

The Great Transformation and The Road to Serfdom

1. Introduction

In 1944, two books appeared on political economy, which were very different in their character, but the authors of which shared certain commonalities. The first, **The Great Transformation**, was written by Karl Polanyi.¹ The second was **The Road to Serfdom**, by Friedrich Hayek.²

Polanyi was a member of a remarkable Hungarian family of intellectuals of Jewish origin.³ Its members included Karl but also his younger brother, Michael, who was known for his academic work as a chemist, as an important critic of claims made about the effectiveness of Soviet planning, and also as a philosopher of science. Like a number of secular Jewish families in such circumstances, the family formally converted to Protestantism. Unlike other such cases – e.g. the philosopher Georges Lukacs – the Polanyi brothers took religious ideas quite seriously. Karl grew up in Budapest, but moved to Vienna, where in the 1920s and 1930s he worked as a journalist on a financial newspaper. While Polanyi's main concerns were not economic, he became involved in a controversy to which the work of the economist Ludwig von Mises gave rise.

There was, explicitly in many interpretations of Marxism, and implicitly in the work of many other socialists, the idea that socialism would inherit the economic achievements of capitalism. While it was thought that it might be possible to change the conditions under which people worked – not least in ways which were more in line with what would be humane and life-enhancing, and also to consider how wealth might be redistributed – it tended to be assumed that what capitalism had produced would be available, on an ongoing basis, to a new socialist political and economic order. This is the idea that Mises challenged. He argued that, without markets and private ownership, what capitalist societies had produced would no longer be available (his argument concentrated on what were called 'higher-order' goods, i.e. goods used in the production of other goods) Clearly, a socialist economy could continue to do just what a capitalist economy had done in the past. But the constant process of responses to changes in supply and demand,

and to innovation, which played a key role in capitalism could not, Mises argued, take place effectively under socialism. The real-world mechanisms which had made this possible would have been discarded.⁴

This, to say the least, put the cat among the pigeons. Socialists of different kinds made a variety of responses to Mises' ideas, using a variety of different theoretical ideas. Some made use of Marx's labour theory of value. Others used the ideas of 'marginalist' economics. Karl Polanyi argued against Mises from a socialist perspective.⁵ But in his writings on this theme, he combined an acceptance of the Austrian strand of marginalist economics – stemming from Carl Menger – with ideas from what is sometimes called the guild socialist tradition.⁶ (In this, key decision-making is to be taken in ways that are shaped by trades unions representing different sections of the economy, which enjoy a good measure of control over their respective industries. **In Polanyi's version**)

Now it is striking that the other figure with whom we are here concerned, Friedrich Hayek, was also engaged with Mises' argument. Hayek, who was Austrian, had been trained in Vienna as an economist.⁷ But he had, as a young man, been sympathetic to socialist ideas similar to those of the British Fabians. This had led him, while at the University of Vienna, to avoid Mises and instead to work with Friedrich von Wieser. Wieser, while an Austrian marginalist economist, was more sympathetic to socialist ideas. After a period in the United States, where Hayek collaborated with the institutionalist economist Mitchell, Hayek returned to Vienna. There, he was impressed by Mises' critique of socialism, and joined a 'private seminar' that Mises organized, in which were discussed a wide range of issues in economics and the philosophy of social science. Hayek thought that, in broad terms, Mises' conclusions about economic calculation under socialism were correct, although he had reservations about the specifics of his argument. But Hayek went on to develop his own distinctive ideas about these matters, which stressed, particularly, the role played by prices in transmitting information in market-based societies.⁸

All this led him, on the one hand, to develop reservations about the kind of economic analysis which stressed a high degree of idealization, including perfect knowledge on the part of economic agents, which played a key role in what was known as 'general equilibrium analysis'.

