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Enduring Stark Utopia: A Polanyian Reading of the Global Political Economy

<https://www.e-ir.info/2020/06/19/enduring-stark-utopia-a-polanyian-reading-of-the-global-political-economy/>

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The 19th century planetary economic system that Karl Polanyi critically analysed in his *The Great Transformation* (GT) ([1944] 2001) displays a sharp resemblance with its present-day equivalent. It would be no exaggeration to characterise both as a 'stark utopia' (Polanyi, 2001). This essay argues that this is not simply because of the occurrence of two disastrous planetary economic and financial crises in each respective historical period – in 1929 for Polanyi, and in 2008-09 for us in the 21st century – but crucially because of the socio-political and cultural turbulences that followed the crises. Both events stem from tensions inherent to a global economy and market society founded upon a liberal creed congenial to a pursuit of personal gain, whose socio-economic effects inevitably undermine social and political stability from local to transnational levels. During both the interwar and post-2008 period, the policies derived from such creed have negatively, and in certain cases deliberately, affected those section of society who lack economic power. In both historical periods, their derived social frustrations appear to incite authoritarian sentiments and intolerance.

To locate the analysis in the contemporary historical period of capitalism, the essay is primarily interested with the Global Financial Crisis of 2008 and its consequence, although its argumentation accounts for relevant path dependencies – e.g. the collapse of the Bretton Woods architecture and the ensuing neoliberal globalisation. An illustration of Polanyi's thought as presented in the GT (2001) precedes and sets the framework for the analysis. The second section begins with a brief analysis tracing the evolution of the global economy from the post-war period up until today. This includes the re-establishment of a free-market society and its expression in the era of globalisation. Here, I introduce the concept of *neoliberal ordering*. I then analyse the outcomes – both economic and socio-political – of the policies proposed and implemented by its advocates.

Polanyi's *Great Transformation*

A comprehensive analysis of his book is beyond the scope of the present enterprise. This section, however, seeks to outline the fundamental arguments of Polanyi's thesis in a four points (liberal creed, embeddedness, double movement and disembedding, and countermovement) and considers both national and international dimensions.

First, the system was supported by a fallacious theoretical standpoint, that of the liberal creed, that reified the market as both the most natural and efficient form of societal institution. A free-market society was allegedly capable of sustaining and managing all human interactions and spread the benefits derived from the laws of supply-and-demand and price adjustment of the emerging capitalist form of production and exchange. The second point of contention for Polanyi (2001, pp.74-77) was that the liberal creed defined policy in virtually all industrialising states. All economic activity being placed under the 'leadership of the merchant' whose interest in trade was narrow personal gain. The pursuit of profit required that elements of industrial production such as labour, land, and money were themselves marketised – turned into (fictitious) commodities. They were therefore deprived of their natural embeddedness within an overarching socio-political system that in all previous historical epochs – from primitive to feudal society – prioritised reciprocity and redistribution of resources within man's immediate community (Polanyi, 2001, pp.48-58). Rather than being the natural culmination of the evolution of mankind, the market system consists of an artificial creation. It is an anomaly in the history of human civilisation, which disregards that its economy,

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society, and its political system are part of the same whole, intimately integrated with and not separated from one another.

For Polanyi, this natural embeddedness of economy-society relations inevitably presented 19th century capitalism with an internal tension, a 'double movement'. Attempts to disembed economic activity from its social connotations triggered social reaction against market expansion 'aimed at the conservation of man and nature' using instruments of state intervention as its methods, argued Polanyi (2001, pp.138-139). Encapsulated in the idea of 'double movement', this dynamic of contradictory requirements caused a fracture in the fabric of society that generated a clear-cut dialectical social relation between entrepreneurial and working classes. Its clearest manifestation residing in the 'countermovements' that in the interwar period sought alternative means to re-embed economic activity within its social context. The American New Deal and fascism respectively represent the progressive and detrimental incarnations of countermovements (Polanyi, 2001, p.140). For the Polanyian expert Fred Block (2003, p.288), the catastrophe of the 1929 economic crisis and its culmination in World War II is to be considered as consequential insofar as the forms of protection practiced by states coexisted and were in contradiction with an international gold standard that rested on market self-regulation (Block, 2003, p.288).

