

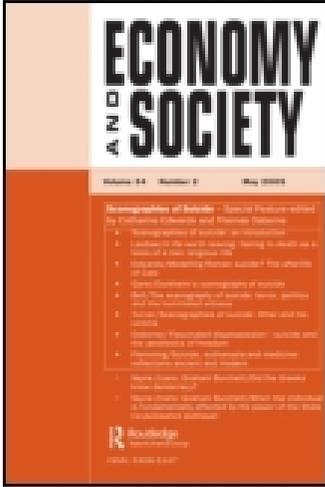
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Gareth Dale

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# The iron law of democratic socialism: British and Austrian influences on the young Karl Polanyi

Gareth Dale

## Abstract

A central thesis of Karl Polanyi's *The great transformation* concerns the tensions between capitalism and democracy: the former embodies the principle of inequality, while democracy represents that of equality. This paper explores the intellectual heritage of this thesis, in the 'functional theory' of G.D.H. Cole and Otto Bauer and in the writings of Eduard Bernstein. It scrutinizes Polanyi's relationship with Bernstein's 'evolutionary socialism' and charts his 'double movement' vis-à-vis Marxist philosophy: in the 1910s he reacted sharply against Marxism's deterministic excesses, but he then, in the 1920s, engaged in sympathetic dialogue with Austro-Marxist thinkers. The latter, like Bernstein, disavowed economic determinism and insisted upon the importance and autonomy of ethics. Yet they simultaneously predicted a law-like expansion of democracy from the political to the economic arena. Analysis of this contradiction provides the basis for a concluding discussion that reconsiders the deterministic threads in Polanyi's *oeuvre*. Whereas for some Polanyi scholars these attest to his residual attraction to Marxism, I argue that matters are more complex. While Polanyi did repudiate the more rigidly deterministic currents in Marxist philosophy, those to which he was attracted, notably Bernstein's 'revision' and Austro-Marxism, incorporated a deterministic fatalism of their own, in respect of democratization. Herein lies a more convincing explanation of Polanyi's incomplete escape from a deterministic philosophy of history, as exemplified in his masterwork, *The great transformation*.

Gareth Dale, *Politics and History*, Brunel University, Marie Jahoda Building, Uxbridge UB8 3PH, United Kingdom. E-mail: [gareth.dale@brunel.ac.uk](mailto:gareth.dale@brunel.ac.uk)

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## Introduction

Karl Polanyi's contributions have long been influential in a variety of disciplines. At least two of his innovations – substantivist economic anthropology and the 'double movement thesis' – are recognized as seminal. All of the works for which he is known, however, were written late in life, and relatively little is known of his earlier output, either from his youth in Budapest (1907–1919) or from his period of exile in Vienna (1919–1933). Yet during these decades he was prolific, producing numerous papers both in an unpaid capacity as an educator and essayist, and as an economic journalist. In this paper I discuss Polanyi's writings from 1907 to 1933 and focus upon his changing relationship to Marxism, specifically to four currents of Marxist thought: Karl Kautsky's evolutionist determinism, Bernstein's liberal-socialist 'revision', Lukács's communist heterodoxy, and the Austro-Marxist 'third way'. I draw upon Polanyi's published and unpublished Hungarian and German papers in the Karl Polanyi Archive at Concordia University, interviews with his daughter, Kari Polanyi-Levitt, and correspondence archived in the Michael Polanyi collection at Chicago University. The method is philological and analytical. I attempt to reconstruct the development of Polanyi's political thought with reference to his published and unpublished papers, to place these texts in their historical context and to reconstruct what Stefan Collini (as cited in Leighton, 2004, p. 28) calls 'the context of refutation' – that is to say, a contextualized account of the ideas with which Polanyi was grappling, the assessments he was interrogating and the theses he was rebutting.

In the period under discussion Marxism was evolving rapidly, and Polanyi was too. 'I started life', he wrote shortly before the Second World War, not entirely without hyperbole, 'as a socialist and referred all my hopes and fears to this ideal'.<sup>1</sup> He belonged to a socialist student group in the first years of the century and avidly read Marxist literature, but turned away from Marxism at some point between 1905 and 1908. In Hungary at the time, the Marxist orthodoxy was that of the Social Democratic Party (SDP), an organization noted for the determinism and fatalism of its philosophy and practice. In his twenties, Polanyi reacted forcefully against what he saw as the evolutionary and deterministic traits of Marxist philosophy. Later, in his thirties, his relationship to Marxism underwent what might be called a 'double movement'. In the first phase his long-held doubts about Marxism crystallized into a hard-hitting critique. In the second, partially overlapping with the first, he modified his stance and engaged in a sympathetic dialogue with the ideas and politics of Austro-Marxism. In this paper I examine Polanyi's orientation towards Marxism in each of these phases, before ending with an analysis of the formation of his

thoughts concerning the ‘clash between capitalism and democracy’, a thesis that was to become a defining feature of *The great transformation* (TGT).

