# Karl Polanyi:
# The Great Transformation. The Political and Economical Origins of Our Time

Text: Karl Polanyi

**Chapter twenty – one**
**Freedom in a Complex Society**

Nineteenth-century civilization was not destroyed by the external or internal attack of barbarians; its vitality was not sapped by the devastations of World War I nor by the revolt of a socialist proletariat or a fascist lower middle class. Its failure was not the outcome of some alleged laws of economics such as that of the falling rate of profit or of underconsumption or overproduction. It disintegrated as the result of an entirely different set of causes: the measures which society adopted in order not to be, in its turn, annihilated by the action of the self-regulating market. Apart from exceptional circumstances such as existed in North America in the age of the open frontier, the conflict between the market and the elementary requirements of an organized social life provided the century with its dynamics and produced the typical strains and stresses which ultimately destroyed that society. External wars merely hastened its destruction.

After a century of blind “improvement” man is restoring his “habitation”. If industrialism is not to extinguish the race, it must be subordinated to the requirements of man's nature. The true criticism of market society is not that it was based on economics—in a sense, every and any society must be based on it—but that its economy was based on self-interest. Such an organization of economic life is entirely unnatural, in the strictly empirical sense oi exceptional. Nineteenth-century thinkers assumed that in his economic activity man strove for profit, that his materialistic propensities would induce him to choose the lesser instead of the greater effort and to expect payment for

his labor; in short, that in his economic activity he would tend to abide by what they described as economic rationality, and that all contrary behavior was the result of outside interference. It followed that markets were natural institutions, that they would spontaneously arise if only men were let alone. Thus, nothing could be more normal than an economic system consisting of markets and under the sole control of market prices, and a human society based on such markets appeared, therefore, as the goal of all progress. Whatever the desirability or undesirability of such a society on moral grounds, its practicability—this was axiomatic—was grounded in the immutable characteristics of the race.

Actually, as we now know, the behavior of man both in his primitive state and right through the course of history has been almost the opposite from that implied in this view. Frank H. Knight's "no specifically human motive is economic" applies not only to social life in general, but even to economic life itself. The tendency to barter, on which Adam Smith so confidently relied for his picture of primitive man, is not a common tendency of the human being in his economic activities, but a most infrequent one. Not only does the evidence of modern anthropology give the lie to these rationalistic constructs, but the history of trade and markets also has been completely different from that assumed in the harmonistic teachings of nineteenth century sociologists. Economic history reveals that the emergence of national markets was in no way the result of the gradual and spontaneous emancipation of the economic sphere from governmental control. On the contrary, the market has been the outcome of a conscious and often violent intervention on the part of government which imposed the market organization on society for noneconomic ends. And the self-regulating market of the nineteenth century turns out on closer inspection to be radically different from even its immediate predecessor in that it relied for its regulation on economic self-interest. *The congenital weakness of nineteenth-century society was not that it was industrial but that it was a market society.* Industrial civilization will continue to exist when the Utopian experiment of a self-regulating market will be no more than a memory.

Yet the shifting of industrial civilization onto a new nonmarketing basis seems to many a task too desperate to contemplate. They fear an institutional vacuum or, even worse, the loss of freedom. Need these perils prevail? Much of the massive suffering inseparable from a period of transition is already behind us. In the social and economic dislocation of our age, in the tragic vicissitudes of the depression, fluctuations of currency, mass unemployment,

shiftings of social status, spectacular destruction of historical states, we have experienced the worst. Unwittingly we have been paying the price of the change. Far as mankind still is from having adapted itself to the use of machines, and great as the pending changes are, the restoration of the past is as impossible as the transferring of our troubles to another planet. Instead of eliminating the demonic forces of aggression and conquest, such a futile attempt would actually ensure the survival of those forces, even after their utter military defeat. The cause of evil would become endowed with the advantage, decisive in politics, of representing the possible, in opposition to that which is impossible of achievement however good it may be of intention.

Nor does the collapse of the traditional system leave us in the void. Not for the first time in history may makeshifts contain the germs of great and permanent institutions.

Within the nations we are witnessing a development under which the economic system ceases to lay down the law to society and the primacy of society over that system is secured. This may happen in a great variety of ways, democratic and aristocratic, constitutionalist and authoritarian, perhaps even in a fashion yet utterly unforeseen. The future in some countries may be already the present in others, while some may still embody the past of the rest. But the outcome is common with them all: the market system will no longer be selfregulating, even in principle, since it will not comprise labor, land, and money.