Indeed, the *GT* highlights the inherent problems stemming from the interplay between the national and international spheres of capitalism. The latter relied for a prolonged period of time on market self-regulation expressed in the institution of the gold standard, which effectively extended the creation of money markets and haute finance to the global level, as well as functioning as the central interstate mechanism for the management of cross-border trade and investments. The former witnessed the rise of countermovements, which in some cases facilitated the capitalist tendency to degenerate into chaos. Universal suffrage, mass political movements, and trade unions had put national governments under pressure as they were sought to shield their ordinary citizens from the societal dislocations induced by the negative externalities of wealth accumulation inherent to free-market society. The failure of the self-regulating market was evident in both macro-levels of capitalism. At the international level, this was evident in the interwar shortage of gold, volatility of capital markets, and lack of mechanisms to resolve balance-of-payments difficulties. Within nation-states, hundreds of millions of people suffered the plight of inflation, rising unemployment caused by deflation, and the loss of their constitutional liberties. Nevertheless, the diffuse liberal conviction in the pre-eminence of free markets impelled most governments towards goals of restoring sound money despite a crumbling gold standard (Polanyi, 2001, p.148).

Polanyi Today: Neoliberal Ordering and its Discontents

For Polanyi the interwar period would have marked the end of the self-regulating market (2001, p.148). Indeed, what came afterwards at the capitulation of Nazi Germany and Fascist Italy seemed to be backing such intuition. The inauguration of the post-Second World War era with the Bretton Woods system reflecting the normative claims made by Polanyi (2001) as to how the global economy ought to be organised and managed. Under the framework of what John Gerard Ruggie (1992) called 'embedded liberalism', the international economy was regulated to support free trade but the state replaced unfettered market and was placed at the centre of economic activity with the goal to provide its citizens for social stability through the pursuit of full employment, post-war reconstruction, and welfare state construction (Ruggie, 1992, pp.393-395).

However, especially in the final decades of the 20th century, governments shifted their policy preferences towards the re-institution of free-markets as the motor for both domestic and international economic growth (Bergin, 2013, p.214). Legislation introduced in those years deliberately aimed at weakening trade unions, deregulating labour markets, offering tax cuts to the highest earners, and removing transborder capital controls (Harvey, 2005, pp.19-25). The rationale behind these policies was that only a more vibrant, dynamic and flexible business environment could propel economic growth and social progress (Dale, 2010, p.389) and solve profitability crises of the kind experienced in the 1970s (Brenner, 2005). Harvey (2005, p.19) describes such development as the realisation of a project that re-established favourable conditions for wealth accumulation and returned political power to economic elites at the expense of the working classes. The project can be defined as one of *neoliberal ordering* whereby international capitalism is restructured, yet again, around the pursuit of personal gain through the restoration of the free and self-adjusting market society and the gradual disembedding of socio-economic relations.

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As globalisation kicked off in the 1990s, the project of neoliberal ordering extended to the formerly Soviet and the Third World countries. States have thence become involved in an increasingly complex and deep system of transnational flows and social interactions that span all cultural, economic, and political domains (see Held and McGrew, 2002, pp.3-4). Nations seek to open up their economies to free movement of goods and capital, while also loosening restrictions on movement of people. Societies become increasingly interdependent in the realms of trade, transnational economic production and exchange, human mobility, and political integration (Zürn and de Wilde, 2016, p.282) – epitomised by the proliferation of multilateral international institutions and the strengthening of some of them (e.g. the European Union) into supranational political actors. A common assumption in this narrative views international conflict as being superseded by benign competition, economic growth and improved governance (as more states join international institutions) (Block, 2001, p.xxxiii). The negative effects linked to the same process such as widening economic and social inequality or loss of sovereignty and of a distinctive culture (Zürn and de Wilde, 2016, p.282) seem to be often conveniently neglected or considered as mere nuisance in the quest for global prosperity.