### Polanyi’s critique of Marxism: moral truth and bad faith

In the 1900s Marxism was embroiled in one of its periodic great debates; this one was ignited by Eduard Bernstein. Attracted by neo-Kantian philosophy, German *Sozialpolitik* and English Fabianism, Bernstein had broken with mainstream Marxist social democracy. He raised the question of the moral basis of socialism and turned to Kant’s invocation of duty to answer it, arraigining Marxism for its alleged reduction of ethics to economy (MacIntyre, 2008). His *Evolutionary socialism* represented a frontal attack on a range of positions – philosophical, economic and political – that had come to be regarded as the orthodoxy. It argued that the class structure of European societies, far from undergoing polarization, was becoming blurred by the growth of the middle classes, and that if the position of workers was becoming intolerable this was due to the uncertainty of their existence in a volatile environment and not to an iron law of immiserization. Bernstein aimed to distance himself from ‘iron laws’ in general and economic determinism in particular, but in this he did not always succeed. For example, he contended (Bernstein, 1899) that as the working class expands in number the trade unions, which form ‘the democratic element in industry’ and which naturally tend ‘to destroy the absolutism of capital’, will increase in strength, securing for the working class an increasingly direct influence upon the management of industry. The extension of ‘municipal freedom’ was another law that Bernstein (1893) believed characterized the modern epoch, as indeed was the inexorable victory of socialism. Universal suffrage, he averred, is the aspect of democracy that ‘must draw the other parts after it as the magnet attracts to itself the scattered portions of iron’ (!) (Bernstein, 1899, p. 144).

In a sense, Bernstein was reprising in socialist language a democratic utopianism that had existed in the mid-nineteenth century. Then, the expectation in democratic quarters had been that representative democracy would bring class divisions to an end, thereby ensuring the triumph of the general interest and the marginalization of privilege. A classic instance was the *Bulletin de la République*, penned by French democrats during the heady days of class reconciliation that followed the February Revolution of 1848, which greeted the extension of the suffrage to all adult males with the proclamation that ‘as of the date of this law, there are no more proletarians in France’ (cited in Rosanvallon, 2008, p. 150). Only months later, the hollowness of this dream was revealed when the proletarians of Paris rose in revolt. Yet a near-identical utopia was resurrected by Second International social democracy, most zealously by Bernstein. For him, universal suffrage would bring to an end class privilege, elevating workers from the status of proletarians to that of citizens. Although convinced of the impending triumph of democratic socialist

government, Bernstein was adamant that it could not be hastened by revolutionary means. Capitalism was not simply laying the foundations of socialism, as Kautsky would have it, but was actually mutating into socialism, inevitably, by way of the extension of democracy. As an alternative to revolutionary agitation he advocated the broadening of the franchise. The route to greater working-class influence lay not along the low road of class struggle but the high road of joint campaigns between social democracy, the unions and the 'progressive' bourgeoisie for a broadening of the franchise.

In Hungary, Bernstein was a prominent influence upon both of the political milieux that mattered to the young Polanyi: the Social Democratic Party, and the groups of 'bourgeois radicals' that gravitated towards Bernstein's close friend, Oskar Jászi. The Hungarian SDP was broadly Marxist in its theoretical commitments, but in practice it inclined to revisionism (Ignotus, 1961, p. 6; Janos, 1982, p. 187). It placed the struggle for universal suffrage at the centre of its programme, alongside '*Sozialpolitik*' – the corporatist reformism that had been pioneered by Germany's 'historical school' of political economists and was later adopted by Bernstein's 'revisionist' camp. While supporting the SDP, Bernstein simultaneously encouraged Jászi to establish a 'radical bourgeois party' (Múcsi, 1990, p. 29). This duly occurred in June 1914, under the leadership of Jászi, with Polanyi appointed its General Secretary (Duczynska, 30–1). Polanyi (1946) argued that his party and the SDP were allies on the principal issue of the day, democratization, albeit while the SDP was based within the working class, the Radical Party was oriented towards the middle classes, intelligentsia, minority nationalities and the peasantry.

Following the 1914–1918 war, the alliance of SDP and Radicals found institutional form. In the early autumn of 1918 a revolutionary uprising swept to power a new coalition government, which comprised both parties. For a historical moment it must have appeared to Polanyi that his political dreams were coming to fruition. But the moment was fleeting. Across Europe, war and revolution had driven a wedge between the revolutionary and reformist left. The former opposed war; the latter supported it. The former supported soviet democracy, the latter its parliamentary nemesis, fronted by the likes of Friedrich Ebert and Otto Bauer. In Hungary, this polarization was manifested in the Social Democratic Party, which experienced a Communist breakaway in November 1918, and the Radical Party too. Polanyi threw himself into debates with Communists such as Eugene Varga and Georg Lukács. Whereas they championed Marxism as an action-oriented philosophy geared to the establishment of a *political* basis for social organization in an age of profound *social* crisis, he issued an idealistic appeal for the construction of an *ethical* basis for social organization in an era diagnosed as suffering from acute *spiritual* crisis.

