

# The Origin and Formation of ‘19<sup>th</sup>-century Civilisation’

Takato KASAI

Doshisha University Faculty of Economics

## Contents

1. Introduction
2. 19<sup>th</sup>-century civilisation and the double movement of money
3. Overview of ‘Five lectures’
4. Comparison with *TGT*
5. Conclusion: Shift towards economic analysis

## 1. Introduction

Karl Polanyi criticised 20<sup>th</sup> century economic society, characterised by economic liberalism, based upon his unique understanding of the world set forth in his book *The Great Transformation* (hereafter, *TGT*). The world that he analysed was the 19<sup>th</sup>-century civilisation. The audacious theories of the double movement and fictitious commodity informed his critique of capitalism in that book. Many researchers have discussed his theories and their utility for contemporary society. When considering the richness of his thought, it is clear that any stream of research will yield fruitful insights that are relevant even today.

In the research on Polanyi, the question about the relevance of his thought in a capitalistic society is often raised. However, there is little research on the development of his theory. His thought is relevant in identifying the causes of the financial crisis. The apparent contradiction in the coexistence of economic prosperity and the danger to human society under capitalism are being considered afresh after 2008.<sup>1</sup> Although his theory is nuanced and influential, people tend to ignore the world view underlying it. In other words, previous studies did not pay sufficient attention to the idea of 19<sup>th</sup>-century civilisation forming the basis of Polanyi's theory.<sup>2</sup>

However, it is necessary to clarify the similarities and differences between Polanyi's era and our own when we investigate the applicability of his thought to the modern world. This research foregrounds the idea of 19<sup>th</sup>-century civilisation and its importance as a premise in the powerful theory developed by Polanyi in *TGT*. Further, it investigates its origin and development. Using the lectures delivered by him at Bennington College in 1940, it aims to explain the gradual shift in his intellectual trajectory from politics to economics.

The structure of this research is as follows. First, the concepts of 19<sup>th</sup>-century civilisation and the double movement of money, as discussed in *TGT*, will be presented in the next chapter. The third chapter introduces the content of Polanyi's lectures at Bennington College in 1940. The fourth chapter brings out the originality of the discussion in *TGT* by comparing it with the Bennington

---

<sup>1</sup> Some of the recent studies are listed below, Block and Somers (2014), Watkins (2017) etc.

<sup>2</sup> Stanfield (1986) and Dale (2016a, b) discuss the relation of Polanyi's theory to his thought. Dale (ed. 2016), who traces the development of Polanyi's thought during his years in Hungary, is likely to become a cornerstone for further research on him.

lectures. Finally, the fact that his interest shifted from political to economic problems is explained. It will be shown that Polanyi studied the history of social thought and the Speenhamland system, but ignored the domestic factors to explain the collapse of the international world system in the lectures.

## 2. 19<sup>th</sup>-century civilisation and the double movement of money

This section covers the theory Polanyi used in *TGT*. In particular, it focuses on his world view relating to the 19<sup>th</sup>-century civilisation, which has been overlooked in previous studies. He took the nineteenth-century civilisation as the object of his analysis. According to him, it was defined by four institutional systems—the balance of power, the international gold standard, the self-regulating market, and the liberal state. These function in a domestic or international sphere and can also be classified as either political or economic systems. According to Polanyi, the collapse of nineteenth-century civilisation led to two world wars and the great depression in the twentieth century. For him, the 19<sup>th</sup>-century civilisation lasted till the middle of the twentieth century. Of the four institutional systems, the self-regulating market is centrally located because it creates other three institutions; moreover, the self-regulating market is the real causal factor of the collapse.

Characteristically, Polanyi analysed the 19<sup>th</sup>-century civilisation from both the international and domestic perspective in *TGT*. From his view, the self-regulating market as the domestic economic system destroys balance of power as the international political system. It does so through the international gold standard—the international economic system. In this way, his analysis enquires into historically significant world events by focusing on the domestic economic system to trace the cause of the problem. This is the frame of reference used by him.

The double movement is an important premise for 19<sup>th</sup>-century civilisation. It means that as economic liberalism expands, there is a simultaneous appearance in society of a countermovement, which tends to repress it. The countermovements relating to labour, land, and money, which are termed fictitious commodities, actually appeared in the nineteenth century. For example, the growth in supply of labour and the expansion of the labour market went hand in hand with progress in social policy. Similarly, the use of land by industry was accompanied by the passage of a land protection act. Additionally, Polanyi discussed the direct relationship between a self-regulating market and labour, as well as that with land in the ‘Market and Man’ and ‘Market and Nature’<sup>3</sup> chapters of *TGT*. On the money, however, he only posits an indirect relation with the self-regulating market in the chapter ‘Market and Productive Organisation’, instead of a direct one. By intervenient of a firm, the relationship between money and the self-regulating market can debut on the discussion. Then, the double movement of money refers to the use of the international gold standard system as the self-regulating market and employing the domestic paper money system for protecting the firm from the business cycles.