On the other, it led him to a re-evaluation of his own political views. It is not so much that (at least initially) his ideals had changed from when he was close to Fabian socialism. Rather, he had become convinced that the kinds of means to which he had looked to for the realization of his ideals would not work, and also that some of his aspirations had themselves been utopian. About all this, for example in a talk to students at the London School of Economics in 1944, he expressed regret that this was the case.⁹ Polanyi, by contrast, very much remained a socialist, and in the late 1940s was to be found espousing the cause of the Soviet Union.

2. From Vienna to The Great Transformation

In 1933, Polanyi left Vienna for London. It was not his Jewish ancestry that played a key role in this, so much as the fact that he was well-known as a prominent socialist journalist, at a time when the government in Austria was turning strongly against such ideas. Polanyi remained strongly opposed to Mises' ideas, and to the kind of classical liberalism that he represented. He was gradually to develop a different kind of argument against them from the guild socialist influenced ideas he had published in Vienna. Some of these ideas were, it seems, developed in Vienna. Others, in work that he did as an extra-mural university lecturer, and in adult education, in London. They were brought to fruition in the somewhat unlikely setting of the very up-market 'progressive' Bennington College in Vermont, in the United States.

Polanyi's argument – which has parallels in later writings by others about the idea of a 'moral economy' – involved a number of components. First, he argued – in ways which drew on the early Marx,¹⁰ and on ideas which he discussed with Christian socialists in Britain - that Christian ideas about the incarnation were incompatible with the commodification of human labour power. As Tim Rogan has discussed in his *The Moral Economists*,¹¹ the story was complicated. Polanyi seems, at first, to have been looking for a religious basis on which to oppose ideas about the commodification of human labour. In Britain, there were already people who took such a view, including the socialist economic historian, R. H. Tawney. Polanyi, when he was in Britain, associated with people who took such an approach, such as Maurice Reckitt and the philosopher John MacMurray. But Rogan questions the

depth of the role that specifically religious ideas played in Polanyi, and both he and John MacMurray seemed in fact more reliant on the ideas of the early Marx. In the end, Polanyi, his biographer Gareth Dale argues,¹² gives up trying to offer ideas about human nature which would play this role, and, instead, seems to appeal simply to social tendencies that he thought suggest that contemporary society is moving in the direction which he favours.¹³ Indeed, Polanyi argued that, historically, the economy had been restricted by moral and institutional safeguards for human well-being, and that in the Nineteenth Century, under the influence of utilitarianism, these had been dismantled. He thought – in ways that Dale suggests owe something to Toynbee’s speculative historical ideas – that all this inevitably gives rise to social and political resistance.

Polanyi was also critical of those who depicted humans as narrowly self-interested, and was worried about the adverse impact of economic innovation on traditional structures and mores. In this context, he became interested in exploring ways in which, in the past, economic activity had as a matter of fact been limited by various kinds of social arrangements. In his *Great Transformation*, and then subsequently, he undertook historical work on these issues. But his historical writings were not always received very well by more specialized historians, even when they were broadly politically sympathetic to him.¹⁴ While it is not clear that those of the ‘classical liberal’ economists with whom he was in most disagreement were committed to some of the ideas which he criticized.¹⁵ Be that as it may, subsequent writers on the theme of ‘moral economy’ have made claims about similar ideas about the social embeddedness of markets.¹⁶

However, it seems to me that Polanyi’s suggested **remedies** for all this were less than coherent. His positive ideas were, at different times in his life, influenced by the ‘reformist’ Marxism associated with Bernstein, by ‘liberal’ socialist ideas, by aspects of Marx’s work, and also by Hungarian and subsequently British ideas about ‘guild socialism’.¹⁷ This latter movement combined strands of medieval nostalgia with syndicalist ideas about industry-based trades unions as taking over control of the sectors in which they were to operate, within a parliamentary structure in which unions had a distinctive role. There was a great deal of enthusiasm for such ideas in the early part of the Twentieth Century.¹⁸

their proponents ranging from cranks,¹⁹ to socialists who were seeking an alternative to the state-centred bureaucratic ideals of the early Fabians, to people who favoured trades union militancy and especially strike action led by shop stewards.²⁰