At this juncture Polanyi's *Weltanschauung* was in flux. Over the course of the 1910s he had gradually moved from a positivist brand of radical liberalism towards a Tolstoyan philosophy of inner contemplation and individual moral rectitude. At the end of the decade, in the process of his confrontation with communism – both in philosophical sparring with its advocates, and in the

directly experienced reality of the Hungarian ‘Commune’ of 1919 – he sharpened his critique of Marxism. This critique was not produced in a systematic form until rather later, in early 1920s Vienna, to be precise. In 1919 Polanyi had moved to Vienna, where he found work as a journalist and, at the invitation of his friend Karl Popper’s uncle, took a tutor’s position at the *Volkshochschule*, an adult education institute linked to the Social Democratic Party (SDAP) (Hacohen, 2000, p. 118). In the immediate post-war period Austria, too, was in the throes of social tension and political polarization. Rolling waves of mass political strikes and anti-war demonstrations had swept the region, spreading via Budapest to Germany and culminating in the mutiny of the Austro-Hungarian navy and, in 1919, in the establishment of ‘soviet’ republics in Bavaria and Hungary. A few months before his arrival the first general election in the new Austrian republic had taken place, in which the SDAP gained 41 per cent of the overall vote and an absolute majority in Vienna. In alliance with the Christian Social Party, it entered the national government.

Polanyi was war-weary and barely capable of relating to the tumult that surrounded him. His health, both physical and mental, was at its lowest of ebbs. Life, he lamented in a letter to his mother (Michael Polanyi Archive, 24.4.1920), was ‘expensive, bad, boring, bleak’. Initially at least, he was even unimpressed by the cultural life of the city (‘intellectual Vienna is so disappointing’) and by the Marxist left, excessively devoted as they were to their ‘Party work’. Yet he did manage to study and to produce a series of unpublished papers (‘Wissenschaft und Sittlichkeit’, ‘Sein und Denken’ and ‘Die Wissenschaft von der Zukunft’) that advanced an uncompromising critique of ‘objective’, deterministic sociology – a category that included Marxism.

At the centre of Polanyi’s critique of Marxism, in the papers considered here but also, with qualifications, throughout his life, are two related claims. Firstly, in holding that social being determines consciousness it is guilty of reductionism. The materials out of which social structures and processes – whether capitalist competition, state power or revolution – are constructed are beliefs, values and customs. Class struggle, for example, occurs only to the extent that individuals are aware of and believe in its existence (Polanyi, 2005a [1920–22], p. 185). Secondly, Marxism is charged with conceiving of social development as mere automatism (Polanyi, 1–25). From its naturalist-positivist perspective, human society follows laws as rigorous as those of the natural sciences. For instance, the law of the development of the productive forces leads with unyielding logic to the collapse of capitalism and the necessity of proletarian dictatorship (Polanyi, 2–3). The determinism of Marxism, as that of objectivist sociology in general, begets something akin to Sartrean bad faith – the abjuring of responsibility through denial of the freedom to choose. In its repudiation of moral freedom, the belief in the inevitability of socialism, Polanyi concludes, is morally and politically corrosive.

Socialism is presented in Polanyi’s 1920s manuscripts as a ‘moral truth’, and, inasmuch as he was as its herald, Marx was ‘almost a prophet’. However,

in refusing to ‘believe in the reason or in the self-communion of human beings and in the courage they would exercise in anticipation of its realization’, his prophecy was *false* (Polanyi, 2005b [1920–22], p. 213). True prophets communicate moral truths, but by dressing these as scientific laws Marx distracts his followers from the inner voice of moral agency, and from the need to base political action upon ethical ideals. For it is within *individuals*, in the ‘personal and inner life’, that the resources for social change reside, and Marxism is incapable of apprehending this (Polanyi, 2005a [1920–22], p. 195). Our *collective* existence, by contrast, is mere externality – and as such it can lift no ethical weight. ‘The mass can bear no responsibility’, Polanyi remarks (2005a [1920–22], p. 195); ‘Because it is not a person’, because it is bodily and external, ‘it can have no true belief’.

Polanyi’s arrival in Vienna coincided with a turning-point in his intellectual formation. The first phase of his ‘double movement’ in relation to Marxism reached its acme even as its second phase commenced. He was becoming impatient with the individualistic moralism that had captivated him for some years, and began to criticize it for failing to appreciate the interdependence of individual and society – in his phrase, ‘the reality of society’ (Duczynska, 2000, p. 310). In the process he rediscovered some common ground with Marxism. But his path thereto, surprisingly perhaps, proceeded through an appropriation of British socialist thought. Britain, he declared (Polanyi, 1–52), had become ‘the home of radical praxis’.

### Guild socialism and functional theory

We do not know the date of Polanyi’s discovery of guild socialism, but it is safe to assume that he was acquainted with it before 1914. At some point in the post-war period, and certainly by 1922, he had become a convinced supporter, and in the pages of *Bécsi Magyar Újság* he introduced guild socialist ideas to the Hungarian émigré community in Vienna.

In its lineage, guild socialism represents the agglutination of five elements of nineteenth-century British radicalism, including Fabianism, Christian socialism, a medievalist reaction against industrialism and a slender Marxist thread (transmitted principally through William Morris). The fifth, Robert Owen’s utopian socialism and the co-operative movement that he inspired, was the one that resonated most strongly with Polanyi. He held Owen’s social-theoretic insights in the highest esteem. These included the revelation that the supply and demand mechanism is an ‘artificial law’ (which derives from ‘the principle of individual gain’ in opposition to the well-being of society [Owen, 1927 [1813–1820], p. 181]) as well as the discovery of the historical meaning of the ‘machine’ and of the ‘need for a *moral revolution*’ (Polanyi, 50–3; emphasis in original). In addition, Polanyi (2–1) found inspiration in Owen’s commitment to workers’ education and his socialist activity, which ‘led to the cooperative movement and, via the trade unions to Guild Socialism’.

