical and vital work of feminist scholars and their legitimization of everyday experience as their corpus of basic knowledge and as a mobilizing force for women in transforming the lives of both men and women.

Lived reality challenges the dominant paradigm. Equipped with this knowledge, "the individual is himself, economically as well as epistemologically, a different individual".⁹ But let's have a look at different ways in which education or knowledge construction can be seen. Geoffrey Hodgson writes that "...learning takes place through and within social structures and ... involves adaptation to new circumstances and ultimately to the reconstitution of individuals" such that, "...institutions and cultures play a vital role in establishing the concepts and norms of the learning process."(Hodgson, 2002:176-177) Polanyi examines the nature of those institutions and cultures and whether people can recognize themselves in the learning process. If they cannot, they are disempowered and indeed, disengaged. Once again the experience of Red Vienna and its commitment to culture, social issues and education, played a critical role in his analysis, having seen the

⁹ Douglas Vickers. *Economics and the Antagonism of Time. Time, Uncertainty and Choice in Economic Theory*. Ann Arbor, University of Michigan Press, 1994:115, quoted in Hodgson, 2002:177.

powerful impact of a socially situated educational experience.

In Vienna, “the leading idea was to create a new environment for human life by institutional means at the center of which was school reform, rooting the child’s mind in its cultural setting”. The social democrats took this further to transform citizens into a ‘socialized humanity’ through a ‘politics of pedagogy’. (Mendell, 1994) The objective was to transform the ‘outlook’ of the working class. Education, the reappropriation of knowledge was critical for an emancipatory politics. Or in the words of Raymond Williams, it is necessary to mobilize imaginations; people need to believe that change is possible¹⁰ We need to construct ‘discursive regimes’ - systems of knowledge and ways of thinking to define a different kind of imaginary and different modes of action that reflect our daily lives and the world in which we live. (Harvey, 2000:214) We read this and think of course, of popular education and the important work of Paolo Freire and the politics of pedagogy. But as Veblen insisted, this also applies to technological change that requires a “change in how people think”. It is not enough to embed knowledge in those implementing technological change; the “acquisition and transmission of knowledge is a social process”. (McCormick, 2002:274) Today, knowledge as a social process underlies the growing references to ‘situated knowledge’, to learning environments that describe socio-economic innovation in communities, localities, regions. These innovations are the outgrowth of a collective learning process as individuals and groups engage in successful strategies to transform their economies. (Torjman, 2003)

For Polanyi, working class education was about more than access, though this was certainly critical in the debates in which he took part in the 1940’s. A working class education was essential for capacity building, for mobilization, for social transformation. Today, “citizens and community have in associative forms the process of production and management as well as a field for democratic learning and experimentation, a mechanism of autonomy in the face of market alienation and bureaucratic power of the state”. (Carpí, 1997:265) The institutional settings that consolidate these initiatives become strategic learning environments as they bring together actors previously situated in hierarchical institutional arrangements.

I would like to take this further and suggest that today, there is a *process* or, rather, there are *processes of economic democratization* under way that are re-embedding the economy in social contexts and that these are taking many forms; community and local economic development, the social economy, industrial districts, new instruments of capital accumulation, participatory budgets, to name a few, with demonstrated socio-economic objectives. One would have previously considered these as a catalog of counter-movements in response to the (predictable) failure of the neo-liberal agenda. While this is certainly true, they are also demonstrating the importance of *process* as they emerge and evolve. This is generating debate among political scientists with growing reference to deliberative democracy to describe the impact of these initiatives on institutional innovation.

This important debate occurs to-day drawing upon Polanyi’s words, “the role of deliberate change in human institutions” of the “freedom to change institutions”. (Polanyi, 1977).

It is clear that processes of change are on-going. These processes of change are forms of resistance that move beyond claims for resources and political space, beyond a politics of contestation to negotiating new social arrangements within a plurality of institutions that intersect and overlap and in so doing, increasingly blur the boundaries between civil society and governing institutions. Polanyi’s work is really a powerful guide to read these changes.

References

- Amin, Ash (1996) “Beyond Associative Democracy” *New Political Economy*, vol.1, no.3: 309-333.
- Cohen, Joshua and Joel Rogers (1995) eds. *Associations and Democracy*. New York, Verson. 220p.
- Cole, George Douglas Howard (1920) *Guild Socialism Restated*, London, Leonard Parsons.

¹⁰ Raymond Williams, *Resources of Hope* quoted in David Harvey, 2000:17.

- Harvey, David (2000) *Spaces of Hope*. Berkeley. University of California Press. 293p.
- Hodgson, Geoffrey (2002) "Reconstitutive Downward Causation: Social Structure and the Development of Individual Agency" in Edward Fulbrook, ed. *Intersubjectivity in Economics. Agents and Structures*. London. Routledge: 159-180
- McCormick, Ken (2002) "Veblen and the New Growth Theory: Community as the Source of Capital's Productivity" *Review of Social Economy*. vol.LX, no.2: 263-277.
- Mendell, Marguerite (1990) "Karl Polanyi and Feasible Socialism", in Kari Polanyi Levitt, ed. *The Life and Work of Karl Polanyi*. Montreal, Black Rose Books: 66-77.
- Mendell, Marguerite (1994) "Karl Polanyi and Socialist Education" in Kenneth McRobbie. *Humanity, Society and Commitment*. Montreal. Black Rose Books: 25-44.
- Nelson, Julie (1996) *Feminism, Objectivity and Economics*. London, Routledge. 174p.
- Polanyi, Karl The Mechanisms of the World Economic Crisis". Translation from German by Kari Polanyi Levitt of "Der Mechanismus der Weltwirtschaftskrise" *Der Oesterreicische Volkswirt*. Vol. 25, 1933.
- Polanyi, Karl (1935) "The Essence of Fascism" in J. Lewis, K. Polanyi and D.K. Kitchin, eds. *Christianity and Social Revolution*. London. Victor Gollancz Ltd. 526p.
- Polanyi, Karl (1922) "The Functionalist Theory of Society and the Problem of Socialist Economic Calculability". Translation from German by Kari Polanyi Levitt of "Die Funktionelle Theorie der Gesellschaft und das Problem der Sozialistischen Rechnungslegung", *Archiv fur Sozialwissenschaft und Sozialpolitik*, vol.52,no.1:218-228.
- Polanyi, Karl (1977) *The Livelihood of Man*. Edited by Harry Pearson. New York. Academic Press, 280p.
- Polanyi-Levitt, Kari and Marguerite Mendell (1987) "Karl Polanyi: His Life and Times" *Studies in Political Economy*. Spring: 7-39.
- Radice, Hugo (2000) "Globalization and National Capitalism: Theorizing Convergence and Differentiation" *Review of International Political Economy*, vol.7, no.4: 719-742.
- Sabel, Charles (1997) "Constitutional Orders and Trust Building and Response to Change" in J. Rogers Hollingsworth and Robert Boyer, eds. *Contemporary Capitalism. The Embeddedness of Institutions*. Cambridge University Press: 154-188.
- Taylor, Charles (1989) *Sources of the Self: The Making of the Modern Identity*. Cambridge, Harvard University Press, 601p.
- Taylor, Charles (1991) *The Malaise of Modernity*. Concord, Anansi. 135p.
- Torjman, Sherri and Eric Leviten-Reid (2003) *Community Renewal*. Ottawa: Caledon Institute of Social Policy. 17p.