It seems to me, however, that it is to Hayek's **Road to Serfdom** that one needs to go, for an analysis of the problems that the kind of interventionism that Polanyi seemed to favour, would face.²¹

The Great Transformation itself was a work which tried to depict the kind of unrestricted market-based society through aspects of which people were living, and versions of which he saw as feted by writers such as Mises, to be incoherent. The work was strongly influenced by Polanyi's socialism and his strong antipathies towards capitalism and also fascism. It was not particularly influential when it was initially published. But there has been a strong revival of interest in Polanyi's work in recent years.²²

3. Some Reflections on Polanyi

Polanyi raises some significant points about how human beings and their traditions and institutions are to respond to a market economy, and the kinds of disruption that they might bring. Hayek wrote of: 'Progress [as] movement for movement's sake...'.²³ But the arrangements which may be affected by such economic change, which may well take place in locations and fields of which they have no immediate knowledge, could be seen as potentially adversely affecting things which constitute people's lives, personalities and patterns of responsibility for one another. At the same time, there is a risk that an approach such as Polanyi's beguiles us. For it conflates what is in many respects a conservative case about the costs of disruption to how things were once done, with a vague, but it seems to me totally fantastic, vision of how things might work in some socialist society of the future, and an unrealistically absolutistic interpretation of what those who favour market-based societies are commending.²⁴

Two issues are, perhaps, worth stressing here.

The first, is that what one was dealing with, historically, when one considers 'moral economies', were often societies in states of dire poverty. It was simply not clear that one had the economic basis, within

those societies, to provide a good life for all. To get to this, on the face of it requires radical and ongoing transformations of what people do. Aspects of this, also, would seem, at certain points, to have a lot to do with, simply, the kinds of technical and economic changes that were taking place, rather than anything that was intrinsically connected with capitalism. By this I mean that it is simply not clear that one could have achieved the same kinds of gains in productivity, if people continued in their previous social roles and occupations under a planned society. While if various kinds of transformation are to take place to increase people's productivity, then – if this could be done outside of capitalism – it would seem to make little difference to the changes that people would have to make, what form ownership took.²⁵

Second, Polanyi and other 'moral economists' express their dislike of utilitarianism and economists' reference to people acting in their self-interest. But on the face of it, utilitarian concerns about what makes for general well-being are important. Polanyi's concerns about neoclassical economists having to assume self-interest in a narrow sense seem to me to be mistaken. For a key problem facing us, is: how do we make effective use of capital, and spend our time, in the economy, doing what others will find most useful? It is to this problem that the idea: act on the basis of your economic self-interest, on the basis of prices, offers an important response. That is to say, the rationale of the system that Polanyi is attacking, is provided by the claim that it will have good social consequences. One might say, provocatively, that someone inspired by broad altruism towards fellow members of his or her society with whom they do not have face-to-face relations, should behave in an economically self-interested manner, in order best to further that goal!

Clearly, there is much more that needs to be discussed – including the kinds of institutional arrangements by which markets need to be supplemented to assist people who are adversely affected by what takes place in them. Here, Hayek favoured a welfare state, provided that it operated in ways that did not undermine the basis on which a market economy operated. One might, also, look again at ways in which these problems could be addressed by voluntary means.²⁶

4. The Road to Serfdom

Hayek's *Road to Serfdom* was a critique of ideas about 'planning' which did not operate in the way that he favoured. His argument was directed against the views of the would-be planners of his day. But it is of much wider importance. One might look at it, for example, as having important things to say also in respect of those who, at the end of the Nineteenth Century, favoured ideas close to corporatism, in which all social interests were supposed to be represented by the state.²⁷ But equally, it spoke to those in the syndicalist and guild socialist traditions, who saw a kind of socialist corporatism as being what was needed in respect of the economy.²⁸

Hayek's argument was that we were regularly in danger of over-rating the role that intentional human planning can and should have in respect of our institutions, and the degree to which we can expect to reach rational agreement about our values and goals. Hayek was, emphatically, not an irrationalist.²⁹ His argument is, rather, that we should appreciate the way in which certain kinds of institutions function to achieve effects which we would not be able to bring about if we set out to plan institutions to achieve these effects on a centralized basis. (It is, in effect, a generalization of his argument about the replacement of the price system by economic planning.)