For Polanyi (1-52, 'A gildszocialismus'), the attraction of guild socialism consisted firstly in the fact that it perceived the necessity both of advancing workers' control over production and of transforming the state. Secondly, it was 'fundamentally an ethical and not a materialist doctrine', in the words of the prominent guildsman G.D.H. Cole (as cited in Congdon, 1990, p. 78). Following Owen, the guildsmen maintained that industrial self-government was vital in order for working people to cultivate the desire to serve their community and develop higher moral characters. Thirdly, guild socialists advanced a trenchant critique of the 'commodity theory of labour'. Labour, in their vision (Glass, 1966, p. 39), possesses a quasi-religious character: its purchase and use for private profit flouts moral precepts. The fourth tenet, and one that particularly engaged Polanyi, was 'functional theory'. Given the role that it plays in Polanyi's relationship with Austro-Marxism, this requires a brief elaboration.

Functional theory was the invention of nineteenth-century medievalists, first and foremost the Victorian author and critic John Ruskin. For him, the goodness of society resides in its creation of conditions for the 'wholeness of being'. Just as beauty is revealed in organisms that develop according to their laws of growth, giving 'the appearance of felicitous fulfilment of function', an 'organic society' based upon the values of interdependence and community develops according to the relationships of coherence and co-operation amongst its constituent parts (Williams, 1958). The guildsmen deployed the term 'function' to denote 'social purposes selected and placed in coherent relationship', (Carpenter, 1922, pp. 147-8) and held that rights and duties should be framed not in terms of individual citizens belonging to a national community and owing obligation to the state, but in group terms, such that the rights and duties of associations within civil society derive from their function vis-à-vis society as a whole. Accordingly, institutions are understood as the outcome of the social purposes of individuals: churches (spiritual life), trade unions (production), co-operative societies (consumption) and municipal councils and the state. Society, in Polanyi's rendition of the theory:

is essentially an organism whose individual organs carry out their functions in unity with each other. This is the starting-point of the new *functional social theory*. At first sight, functional theory does not appear to be original. Long ago, Menenius Agrippa's tale of the stomach and the limbs based itself on this organic metaphor. And yet it is new and original. It derives the *causes* of social harmony completely differently than good old Agrippa had done: not through superficial analogy with the animal body, but through the lives of the *individuals* who constitute society. The different functions of individuals are: production, consumption, neighbourly relations, intellectual life and their flourishing. These are the functions that encourage people to form associations: collective production, collective consumption, common neighbourhoods and intellectual associations. The contemporary incarnations of these natural associations are the trade unions, the co-operatives, community organizations, ideological and

cultural groups, each of which expresses a function of individual life. (Polanyi, 1-52, 'Gild es allam')

If the Middle Ages offered a model of functional society, guild socialists attempted to marry this to the contemporary goal of instituting working-class democracy. Generalizing from the experience of the war-time British revolutionary shop stewards' movement, guild socialists such as Cole advocated a policy of 'encroaching control' over industry. It was a strategy that promised to 'gradually dispossess the present owners, without involving any acute dislocation of industry'. As the functions of the 'possessing class' atrophied, its moral claim to the rights of ownership and control would dissolve. The result would be that, 'like the *Noblesse* at the time of the French Revolution', the capitalist would become merely 'a useless appendage of industry, to be swept away with relatively little compunction at the time of final transition' (Carpenter, 1922, pp. 205-13).

Given his geographical location, Polanyi's interest in British socialism may have been unusual, but it was less so than might be supposed. In all probability, guild socialism exerted less influence in its homeland than in Germany and Austro-Hungary. British guild literature was widely translated into German, and throughout Central Europe trade union and socialist journals carried 'stacks of articles on Guild Socialism' (Carpenter, 1922, p. 116). Bauer, the undisputed leader of the SDAP, had been familiar with Cole's work since before the war (Bauer, 1976, p. 712). In 1919 he popularized Cole's theories in a series of articles in the *Arbeiter-Zeitung* – a series so popular that it was reprinted 12 times in the space of two years (Braunthal, 1961, p. 44).

Polanyi knew Bauer, corresponded with him and held his work on 'functional democracy' in the highest regard.<sup>2</sup> In his writings on functional (or 'industrial') democracy – the democracy of trade unions and workers' and peasants' co-operatives – Bauer took Cole's theory as his template (Czerwinska-Schupp, 2005, p. 442). Unlike political democracy, which is embodied in the state and municipalities and recognizes individuals as citizens without regard to social function, functional democracy groups them 'according to their occupations, their work-places, and the functions they exercise in the community' (Bauer, cited in Bottomore and Goode, 1978, pp. 166-7). Whereas political democracy is reconstituted electorally every few years, functional democracy, in Bauer's words (1976, and as cited in Bottomore and Goode, 1978, pp. 166-7), 'requires that the government in each branch of its activity should remain in constant touch with the citizens directly affected by this branch of government, organized according to their workplaces or their social and economic function'. As such, it offers 'a potent means for the self-education of the masses', both with regard to their relationship to the state and to the administration of industry (Bauer, 1976, p. 732 and in Bottomore and Goode, 1978, pp. 166-7).