Economic Effects of Neoliberal Ordering

Finance, welfare and labour market regulations are the three realms in which Polanyian double movement seems to resurface. In these three domains we can observe attempts of disembedding of the economy and the consequent economic and social turmoil that have been taking place since the Global Financial Crisis (2008). Ha-Joon Chang (2011) notes that the neoliberal trend of liberalisations and deregulations enable financial markets to become increasingly efficient in swiftly distributing financial resources globally. However, the removal of government controls on finance results problematic insofar as international financial actors exclusively prioritise their own pecuniary short-term gains over the overall security of the entire global economy (Chang, 2011, pp.231-232). When the system broke down in 2008, financial market failure extended to the real economy (Bergin, 2013, pp.214-216). Ordinary entrepreneurs in manufacturing and services other than finance found it impossible to access the necessary credit that to fuel their daily operations. The significant lack of capital meant that most businesses were forced to economise on their expenses, recurring to the reduction of the number of their employees or closing their activities in extreme circumstances. The extent of global economic and financial volatility is evident in the loss of jobs and slowdown in production that caused a decline in world GDP, which registered a rate of -1.73% in 2009 (World Bank Data, online).

Financial markets lacked all instruments for self-adjustment, or its primary actors lacked the willingness to act in concert to minimise further damages or spill-overs akin to those originating in the collapse of Lehman Brothers. The responses of governments were controversial as in most cases they stepped in with bail-ins and bail-outs (e.g. the American Troubled Asset Relief Program, and the Bank Rescue Package in Britain). At the same time, neoliberalism and austerity measures continued to be the norm. Politics-market co-dependence (Davies, 2014, p.125) heightened the socio-economic consequences of the crisis (Pradella, 2015). Evidence suggests that deregulation, increasing market participation (e.g. through workfare, internships and reforms to pension schemes), and privatisations compromised the postwar social contract between capital and workforce by harming the strength of trade unions and workers' bargaining power (Heyes, 2011). In more recent times, the same policies effected a growth in the rate of in-work-poverty (IWP) (Pradella, 2015) and widening economic inequality (OECD, 2011).

IWP has grown in a majority European countries since the outbreak of the GFC to 2016. Eurostat (2018) finds that the highest increases were recorded in Hungary (+4.3%), Bulgaria (+3.7%), Estonia (+3.1%), Germany (+2.3%), Italy and Spain (both +2.2%), and the United Kingdom (+1.8%) (Eurostat, 2018). It appears unsurprising that the OECD finds that income inequality between the rich and the poor has kept widening in most of its member states in the same period. The organisation's 'Divided We Stand' 2011 report states that 'the average income of the richest 10% of the population is about nine times that of the poorest 10%' (OECD, 2011, p.22). The ratio varies from country to country. For instance, it is much lower than the OECD average in Scandinavia and in some other continental European countries. But the findings show that the income divide between the rich and the poor 'reaches 10 to 1 in Italy, Japan, Korea, and the United Kingdom; around 14 to 1 in Israel, Turkey, and the United States; and 27 to 1 in Mexico and Chile' (OECD, 2011, p.22). The OECD identifies a number of factors that appear to be associated with such trends; most, if not all are instances of neoliberal policies. These include: increased financial flows, policies

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reducing union coverage, product market deregulation, less strict employment protection legislation, declining tax wedges, and austerity measures such as cuts on unemployment benefits (OECD, 2011, p.32). In a context that has overwhelmingly favoured the world's richest 1% and the biggest global corporations, Stiglitz (2017, pp.xvi-xviii) asserts that politicians 'should have known that in a democracy, policies that, year after year, leave significant groups of the population worse off are likely not politically sustainable' (Stiglitz, 2017, p.xviii).