More specifically, Hayek argued that there were several systematic problems about trying to achieve specific kinds of results, if one went about this by way of trying to intervene, politically, in an economy to bring them about. The first was that those who favoured such planning – e.g. in the name of 'social justice' – overrated our ability to get rational agreement about what such a plan should be. While we might all favour 'social justice', if we ask: just who should get what in a socially just economy, we are likely to run into major and intractable disagreements. There are also the further problems of how the achievement of any such aim is going to inter-relate to other things going on within a market economy. (I.e. if, say, it is deemed that nurses deserve to be paid much more, what of those in related occupations, and of the impact of higher salaries for nurses on recruitment into those other occupations?) In addition, there were various goals that different groups might have in society – e.g. building churches, building mosques, and building halls for secularist meetings – which are grounded in issues about which one could not hope for any easy rational resolution. Under the

arrangements of a liberal capitalist society, different groups would simply be free to spend their own resources in the pursuit of different such aims.

I suggested, however, that the relevance of Hayek's argument was wider than the 'planning' that Hayek set out to criticize. It seems to me to bear on two different kinds of ideas about a desirable social order.

The first of these – which was popular towards the end of the Nineteenth Century – was the kind of vision of a rational society that was favoured by some British Hegelians, such as Bosanquet. They took the view, that a good society would be a form of corporatism, in which the interests of different groups were reconciled, rationally, in the state. Hayek's argument seems to me to suggest that any idea about such social harmony, is an illusion. Contrasted with this, there is no problem if different groups pursue their own concerns using their own resources, without being able to impose their goals on one another, or to have to come to any kind of collective decision about the use of resources.

The second, relates to the kinds of ideas which were being suggested by the guild socialists, with different sections of the economy being controlled by trades unionists in these different fields. Key problems, here, involve not only decisions about the investment of capital and how to handle innovation. (If producers get to settle this, then my ancestors who worked as 'shearmen',³⁰ in tasks associated with hand-loom weaving, would still be in business.) But it is also not clear that those representing different groups – and getting a say in what they would earn – would be able to agree with one another on what this should be. Not only are there the intractable problems about the ideal of 'social justice' to which I referred before. But there is also the problem that there are often disagreements, within particular trades, about the significance of wage differentials and rewards for having particular skills. While in real-world bargaining by trades unionists, an important role is played by people's awareness of the degree to which a withdrawal of their particular labour might exercise a powerful effect on the overall operations of the economy.

All told, it seems to me unclear how the kinds of institutions that Polanyi favoured can play the sort of role that he wished them to. While, to the degree to which he ended up appealing to tradition and custom, these,

surely, were the very things which were disrupted by the dynamics of a market economy – or by any functional equivalent that one might imagine – which enabled a society to improve its economic operations, and the well-being of its citizens.

5. What is to be done?

In my view, Polanyi's positive ideas are hopeless, and I don't think that anything is to be gained by their pursuit. I also think, however, that some of the **problems** with which he was concerned are real, and need to be addressed. What I also do not think is useful, is just to invoke the idea of 'socialism' in the face of them. Or, rather, if someone does this, they need to tell us what they are talking about. How it would work? And what – once we have their favoured institutions in place – will we, at the same time **not** also be able to do.