'Guild socialism is no longer just a theory', Polanyi declared in 1922 (1-52, 'A gildszocialismus'), 'but is becoming a reality in England today'. This was,

however, the year that saw it tip into rapid and terminal decline. The suddenness of its disappearance resulted from a coalescence of several factors. Crucially, although guild socialism eschewed parliamentary action it did depend upon favourable state policies. When funds were available, and when under the threat of Bolshevism and labour unrest political, business and trade union elites were keen to experiment with new arrangements, the policy environment was propitious. The 1917 Whitley Report promised a degree of co-determination in industry, while the 1919 Housing Act provided indispensable seed capital for the building guilds. But the guild-socialist creed of creeping industrial socialization could not be maintained through 1922, when economic prosperity, employment levels and labour militancy declined simultaneously and house-building finance dried up. Having lost local authority support and unable to drum up emergency funds from the banks or the co-operative movement, the building guilds collapsed (Cole, 1971, p. 120; Hirst, 1989, pp. 39–40). The unions, reeling from defeats, forsook the pursuit of ‘encroaching control’. In Austria, meanwhile, functional democracy was also beating a retreat, but, as we shall see, along a rather different route.

### **Red Vienna: cultural efflorescence, political quietism**

In Vienna Polanyi was in exile, but after acclimatizing for a year or so, he began to feel at home. His health improved, and he fell in love. Of no less importance was the political culture of the city which, his daughter recalls, affected him profoundly. There was, above all, the ‘elevation of the working class’: a real sense that the trade unions, and the working class, were involved in political decision-making. ‘When you think of my father, with his bourgeois background’, she adds, ‘theories of the working class as vanguard had seemed hot air’ – until, that is, he encountered ‘the living reality of Vienna, with its May Day parades in which the whole city was draped in red – a demonstration of pride’.<sup>3</sup>

Polanyi was impressed. He admired the SDAP’s achievements in Vienna, including reforms to welfare and social housing (Polanyi, 18–18). His antagonistic attitude to Marxism softened. The SDAP was intellectually open and dynamic, and included in its leadership gifted and creative thinkers such as Bauer and Max Adler whose neo-Kantian and Machian amendments to Marxism, with an accent upon subjectivity and human volition in the historical process, and the autonomous status of ethical life, he found congenial and stimulating. Bauer’s theory of functional democracy was, as we have seen, valued by Polanyi, as was his advocacy of a ‘third way’ between Bolshevism and the ‘passive reformism’ of German-style social democracy. Polanyi was also intrigued by his theory of the ‘equilibrium of forces’ between bourgeoisie and proletariat, a balance that, Bauer thought, characterized Austria and much of Europe in the early 1920s, ensuring that neither class was capable of exercising hegemony. The balance of class forces permitted no breakthrough, but with a steadfast commitment to building party and union organization,

schooling the membership and cultivating working class consciousness, the foundations would be laid for a later advance.

Such was Bauer's prognosis, yet in reality the balance of forces was tipping further against social democracy over the course of the 1920s. In response, the SDAP accorded education and cultural activity a still higher priority – an emphasis that met with Polanyi's wholehearted approval. 'Bauer is absolutely correct', he argued, 'in his insistence that the educational work to be done is *the* problem of socialist organization' – and this was, additionally, because a requirement of functional democracy is that each individual becomes fully conscious of her function within the social organism (as cited in Polanyi-Levitt 1994, p. 130).

Reflecting from British exile, in a lecture to an audience of Christian students, upon the lessons of the Viennese experiment, Polanyi (21-3) summarized what he regarded as its central achievements. Before the First World War, working-class culture had been at a nadir, with leisure time spent upon escapist pursuits such as drinking and gambling. After the assumption of municipal power by the SDAP a remarkable shift occurred, one that was pioneered by young people but diffused throughout the working class. The city would empty out at weekends, the bar-rooms and gambling dens were abandoned in favour of fresh air. Alcohol consumption fell, while sports gained in popularity, and the prevailing ethos shifted from individualism to the team spirit. This sea-change, Polanyi observed, was not due to preaching from the socialist pulpit but to material changes in social organization. Above all, winning political power had instilled in the working classes a sense of their social importance. The establishment of the post-war Austrian state had been *their* achievement; it was now their mission to lead society towards a new order, an awareness of which enhanced the collective sense of moral purpose. The new Vienna they were creating was organized around the democratic principle that the poor citizen is not the exception but the norm. The common people had won their dignity, and this filled the city – and Polanyi – with hope in further progress. 'Without power', he argued (21-3), 'the working class cannot develop that mentality of responsibility and leadership which makes all its activities preparation for assuming still greater responsibilities in the future'.