To take labor out of the market means a transformation as radical as was the establishment of a competitive labor market. The wage contract ceases to be a private contract except on subordinate and accessory points. Not only conditions in the factory, hours of work, and modalities of contract, but the basic wage itself, are determined outside the market; what role accrues thereby to trade unions, state, and other public bodies depends not only on the character of these institutions but also on the actual organization of the management of production. Though in the nature of things wage differentials must (and should) continue to play an essential part in the economic system, other motives than those directly involved in money incomes may outweigh by far the financial aspect of labor.

To remove land from the market is synonymous with the incorporation of land with definite institutions such as the homestead, the co-operative, the factory, the township, the school, the church, parks, wild life preserves, and so on. However widespread individual ownership of farms will continue to be,

contracts in respect to land tenure need deal with accessories only, since the essentials are removed from the jurisdiction of the market. The same applies to staple foods and organic raw materials, since the fixing of prices in respect to them is not left to the market. That for an infinite variety of products competitive markets continue to function need not interfere with the constitution of society any more than the fixing of prices outside the market for labor, land, and money interferes with the costing-function of prices in respect to the various products. The nature of property, of course, undergoes a deep change in consequence of such measures since there is no longer any need to allow incomes from the title of property to grow without bounds, merely in order to ensure employment, production, and the use of resources in society.

The removal of the control of money from the market is being accomplished in all countries in our day. Unconsciously, the creation of deposits effected this to a large extent, but the crisis of the gold standard in the 1920s proved that the link between commodity money and token money had by no means been severed. Since the introduction of "functional finance" in all-important states, the directing of investments and the regulation of the rate of saving have become government tasks.

To remove the elements of production—land, labor, and money—from the market is thus a uniform act only from the viewpoint of the market, which was dealing with them as if they were commodities. From the viewpoint of human reality that which is restored by the disestablishment of the commodity fiction lies in all directions of the social compass. In effect, the disintegration of a uniform market economy is already giving rise to a variety of new societies. Also, the end of market society means in no way the absence of markets. These continue, in various fashions, to ensure the freedom of the consumer, to indicate the shifting of demand, to influence producers' income, and to serve as an instrument of accountancy, while ceasing altogether to be an organ of economic self-regulation.

In its international methods, as in these internal methods, nineteenth-century society was constricted by economics. The realm of fixed foreign exchanges was coincident with civilization. As long as the gold standard and—what became almost its corollary—constitutional regimes were in operation, the balance of power was a vehicle of peace. The system worked through the instrumentality of those Great Powers, first and foremost Great Britain, who were the center of world finance, and pressed for the establishment of representative government in less-advanced countries. This was required as

a check on the finances and currencies of debtor countries with the consequent need for controlled budgets, such as only responsible bodies can provide. Though, as a rule, such considerations were not consciously present in the minds of statesmen, this was the case only because the requirements of the gold standard ranked as axiomatic. The uniform world pattern of monetary and representative institutions was the result of the rigid economy of the period.

Two principles of nineteenth-century international life derived their relevance from this situation: anarchistic sovereignty and "justified" intervention in the affairs of other countries. Though apparently contradictory, the two were interrelated. Sovereignty, of course, was a purely political term, for under unregulated foreign trade and the gold standard governments possessed no powers in respect to international economics. They neither could nor would bind their countries in respect to monetary matters—this was the legal position. Actually, only countries which possessed a monetary system controlled by central banks were reckoned sovereign states. With the powerful Western countries this unlimited and unrestricted national monetary sovereignty was combined with its complete opposite, an unrelenting pressure to spread the fabric of market economy and market society elsewhere. Consequently, by the end of the nineteenth century the peoples of the world were institutionally standardized to a degree unknown before.

This system was hampering both on account of its elaborateness and its universality. Anarchistic sovereignty was a hindrance to all effective forms of international cooperation, as the history of the League of Nations strikingly proved; and enforced uniformity of domestic systems hovered as a permanent threat over the freedom of national development, especially in backward countries and sometimes even in advanced, but financially weak countries. Economic cooperation was limited to private institutions as rambling and ineffective as free trade, while actual collaboration between peoples, that is, between governments, could never even be envisaged.