Polanyi, and his contemporaries, were idealistic and often embraced attractive ideas. But at the same time, they realized that they needed, if we were to get away from 'capitalism' – to replace it with something. And it was when they tried to spell out their views about this, that things fairly quickly fell apart. Often, we seemed to end up with administrative planning by the state, of just the kind to which guild socialists objected. Today, we seem, almost endlessly, to have ideas about socialism being invoked, or, more negatively, simply denunciations of capitalism. But no-one goes on to spell out just what institutions they want in its place. Similarly, ideas about 'democracy' are invoked, without, typically, those who invoke them grappling with the real-world problems and limitations of our ability to control institutions by democratic means.³¹

¹ Karl Polanyi, **The Great Transformation**, New York: Farrar & Rinehart, 1944.

² Friedrich Hayek, **The Road to Serfdom**, London: Routledge, 1944.

³ I have used this somewhat roundabout expression, just because, while Jewish by birth, these people – like a number of similarly-placed intellectuals in urban Hungary, and Vienna, had no links with Judaism as a religious practise.

⁴ A particularly useful introduction to these issues is given in David Ramsay Steele's *From Marx to Mises*, La Salle, IL: Open Court, 1999.

⁵ See Karl Polanyi, 'Socialist Accounting'[1922], **Theory and Society** 45, 2016, pp. 385-427.

⁶ There were Hungarian roots to such ideas (see Lee Congdon, *Exile and Social Thought*, Princeton: Princeton University Press, 1991, chapter 5, while when he came to Britain, he associated with British socialists who had earlier been associated with such ideas, such as G. D. H. Cole.

⁷ See, on Hayek, my **Hayek and After**, London: Routledge, 1996.

⁸ A useful source for this material is, now, F. A. Hayek, **Socialism and War**, ed. Bruce Caldwell, Chicago: University of Chicago Press, 1997.

⁹ See Hayek's 'On Being an Economist', in W. W. Bartley III and Stephen Kresge (eds) **The Trend of Economic Thinking**, Chicago: University of Chicago Press, 1991.

¹⁰ Polanyi made reference to an edition of Marx's early writings published by J. P. Mayer and S. Landshut in 1932 (**Der historische Materialismus: die Frühschriften**, Leipzig: A. Kröner). The idea, however, that they are compatible with a Christian perspective seems to me badly mistaken. Substantively, the ideas of the 'Paris Manuscripts' are oddly like J. S. Mill-style ideas about 'self-development', set out by way of some odd ideas about the human essence stemming from Feuerbach. While the incompatibility of Marx's views about socialism and any kind of actual religion is surely made plain by the concluding parts of Marx's 'Contribution to the Critique of Hegel's **Philosophy of Right**: Introduction'.

¹¹ Tim Rogan, **The Moral Economists**, Princeton and Oxford: Princeton University Press, 2017.

¹² Gareth Dale's interesting work on Polanyi includes his **Karl Polanyi, The Limits of the Market**, Cambridge: Polity, 2010; **Karl Polanyi: A life on the Left**, New York: Columbia University Press, 2016; **Reconstructing Karl Polanyi**, London: Pluto Press, 2016; and 'Karl Polanyi vs Friedrich von Hayek: The Socialist Calculation Debate and Beyond', in R. Leeson (ed) **Hayek, A Collaborative Biography: Popper, Humboldt and Polanyi**, Cham, Switzerland: Palgrave Macmillan, 2018, pp. 283-308

¹³ See also, on this, John Vail, **Karl Polanyi and the Paradoxes of the Double Movement**, London: Routledge, 2022.

¹⁴ Rogan discusses this in relation to his ideas about the 'Speenhamland system'; Dale reports that his later ideas about the economic organization of classical Greece also received a critical reception from classical historians. For a hard-hitting survey of this critical literature,

see Santhi Hejeebu and Diedre McCloskey, 'The Reprising of Karl Polanyi', **Critical Review** 13, Nos 3-4, pp 285-314.