The cultural and educational efflorescence that enthralled Polanyi is impressive by any standards. But to what extent did it attest to the acquisition of power by a socialist workers' movement? Polanyi strongly believed that it did, but others have raised doubts. Helmut Gruber, to give a notable example, argues that the SDAP aimed to bring about workers' power by parliamentary means but failed. Bauer's supposed balance of class forces was not that at all, for the SDAP controlled only the capital and province of Vienna, while the Christian Socials and Pan-Germans were in command of the nation (Gruber, 1991, p. 29). Crucially, ownership of the means of production remained in the hands of the bourgeoisie, and the state revealed itself, not only as not the 'neutral, republican foundation the socialists imagined it to be', but actually as 'an instrument of their increasingly antirepublican opponents'

(Gruber, 1991, p. 10). Faced with these obstacles, Gruber (1991, p. 10) argues the Social Democratic ship ran into the sand. Increasingly, the SDAP devoted its energies to the cultural realm, but this tended to become a surrogate for political struggle.

Gruber's case is pertinent to my argument because he identifies a connection between the SDAP's pedagogic/cultural focus and its fatalistic political philosophy. Bauer's philosophy of history, Gruber contends, held that the 'objective and immutable laws of historical materialism' would grind onwards towards a happy future when, having instilled the requisite knowledge and values in the Austrian working class, the SDAP would effortlessly assume the mantle of power (Gruber, 1991, p. 39).<sup>4</sup> This quietistic strategy, in turn, validated a patronizing attitude on the part of the Party's upper echelons, many of whom had joined it, as Trotsky satirized at the time, 'in the firm conviction that an approximate familiarity with Roman law gives a man the inalienable right to direct the fate of the working class' (as cited in Deutscher, 2003 [1954], p. 154). It was an approach that relegated the rank-and-file to the role of consumers of, and cheer-leaders for, party programmes devised by the leadership. The emphasis was on the moulding and direction of workers, with little concern shown to fostering 'the kind of self-consciousness that would have led to self-direction and creativity from below' (Gruber, 1985, p. 230).

### Democracy, capitalism and the 'perversion of functions'

This paper has detailed Polanyi's intellectual formation in the 1910s and 1920s, but in so doing it also provides context for interpreting the theses that he was later to advance in *The great transformation*, notably with regard to the relationship between democracy and capitalism. In TGT, Polanyi (2001 [1944]) proposes that socialism is, 'essentially, the tendency inherent in an industrial civilization to transcend the self-regulating market by consciously subordinating it to a democratic society' (p. 242). In this formulation there is, Michael Burawoy has pointed out, 'more than a whiff of teleology!' Socialism may not be inevitable, but 'an inherent tendency of industrial civilization' is not far off. It is, Burawoy adds (2003, p. 229), reminiscent of 'Eduard Bernstein's evolutionary socialism with its law-like expansion of democracy from the political to the economic arena'. As capitalist development expands the proletariat, Bernstein maintained, its organizational capacities tend to develop and therewith its class consciousness and cultural level too. In a democratic state this could not but lead to a corresponding increase in its political power, culminating in a gradual transition to socialism. In his reinterpretation of this thesis, Bauer added an important nuance. Where there are few workers, or their organization and class consciousness remain underdeveloped, the democratic state becomes a tool of incumbent elites, and democracy remains confined within a strictly bourgeois framework. Where, however, workers are many,

their unions and party are strong, and educational initiatives and socialist consciousness are thriving, 'functional democracy' expands and the democratic state tends to become proletarian-socialist in content.

As noted above, Bauer (1976, p. 804) recognized that the balance of class forces was shifting against labour in the early 1920s but maintained that the enduring strength of the Viennese working class had prevented the state from becoming thoroughly capitalist in nature. In the 1930s he developed this thesis into a diagnosis of fascism. Its rise was the outcome of a stalemate of class forces that had come about *due to the expansion of the suffrage*. In liberal democracies the capitalist class continues to rule, but it is subject to rising pressure from below and is obliged 'repeatedly and continuously, to make concessions to the working class'. (Bauer, 1976, p. 200). The higher wages and shorter working hours that ensue produce a profit squeeze that, in times of crisis, renders the rule of capital vulnerable. It is this that explains why capitalist elites were prepared to turn to fascism. They needed to crush the working class, and democracy, in order to restore profit rates to their previous level (Bauer, 1976, p. 147). Profit rates had declined, and democratic institutions had undermined the absolutism of their rule, preventing them from imposing their will on the proletariat in the customary way (Bauer, 1936). Hence their resort to fascism to crush democracy and the labour movement.

Contemporaneously with Bauer, Polanyi was developing a cognate thesis, albeit one with greater sociological sophistication and a wider purview. An early inkling of it can be seen in this excerpt from a letter he wrote his brother, Michael, in 1932:

Modern occidental societies have arisen on the basis of the interaction between two spheres of individual freedom: economy and democracy. Between the two, today, a chasm is emerging that threatens to devour everything. Economically unenlightened democracy (the 'left') is destroying the economy. Politically unenlightened economy (the 'right') is throttling democracy. It is the task of economic and political *Bildung* to bridge the chasm, to reunite the two spheres. (Michael Polanyi Archive, 21.11.1932)