The role of the social organisation in smoothing the business cycles leads Polanyi to

---

<sup>3</sup> Polanyi considers labour, land, and money, as alternative names for man, nature, and purchasing power, respectively.

consider the use of domestic monetary policy, which abandons the gold standard and establishes the central bank to protect the productive organisations from the upheavals caused by issuing paper money. According to Polanyi, national purchasing power must diminish during a depression because of deflation. As a result, the sales of a firm will fall. However, in a depression, the firm cannot easily reduce wages because of the time lag between general prices and wages caused by the downward rigidity of nominal wages (Polanyi 1944, 201-202). The decrease in price oppresses businesses since the relative increase in costs reduces the company's profits when sales decline because of the higher cost of production due to the higher cost of labour.

Polanyi obviously employs an artless theory of price change that depends on the quantity theory of money. In this theory, the balance of the quantities of goods and money decides the price. Polanyi thinks that in such a case, the problem of deflation might be solved by the ample circulation of money, because it is caused by the relative excess of goods over money. Subsequently, the central bank would be able to protect firms from the business cycle through the control or elimination of deflation achieved by an additional issue of paper money. Polanyi also believes that the central banks could become a buffer between market and productive organisations by issuing paper money to prevent an economic crisis. For Polanyi, the fact that money was historically in the political realm shows the idiosyncrasy of '19th-century civilisation' trading humans and purchasing power in the market. Further, Polanyi saw the role of the central bank as protection of a firm or the social organisation and control of the business cycle. Basically, money is the tool to protect or save firms and common people from the bankruptcies and unemployment caused by the unavoidable cycle of depression after a period of economic development. The protection is provided not by the money in the international gold standard system, but by the money controlled by the government of a country or its central bank.

In this way, the 19<sup>th</sup> century's history can be seen as the operation of the double movement in self-regulating markets. Conversely, the double movement cannot come about in an archaic society, which is viewed by Polanyi as distinct from the 19<sup>th</sup>-century civilisation because exchange economy of the self-regulating market is not its main feature. Therefore, the double movement cannot exist without considering the 19<sup>th</sup>-century civilisation, which Polanyi criticised as a capitalistic society based on economic liberalism.

### 3. Overview of the "Five lectures"

Next, this chapter enquires into Polanyi's thought before the publishing of *TGT*, by focusing on the five lectures Polanyi gave at Bennington College in 1940. He had been working as visiting researcher for two years before he gave the five lectures for students of the college. The series of lectures titled 'The Present Age of Transformation' were the only teaching obligation he owed to the college. Thus, he could immerse himself in research for most of the time he spent there. Fortunately, thanks to Ann Pettifor and Jeremy Smith, who made the electronic version of the lectures available online in February 2017, we can shed light on Polanyi's thoughts on the eve of the publication of *TGT*.

The title of each lectures is as follows: 1. 'The Passing of 19th Century Civilisation'; 2. 'The Trend Towards an Integrated Society'; 3. 'The Breakdown of the International System'; 4. 'Is America an Exception?'; and 5. 'Marxism and the Inner History of the Russian Revolution'.

The first lecture discusses the 19th-century civilisation that had disappeared during the interwar period'. Polanyi views the 19th century civilisation, which was based on the balance of power and the international gold standard, as being characterised by representative democracy and liberal capitalism. 'The balance of power had secured a comparative freedom from long and devastating wars, while the gold standard had become the solid foundation of a vast system of economic cooperation on an almost planetary scale' (Polanyi, 1940, p.13). The first lecture corresponds to part 1 of *TGT*, as seen by the use of the phrase 'the conservative twenties and the revolutionary thirties', which is also found in *TGT*. In particular, the following points can be said to be inherited by *TGT*: the catalyst of the 19<sup>th</sup>-century civilisation is the abolition of the gold standard; 5-year plans and New Deal as the beginning of 'the great transformation' against the market society; and the existence of the civilisation in which humanity lives is called into question during the time of war. '[D]issolution of the international system upon which our civilisation had unconsciously depended for its life and growth' (Polanyi, 1940, p.14). Moreover, the lecture shows that the dissolution of alliances destroys the balance of power and causes an inevitable collapse, which means that the re-establishment of the international gold standard is a failure. Additionally, Polanyi insists that humans have to consider the relationship between capitalism and democracy, by recognizing the role of money in destroying the international order. The fact that Polanyi's originality was in evidence in the thirties is nothing short of revolutionary.