The situation may well make two apparently incompatible demands on foreign policy: it will require closer cooperation between friendly countries than could even be contemplated under nineteenth-century sovereignty, while at the same time the existence of regulated markets will make national governments more jealous of outside interference than ever before. However, with the disappearance of the automatic mechanism of the gold standard, governments will find it possible to drop the most obstructive feature of absolute sovereignty, the refusal to collaborate in international economics. At the same time it will become possible to tolerate willingly that other nations shape their

domestic institutions according to their inclinations, thus transcending the pernicious nineteenth-century dogma of the necessary uniformity of domestic regimes within the orbit of world economy. Out of the ruins of the Old World, cornerstones of the New can be seen to emerge: economic collaboration of governments and the liberty to organize national life at will. Under the constrictive system of free trade neither of these possibilities could have been conceived of, thus excluding a variety of methods of cooperation between nations. While under market economy and the gold standard the idea of federation was justly deemed a nightmare of centralization and uniformity, the end of market economy may well mean effective cooperation with domestic freedom.

The problem of freedom arises on two different levels: the institutional and the moral or religious. On the institutional level it is a matter of balancing increased against diminished freedoms; no radically new questions are encountered. On the more fundamental level the very possibility of freedom is in doubt. It appears that the means of maintaining freedom are themselves adulterating and destroying it. The key to the problem of freedom in our age must be sought on this latter plane. Institutions are embodiments of human meaning and purpose. We cannot achieve the freedom we seek, unless we comprehend the true significance of freedom in a complex society. On the institutional level, regulation both extends and restricts freedom; only the balance of the freedoms lost and won is significant. This is true of juridical and actual freedoms alike. The comfortable classes enjoy the freedom provided by leisure in security; they are naturally less anxious to extend freedom in society than those who for lack of income must rest content with a minimum of it. This becomes apparent as soon as compulsion is suggested in order to more justly spread out income, leisure and security. Though restriction applies to all, the privileged tend to resent it, as if it were directed solely against themselves. They talk of slavery, while in effect only an extension to the others of the vested freedom they themselves enjoy is intended. Initially, there may have to be reduction in their own leisure and security, and, consequently, their freedom so that the level of freedom throughout the land shall be raised. But such a shifting, reshaping and enlarging of freedoms should offer no ground whatsoever for the assertion that the new condition must necessarily be less free than was the old.

Yet there are freedoms the maintenance of which is of paramount importance. They were, like peace, a by-product of nineteenthcentury economy, and we have come to cherish them for their own sake. The institutional separation of

politics and economics, which proved a deadly danger to the substance of society, almost automatically produced freedom at the cost of justice and security. Civic liberties, private enterprise and wage-system fused into a pattern of life which favored moral freedom and independence of mind. Here again, juridical and actual freedoms merged into a common fund, the elements of which cannot be neatly separated. Some were the corollary of evils like unemployment and speculator's profits; some belonged to the most precious traditions of Renaissance and Reformation. We must try to maintain by all means in our power these high values inherited from the market-economy which collapsed. This, assuredly, is a great task. Neither freedom nor peace could be institutionalized under that economy, since its purpose was to create profits and welfare, not peace and freedom. We will have consciously to strive for them in the future if we are to possess them at all; they must become chosen aims of the societies toward which we are moving. This may well be the true purport of the present world effort to make peace and freedom secure. How far the will to peace can assert itself once the interest in peace which sprang from nineteenth-century economy has ceased to operate will depend upon our success in establishing an international order. As to personal liberty, it will exist to the degree in which we will deliberately create new safeguards for its maintenance and, indeed, extension. In an established society the right to nonconformity must be institutionally protected. The individual must be free to follow his conscience without fear of the powers that happen to be entrusted with administrative tasks in some of the fields of social life. Science and the arts should always be under the guardianship of the republic of letters. Compulsion should never be absolute; the “objector” should be offered a niche to which he can retire, the choice of a “second-best” that leaves him a life to live. Thus will be secured the right to nonconformity as the hallmark of a free society.

Every move toward integration in society should thus be accompanied by an increase of freedom; moves toward planning should comprise the strengthening of the rights of the individual in society. His indefeasible rights must be enforceable under the law even against the supreme powers, whether they be personal or anonymous. The true answer to the threat of bureaucracy as a source of abuse of power is to create spheres of arbitrary freedom protected by unbreakable rules. For however generously devolution of power is practiced, there will be strengthening of power at the center, and, therefore, danger to individual freedom. This is true even in respect to the organs of democratic communities themselves, as well as the professional and trade unions whose function it is to protect the rights of each individual member.