Over the next four years Polanyi, the personification of *Bildung*, developed this argument. He found himself in agreement not only with Bauer and his comrades in Austria but also with prominent Left social democrats in Britain, such as Richard Tawney, Harold Laski, John Macmurray and Nye Bevan.<sup>5</sup> All of these maintained that capitalist principles and institutions were not merely antithetical to democracy but had become fundamentally incompatible with it. It was a thesis that became part of the *Zeitgeist* of the 1930s and was later to be incorporated into mainstream social theory, notably through the work of Joseph Schumpeter.<sup>6</sup>

In Polanyi's hands, the thesis is constructed upon a particular philosophy of history, in which centre stage is occupied by the drive towards self-determination, the goal of which is to liberate human beings 'from bondage

to *Nature*', (in the form of 'science, technology, *machines*') and from bondage to others ('i.e. to *Princes*,' as manifested in the '*droits de l'homme*, rights of citizenship, constitutions'). In the early modern period, economic freedom was pursued 'through the agency and under the leadership respectively of the *machine* [and] the *owners* of machines', while political freedom was pursued through representative democracy. Later, these new principles of freedom worked out their implications. In economic affairs, free competition begat monopolization, while the securing of free property rights yielded the expropriation of the mass of artisans and small producers. In politics, the path of democracy led to universal suffrage, which granted the dispossessed classes influence upon state institutions. That these methods of progress along 'the two main paths to freedom' would necessarily begin to conflict with one another is apparent. The consequence was 'a phase of growing tension and unrest', manifested above all in the conflict between capitalism and democracy – a conflict that attested to the inevitably pernicious consequences of separating the economic sphere from the political (Polanyi, 21-1).

Following Bauer, Polanyi proposed that with the enfranchisement of the working class democratic government in the modern era had entered into an irreconcilable tension with the rule of capital, a tension that is best understood in terms of functional theory. Under the heading 'the perversion of functions', he describes how parliaments disrupt the operation of capitalism by tinkering with its self-regulating mechanisms, and how the economic turmoil that results is visited chiefly upon the common people. Workers, now armed with trade unions and political representation, defend themselves against the depredations of the market system by political interference in its workings (Polanyi, 18-6). This prevents market forces from functioning properly, and their beneficiaries, above all the capitalist class, react by seeking either to subordinate democracy to their interests, or to abolish it. In this way, class conflict had come to intersect with the separation of politics and economics: 'Democracy becomes an instrument of working-class influence, while Capitalism remains what it was, the domain of production, carried on under the exclusive responsibility of the capitalists' (Polanyi, 18-6, p. 128). The root of the crisis, therefore, 'is to be found in a functional maladjustment, in the mutual incompatibility of our political and economic systems'. Although capitalism is 'far from being an ideal system', Polanyi argues that 'the most threatening dangers of the present day are due ... to the incompatibility of capitalist leadership in the economic field with the ever-increasing influence of the working class in the political field' (Polanyi, 18-10, p. 503). 'The source of all our most immediate difficulties', he concludes, '*is* therefore functional', and solutions should be sought in the recasting of 'our functional institutions, political, economic, and cultural' (Polanyi, 18-10, p. 503).

The inter-war cataclysm, Polanyi concluded, was at bottom the outcome of an impasse that had resulted from the conflict between the two 'paths to freedom': capitalism and democracy. It was an impasse that could not last indefinitely. A reintegration of the economic and political spheres was

‘inevitable’ (Polanyi, 8-7) – whether under the leadership of the propertied classes in the form of a recharged capitalism, purged with fascist assistance of all vestiges of democracy, or ‘under the leadership of the working class’ in the form of a genuine democracy, ‘i.e., economic socialism’ (Polanyi, 21-5, 1936).

### Conclusion: antinomies of *The great transformation*

I have suggested in this paper that the young Karl Polanyi’s political thought developed in close interaction with the debates within Second International socialism that were raging while he was in his teens and twenties. If the orthodoxy was represented by Karl Kautsky’s evolutionist determinism, reactions against it included Bernstein’s liberal-socialist ‘revision’, Lukács’s communist heterodoxy, and the Austro-Marxist ‘third way’. Bernstein and the Austro-Marxists rejected economic determinism, invoked an autonomous role for ethics, and insisted upon the decisive role played by human consciousness in social change. Nonetheless, a conspicuously deterministic set of assumptions continued to characterize their thought, the most important of which was the thesis that social evolution, manifested in an expanding working class and the introduction of universal suffrage, was guiding human civilization inexorably towards socialism. In Austro-Marxism the repudiation of economic determinism at the level of theory coexisted with a faith that socialism was preordained. Translated into practice, this decreed that patient organization and education, rather than active mobilization, was the order of the day. This strategy sanctioned among SDAP leaders the same refusal to mobilize mass action that characterized their German comrades during Hitler’s rise to power. Recognition at the level of theory of the decisive part played by conscious human activity in the historical process did not translate into a commitment to mobilize against fascism, but into policies that literally and figuratively disarmed the working class.<sup>7</sup>

Of the four currents mentioned it was initially Bernsteinian revisionism that exerted the greatest appeal to Polanyi. Following a Tolstoyan interlude, his rediscovery of Marxism during his stay in Vienna entailed the attempt to reconcile his ‘idealist’ commitment to action with a recognition of the determining function of social structures. But in my view he did not succeed, at the level either of practical activity or theoretical reflection. During the inter-war period he would periodically reiterate his lifelong commitment to ‘energetic, activist, *conscious intervention* in events’ (Polanyi 2005c, p. 220; emphasis in original), yet remained studiously aloof from social-movement or other political activity. Together with several of the strains of socialist thought to which he was close, including the neo-Kantian currents discussed above, but also the utopian socialists, notably his lifelong idol, Robert Owen, Polanyi’s thought remained in the grip of that axial antinomy of Enlightenment

philosophy: that human consciousness is understood as freely self-determining yet determined by objective conditions.