A consequential question would hence ask whether the economic and financial failure of neoliberal ordering shows to be so significant to present contemporary civilisation with an existential threat similar to that Polanyi strives to analyse in the interwar period. Sceptics may argue that Polanyian scholars could present a biased epistemology, a deterministic dogma that influences them to identify market failures and assume related countermovements as probable causes of major capitalist crises. Caution remains desirable in all scholarly debates; indeed, it is the scholarship's duty to elaborate reasoned analysis. At the same time, this does not suggest that the scholarship should turn a blind eye on the social and political implications underlying the utopian separation between market and society. The contention here is that the root of the resentment against the political establishment and the contingent changes in the landscape of political competition in the Western world are associated with a bifurcated logic distinctive of neoliberal globalisation.

Economic Effects of Neoliberal Ordering

With globalisation level at its highest, as in most liberal democracies (KOF Index) for instance, the distribution of positive and negative outcomes has created a new societal conflict whereby people are respectively divided in winners and losers (Stiglitz, 2017; Kriesi *et al.*, 2008). Kriesi *et al.* (2008) suggest that such development is an outcome of economic-cultural competition. The two sides of the struggle appear to be entangled with one another. For the economic side concerns the global economy, with increased levels of liberalization, deregulation, and supranational integration (regional trading blocs as the European Union are the primary example), while the cultural side of competition is associated with a changing ethnic environment caused by the influx of migrants which grows as a consequence of market expansion and lifts on immigration restrictions (Kriesi *et al.*, 2008, p.6; see also Pradella, 2015, p.602). There emerges an ethno-cultural confrontation that pits immigrants and natives against one another. A social struggle for scarce resources in the job market ensues. But it is ethnic diversity, rather than deleterious economic policy-making, that acquires political salience in the public discourse (Kriesi *et al.*, 2008, p.6). Here, the manifestation of the winners-losers divide shows its most significant political impact.

With regards to the specific example of the United Kingdom, Goodwin and Heath's research (2016) on the Brexit vote offer us insights into the real life manifestation of the winners-losers conflict. The people and communities who suffered the most from rapid economic change and are at a disadvantage in the modern economy because of their lack of qualifications and opportunities were more likely to have voted for leaving the EU. Interestingly, the same population of 'left behind' shows authoritarian attitudes (favouring harsher prison sentences), a strong sense of English identity, political apathy, and negative attitudes towards immigration (Goodwin and Heath, 2016). The case of Brexit is not an isolated example. A similar trend can be observed in the United States, where white Americans and citizens with low levels of education (Pew, 2016) voted for Donald Trump who ran on a platform explicitly aspiring to put the interest of American citizens first at the expense of immigrants and to change trade relations that allegedly represent the source of all of the US's economic problems.

European cross-country studies reinforce the argument that the issue is inherently transnational. Hooghe and Marks (2017, p.11) show that the parties that make opposition to immigration and supranational integration as a defining point on their manifestos enjoy political support from the left behind, or socially displaced more generally. The electoral success of parties such as the United Kingdom Independence Party (UKIP), Marine Le Pen's Front National, Geert Wilders' Partij voor de Vrijheid (PVV), Matteo Salvini's Lega, and Alternative für Deutschland (AFD) can be explained through this lens. Hooghe and Marks (2017, pp.13-15) observe that the rise of these 'tradition/authority/national' (TAN) parties have effected a considerable decline in support for mainstream parties (social democratic, Christian democratic, conservative, and liberal). The formation of a tri-polar political landscape is the direct by-product of such development. Now anti-system, populist right wing parties occupy the third centre of political competition in the West. The results of recent European national elections confirm our contention, with Lega

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forming a coalition government with populist Five Star Movement (FSM) in Italy, and AFD winning 12.6% of the German vote and 94 seats in the Bundestag in the German Federal election of 2017 (German Bundestag, 2017).