Their very size might make him feel helpless, even though he had no reason to suspect ill-will on their part. The more so, if his views or actions were such as to offend the susceptibilities of those who wield power. No mere declaration of rights can suffice: institutions are required to make the rights effective. *Habeas corpus* need not be the last constitutional device by which personal freedom was anchored in law. Rights of the citizen hitherto unacknowledged must be added to the Bill of Rights. They must be made to prevail against all authorities, whether state, municipal, or professional. The list should be headed by the right of the individual to a job under approved conditions, irrespective of his or her political or religious views, or of color and race. This implies guarantees against victimization however subtle it be. Industrial tribunals have been known to protect the individual member of the public even from such agglomerations of arbitrary power as were represented by the early railway companies. Another instance of possible abuse of power squarely met by tribunals was the Essential Works Order in England, or the "freezing of labor" in the United States, during the emergency, with their almost unlimited opportunities for discrimination. Wherever public opinion was solid in upholding civic liberties, tribunals or courts have always been found capable of vindicating personal freedom. It should be upheld at all cost—even that of efficiency in production, economy in consumption or rationality in administration. An industrial society can afford to be free. The passing of market-economy can become the beginning of an era of unprecedented freedom. Juridical and actual freedom can be made wider and more general than ever before; regulation and control can achieve freedom not only for the few, but for all. Freedom not as an appurtenance of privilege, tainted at the source, but as a prescriptive right extending far beyond the narrow confines of the political sphere into the intimate organization of society itself. Thus will old freedoms and civic rights be added to the fund of new freedom generated by the leisure and security that industrial society offers to all. Such a society can afford to be both just and free.

Yet we find the path blocked by a moral obstacle. Planning and control are being attacked as a denial of freedom. Free enterprise and private ownership are declared to be essentials of freedom. No society built on other foundations is said to deserve to be called free. The freedom that regulation creates is denounced as unfreedom; the justice, liberty and welfare it offers are decried as a camouflage of slavery. In vain did socialists promise a realm of freedom, for means determine ends: the U.S.S.R., which used planning, regulation and control as its instruments, has not yet put the liberties promised in her Constitution into practice, and, probably, the critics add, never will... But to

turn against regulation means to turn against reform. With the liberal the idea of freedom thus degenerates into a mere advocacy of free enterprise—which is today reduced to a fiction by the hard reality of giant trusts and princely monopolies. This means the fullness of freedom for those whose income, leisure, and security need no enhancing, and a mere pittance of liberty for the people, who may in vain attempt to make use of their democratic rights to gain shelter from the power of the owners of property. Nor is that all. Nowhere did the liberals in fact succeed in reestablishing free enterprise, which was doomed to fail for intrinsic reasons. It was as a result of their efforts that big business was installed in several European countries and, incidentally, also various brands of fascism, as in Austria. Planning, regulation, and control, which they wanted to see banned as dangers to freedom, were then employed by the confessed enemies of freedom to abolish it altogether. Yet the victory of fascism was made practically unavoidable by the liberals' obstruction of any reform involving planning, regulation, or control. Freedom's utter frustration in fascism is, indeed, the inevitable result of the liberal philosophy, which claims that power and compulsion are evil, that freedom demands their absence from a human community. No such thing is possible; in a complex society this becomes apparent. This leaves no alternative but either to remain faithful to an illusionary idea of freedom and deny the reality of society, or to accept that reality and reject the idea of freedom. The first is the liberal's conclusion; the latter the fascist's. No other seems possible.

Inescapably we reach the conclusion that the very possibility of freedom is in question. If regulation is the only means of spreading and strengthening freedom in a complex society, and yet to make use of this means is contrary to freedom per se, then such a society cannot be free.

Clearly, at the root of the dilemma there is the meaning of freedom itself. Liberal economy gave a false direction to our ideals. It seemed to approximate the fulfillment of intrinsically Utopian expectations. No society is possible in which power and compulsion are absent, nor a world in which force has no function. It was an illusion to assume a society shaped by man‘s will and wish alone. Yet this was the result of a market view of society which equated economics with contractual relationships, and contractual relations with freedom. The radical illusion was fostered that there is nothing in human society that is not derived from the volition of individuals and that could not, therefore, be removed again by their volition. Vision was limited by the market which “fragmentated” life into the producers’ sector that ended when his product reached the market, and the sector of the consumer for whom all

goods sprang from the market. The one derived his income “freely” from the market, the other spent it “freely” there. Society as a whole remained invisible. The power of the state was of no account, since the less its power, the smoother the market mechanism would function. Neither voters, nor owners, neither producers, nor consumers could be held responsible for such brutal restrictions of freedom as were involved in the occurrence of unemployment and destitution. Any decent individual could imagine himself free from all responsibility for acts of compulsion on the part of a state which he, personally, rejected; or for economic suffering in society from which he, personally, had not benefited. He was “paying his way”, was “in nobody's debt”, and was unentangled in the evil of power and economic value. His lack of responsibility for them seemed so evident that he denied their reality in the name of his freedom.