The antinomy is most starkly manifest in the work of Owen. For him, character was the involuntary product of ‘an endless multiplicity of circumstances’, but this begs a question: if we are mechanically the product of circumstances, how do we go about changing them and, by extension, us? One apparent answer lies in education, but, as E.P. Thompson remarks, ‘Owen knew that until “circumstances” changed he could not gain access to the schooling of a generation’ (Thompson, 1980, p. 865). If changed people are products of changed circumstances, how does one account for the ‘education of the educator’? The answer for Owen (1927 [1813–20], p. 133) lay in the coming of the ‘truly enlightened statesman’ or the sudden change of heart, the millennial leap. ‘The very rigour of his environmental and mechanical materialism’, Thompson continues, meant that ‘he must either despair or proclaim a secular chiliasm’ (Thompson, 1980, p. 865). Owen’s voluntarism was the flip side of his determinism. There is in his thought little if any sense ‘of the dialectical processes of social change, of “revolutionizing practice”’ (Thompson, 1980, p. 865; cf. Marx, 1845).

If not as starkly as Owen, Polanyi, too, evinced some considerable difficulty in steering between the rocks of determinism and voluntarism. Towards the end of the First World War he swerved sharply towards the latter, in his Tolstoyesque advocacy of a moral path through the strait gate to salvation, while in the 1920s he veered towards Austro-Marxism, rejecting economic determinism in theory but without extending the analysis to political strategy. Then, in the 1930s, he tacks towards the Communist orthodoxy of that decade in forecasting that ‘an abrupt transition ... to Socialism is almost inevitable’ (Polanyi, 1935). In *The great transformation* similar vacillations appear. As Fred Block has pointed out, its account of modern British economic history identifies two pivotal moments: the passage of the New Poor Law in 1834 and the crisis of market society, both of which are described as occurring ‘with the force of inevitability’ (Block, 2003, p. 288). Similarly, the historian Mohammad Nafissi has argued, Polanyi’s explanation of why market society had to collapse was ‘not so much because its opponents appeared to have gained the upper hand in the 1930s, but because it violated human nature, which in turn explains why its opponents had gained the upper hand’. Polanyi’s ostensible rejection of determinism, Nafissi concludes (2005, p. 168), not altogether without hyperbole, belied a determinism ‘as cast-iron as any to be noticed in traditions it is claimed he transcended’.

In Block’s influential account, Polanyi’s tendency to deterministic philosophy stems from his residual attraction to Marxism, but in this paper I hope to have shown that the question is more complex. Of the four Marxist currents mentioned at its outset, Polanyi rejected the most rigidly deterministic, Kautskyan social democracy, but also the one that attempted explicitly and systematically to transcend the voluntarism/determinism antinomy: that of

Georg Lukács. The approaches that engaged him profoundly were Bernstein's 'revision' and Austro-Marxism, both of which repudiated economic reductionism in theory while incorporating a deterministic quietism at the level of practice (and in Bauer's case, in theory too). Rather than Marxism per se, it is these influences, together with the 'functional theory' of Cole and Bauer, whose imprint can be seen in the tendency to functionalist and determinist argument that characterizes Polanyi's *magnum opus*.

## Notes

- 1 Polanyi, Karl, 20-2. Numerals in the form '1-11' refer to box and folder numbers of materials in the archive of the Polanyi, Karl Institute of Political Economy, Concordia University. Translations from German are by myself; those from Hungarian are by Adam Fabry.
- 2 Kari Polanyi-Levitt, telephone conversation with the author, 1 June 2008.
- 3 Kari Polanyi-Levitt, telephone conversation with the author, 1 June 2008.
- 4 On the evolution of Bauer's fatalism, see Hanisch (2011); also Hanisch (2010) and Czerwínska-Schupp (2005, p. 550 and *passim*).
- 5 See e.g. Kirkpatrick (2005, pp. 21, 39); Nye Bevan (quoted in Foot [2005, p. 338]); Laski (quoted in Foot [2005, p. 315]).
- 6 The thesis is not found in Schumpeter's writings of the 1930s - for example, 'Can capitalism survive?' (Schumpeter, 1992 [1935]) - but does make an appearance in his *Capitalism, socialism and democracy* (Schumpeter 1954 [1942]), for example in the fourth edition, p. 143).
- 7 I flesh out this argument in a paper, provisionally titled 'Karl Polanyi, Ilona Duczynska and Austro-fascism', to be published in *Historical Materialism* in 2015.

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Gareth Dale is the author of *Karl Polanyi: The limits of the market*. His *Karl Polanyi: A life* is forthcoming in 2016.