TAN parties have only recently been able to win a sufficient amount of votes to access government. The election of Donald Trump to the US Presidency and the Matteo Salvini's opportunity to join the FSM in government, however, represent the most evident reactionary element of our times. Polanyi's insight into the crisis of the 19th century civilisation is a useful tool to gauge contemporary political developments and draw inferences on how these would affect not simply the international economy but the 21st century civilisation altogether. Indeed, it is here that most of the reaction against the established order appears to be vehicle against. Defined by Ikenberry (2017, p.2) as 'a hostile revisionist', President Trump has pledged to withdraw US leadership in the international system of alliances and the world trade – rejecting openness and cooperation in both domains – on the basis that internationalism puts the American power at a disadvantage vis-à-vis other countries – irrespective of whether they are rivals or allies. Multiculturalism is disdained, and immigration must be curbed. Isolationism and protectionism are the only viable solution according to Trump (Ikenberry, 2017, pp.3-4). In Italy, Salvini's "Italians First" mimics Trump's. Concurrently, the Lega's leader aspires to unite Europe's far-right in the European Parliament Elections on an oxymoronic protectionist and nationalist internationalism platform, whose objective is to protect national borders and identities (Salvini quoted in Messia and Nadeau, 2019) and shared historic goal is to dismantle European institutions.

The Atlantic region moves towards interstate antagonism and away from cooperative spirit that brought civilisation out of the ashes of WWII. Therefore, it is unclear whether and how an American trade war waged on China, withdrawing US commitments to international organisations or the annulment of the European Treaty of Rome would shield the ordinary citizen of any liberal democratic state from the negative impact of capitalism. The consensus among economists points not only to a neoliberal international system that facilitates the pursuit of corporate interest but also, if not primarily, to the fact that national governments rarely refrain from implementing policies that favour the same private actors within their national borders (Stiglitz, 2017). While this trend persists and the portion of citizenry that is left behind grows in volume, social dislocation is likely to remain on the horizon.

Conclusion

The contemporary era of crisis may have not reached the tipping point that a Polanyian would expect. The developments that led to the alleged end of the liberal creed in the interwar period were context specific. If anything similar was to happen again in the future, it would require time. Recent cataclysmic events have not sufficed to compel policy-makers to effect changes for a more sustainable capitalist system. However, the resemblance between the present form and its 19th century ancestor are glaring. There are sufficient grounds to characterise both periods as 'stark utopia'. Our discussion of neoliberal ordering and its discontents sought to explain why and how this can be a convincing argument today: materially constructed to establish an unnatural separation between the economic and social realms of human life, market society produces an uneven distribution of wealth. Its internal contradictory dynamic of yielding few winners and a larger proportion of losers bears with it a tide of serious societal crisis. As Polanyi suggests in his *GT*, this keeps happening because the economy of free-market systems is devoid of its most basic human elements and leaves free reign to greed for ever larger accumulation of wealth.

Nevertheless, while IPE analyses should maintain their critical approach to a neoliberal capitalism, there are reasons for optimism. Although right-wing protectionist countermovements appear to have gained an advantage in recent times, potentially virtuous social mobilisation exists, seeking significant change while not disregarding the positive aspects of the world system constructed thus far. International cooperation, for instance, is in high demand for addressing climate change – yet another phenomenon inherently caused by global capitalist production and the exorbitant rate of carbon dioxide emissions. Socially and naturally sustainable options have been elaborated to overcome the period of chronic crisis unleashed by neoliberal ordering. Increased global action, better governance based on principles of representativeness, legitimacy, transparency, and accountability, and awareness of economic realities are key (Stiglitz, 2017). The New Green Deals advocating for heavy investments in renewable energy and higher taxation for the richest, constitute another example of positive and non-self destructive reaction against capitalism.

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Date written: March 2019