But power and economic value are a paradigm of social reality. They do not spring from human volition; noncooperation is impossible in regard to them. The function of power is to ensure that measure of conformity which is needed for the survival of the group; its ultimate source is opinion—and who could help holding opinions of some sort or other? Economic value ensures the usefulness of the goods produced; it must exist prior to the decision to produce them; it is a seal set on the division of labor. Its source is human wants and scarcity—and how could we be expected not to desire one thing more than another? Any opinion or desire will make us participants in the creation of power and in the constituting of economic value. No freedom to do otherwise is conceivable.

We have reached the final stage of our argument.

The discarding of the market Utopia brings us face to face with the reality of society. It is the dividing line between liberalism on the one hand, fascism and socialism on the other. The difference between these two is not primarily economic. It is moral and religious. Even where they profess identical economics, they are not only different but are, indeed, embodiments of opposite principles. And the ultimate on which they separate is again freedom. By fascists and socialists alike the reality of society is accepted with the finality with which the knowledge of death has molded human consciousness. Power and compulsion are a part of that reality; an ideal that would ban them from society must be invalid. The issue on which they divide is whether in the light of this knowledge the idea of freedom can be upheld or not; is freedom an empty word, a temptation, designed to ruin man and his works, or can man

reassert his freedom in the face of that knowledge and strive for its fulfillment in society without lapsing into moral illusionism?

This anxious question sums up the condition of man. The spirit and content of this study should indicate an answer.

We invoked what we believed to be the three constitutive facts in the consciousness of Western man: knowledge of death, knowledge of freedom, knowledge of society. The first, according to Jewish legend, was revealed in the Old Testament story. The second was revealed through the discovery of the uniqueness of the person in the teachings of Jesus as recorded in the New Testament. The third revelation came to us through living in an industrial society. No one great name attaches to it; perhaps Robert Owen came nearest to becoming its vehicle. It is the constitutive element in modern man's consciousness.

The fascist answer to the recognition of the reality of society is the rejection of the postulate of freedom. The Christian discovery of the uniqueness of the individual and of the oneness of mankind is negated by fascism. Here lies the root of its degenerative bent.

Robert Owen was the first to recognize that the Gospels ignored the reality of society. He called this the “individualization” of man on the part of Christianity and appeared to believe that only in a cooperative commonwealth could “all that is truly valuable in Christianity” cease to be separated from man. Owen recognized that the freedom we gained through the teachings of Jesus was inapplicable to a complex society. His socialism was the upholding of man's claim to freedom *in such a society*. The post-Christian era of Western civilization had begun, in which the Gospels did not any more suffice, and yet remained the basis of our civilization.

The discovery of society is thus either the end or the rebirth of freedom. While the fascist resigns himself to relinquishing freedom and glorifies power which is the reality of society, the socialist resigns himself to that reality and upholds the claim to freedom, in spite of it. Man becomes mature and able to exist as a human being in a complex society. To quote once more Robert Owen's inspired words: “Should any causes of evil be irremovable by the new powers which men are about to acquire, they will know that they are necessary and unavoidable evils; and childish, unavailing complaints will cease to be made.”

Resignation was ever the fount of man's strength and new hope. Man accepted the reality of death and built the meaning of his bodily life upon it. He resigned himself to the truth that he had a soul to lose and that there was worse than death, and founded his freedom upon it. He resigns himself, in our time, to the reality of society which means the end of that freedom. But, again, life springs from ultimate resignation. Uncomplaining acceptance of the reality of society gives man indomitable courage and strength to remove all removable injustice and unfreedom. As long as he is true to his task of creating more abundant freedom for all, he need not fear that either power or planning will turn against him and destroy the freedom he is building by their instrumentality. This is the meaning of freedom in a complex society; it gives us all the certainty that we need.

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