¹⁵ It might be thought that his stress on the role of deliberate political measures removing 'moral economy' restrictions would undermine Hayek's stress on 'spontaneous order'. But Hayek seems to me at his strongest when he is discussing this idea in terms of a set of institutional arrangements, rather than as a theory about their origin, and he, himself, favours various ideas – e.g. in his work on the 'denationalization of money' – which amount to the advocacy of the deliberate creation of a 'spontaneous order'. It should also be noted that Hayek's own programme in political philosophy was explicitly concerned with how one could have governmental intervention (e.g. in a welfare state) without this undermining the operations of a market economy. Polanyi and Mises seem to be united in the view that this is not possible,

¹⁶ See, notably, E. P. Thompson, 'The Moral Economy of the English Crowd in the Eighteenth Century', **Past & Present** No. 50 (Feb., 1971), pp. 76-136.

¹⁷ For a discussion of this, see Lee Congdon, **Exile and Social Thought**, Princeton: Princeton University Press, 2014, and on the English writer G. D. H. Cole whom Polanyi also cites as an influence, Margaret Cole, **The Life of G. D. H. Cole**, London: Macmillan, 1971.

¹⁸ A useful brief guide is offered in S. T. Glass's **The Responsible Society: The Ideas of Guild Socialism**, London: Longmans, 1966.

¹⁹ While he seems to have been a talented editor, A. R. Orage, whose journal **The New Age** played an important role in this connection, can, I think, fairly be described in these terms. He championed, in succession, Theosophy, guild socialism, social credit, and the mystical ideas of George Gurdjieff, for whom he acted as a kind of propagandist in the United States.

²⁰ See, on all this, Philip Mairet, **A. R. Orage: A Memoir**, New York: University Books, 1966; Maurice B. Reckitt, **As it Happened**, London: Dent, 1941; L. P. Carpenter, **G. D. H. Cole: An Intellectual Biography**, Cambridge: Cambridge University Press, 1973; Margaret Cole, **Growing up into Revolution**, London: Longmans, Green, 1949, and John Costello, **John MacMurray: A Biography**, Edinburgh: Floris, 2002.

²¹ The book was written against proposals for centralised interventionism in a market economy rather than guild socialism, but the same issues would face the guild socialists.

²² One might mention, here Gareth Dale's work on Polanyi; Tim Rogan's **The Moral Economists**, and a number of collections of papers on Polanyi's work produced at conferences and subsequently published by the Black Rose Press in Montreal.

²³ See F. A. Hayek, **The Constitution of Liberty: The Definitive Edition**, ed. R. Hamowy, Chicago: University of Chicago Press, 2011, p. 95.

²⁴ Here, the discussion in Hejeebu and McCloskey is particularly important.

²⁵ An interesting example of this, is the picture that Arthur Koestler gives of tribeswomen being put to work in a silk factory in the Soviet Union, in his **Arrow in the Blue**, London: Collins and Hamish Hamilton, 1952. In this connection, see the argument that I have offered in my 'Recipes for the Cookshops of the Future', as to the continuing relevance of Marx's ideas about 'relations of production', if we drop his own teleological ideas about history.

²⁶ See on this, for example, Richard C. Cornuelle, **Reclaiming the American Dream: The Role of Private Individuals and Voluntary Associations**, New York: Random House, 1965.

²⁷ See B. Bosanquet, **The Philosophical Theory of the State**, London: Macmillan, 1899.

²⁸ To write in such terms is, perhaps, being over-generous towards syndicalists and guild socialists, as it is not clear that they had any developed ideas about how the coordination of economic decision-taking was supposed to take place, either between different sectors of the economy, and how decisions about the investment of capital were to take place, or the interests of consumers were to be represented. I have been struck by the degree to which, say, the work of G.D.H. Cole seems to have been untouched by the kinds of issues raised by Mises – although as Cole wrote such a vast amount, it is possible that he may have discussed it somewhere.

²⁹ Although, as he has commented, at times written in ways which might invite such an interpretation.

³⁰ 'Shearmur' seems to have been a corruption of 'Shearman'.

³¹ It is, here, well worth people looking at, on the one side, some of the problems about the mechanisms of democratic decision-making which have been explored by 'public choice' theorists. And, on the other, the important literature that was developed in criticism of the claims of 'pluralists' in American political science.