In the second lecture, the main discussion is about the separation of the economy from politics. According to Polanyi, this is the main cause of the collapse of civilisation. The separation of economy from politics is strongly stressed by him as related to the birth of the self-regulating market. In other words, regardless of the historical regulation of the economy by society or politics, economy becomes disembedded and work only personally and arbitrarily in the 19th century. It is worth noting that he used the term 'autonomous' in 1940 to explain the self-regulating market. In addition, the term 'society' has a political meaning, as well as an economic one; the former corresponds to a representative democracy and the latter to liberal capitalism.<sup>4</sup> The separation of the economy and politics caused a change in the motives of individuals. Earlier, they wanted to maintain social unity, but now they wanted to satisfy their personal wants.

Then, Polanyi shows his understanding and critique of economics by focusing on rent, profit, and wage, as well as their distribution by the market. In addition to the use of the terms 'satanic mills' and 'fictitious commodities', which are related to land and labour, the lecture makes it clear that political safety and material satisfaction in the form of food are more important for humans than economic profit. Moreover, the substantive explanation of the fictitious commodity of money appears to be showing the danger of the credit system in a free market society. To protect society

---

<sup>4</sup> A society should contain these two institutional systems as distinct and different as the needs which they serve. (Polanyi, 1940, p.17)

from the invisible effect of the market mechanism, the necessity of the unity of economy with politics are indicated, without ignoring the possibility of such unity denying democracy, as in fascism. Therefore, Polanyi understands the problem of unity including the dangers posed by the birth of fascism, where the state enjoys unfettered freedom in both politics and economy.

The third lecture discusses the collapse of international system by adding a domestic economic factor, which had been overlooked till then. According to Polanyi, there is no international market; instead, the domestic markets of many countries are connected by a single currency. Thus, an international market is just the set of many domestic markets. International trade needs a stable currency, but the self-regulating market in money does not function because of the inconsistency between purchasing power and currency exchange, that is, there is a gap between the domestic and the international value of money. It is true that currency value affects other prices, including that of land and labour, which are the original factors of production. Therefore, a union or a factory law as external protection were created in order to guard humans against the self-regulating market. As is clear from the above discussion, the discussion of the double movement in the lecture is confined to labour.

If the international division of labour advances upon the basis of free trade, we arrive at a paradox, whereby the importance of nation will grow as the free market gradually begins to malfunction. With his historical view, Polanyi declares that laissez-faire and free trade are not the reality. In relation to the double movement of labour, the Ten Hours Bill and Trade Unionism are countermovements of society against the spread of laissez-faire. The countermovements occurred because of the success of free trade. The self-preservation inherent in laissez-faire deadened the flexibility of the economic system. And surfaces nation as a buffer; that is to say the planned element of economic liberalism heightens the importance of nation states.

The fourth lecture deals with the abandonment of the international gold standard and a diplomatic policy, which differs from the chief narrative of *TGT*. The results of the abandonment of the international economic system are used to draw future scenarios for the US.

The passing of the gold standard as the chief instrument of the international division of labour will alter her relationship to other national economies, just as her foreign policies will have for a long time to come to be shaped by the disappearance of the balance of power system as practiced during the century 1814- 1914. (Polanyi, 1940, p.27)

The achievement involved in the preservation of democracy and the fusion of politics and economy represents an important issue for the US. In addition, there is a consideration of fascism, which jettisoned liberal capitalism and representative democracy. The three big desires—levelling of a business cycle, a safety of life, and distribution of purchasing power—demand a reform of property rights. Considering the possibility that the US is already a plastic society, Polanyi has hope to reform society by making it perceive the limit of individualism.

The final lecture refers to the continuing European civil revolutions in the 'conservative

twenties' and the transformation witnessed in Russia during the 'revolutionary thirties'. In Polanyi's historical view, the Russian revolution was the movement which allows the capitalistic system to be controlled by the bourgeois, after the destruction of feudalism. Thus, what Russia really wanted to accomplish was a climax of the bourgeois revolution in order to ensure the democratic right and regulate the anti-revolution movement; however, Marxism made the accomplishment inconclusive. The conservative movement, as an extension of European civic revolution, could not be completed, while the revolutionary time of transformation came as 5-year plans. The weakness of democratic energy is similar to that observed in European fascism. In such a situation, ensuring democracy becomes a central issue, as was the case in the US.

#### 4. Comparison with *TGT*

Whether the five lectures are really a summary of *TGT* will become clear in this chapter, which compares them with *TGT*. Kari-Levitt and the editors of the five lectures consider them as outline or summary of *TGT*, as is evident from the following:

The Bennington lectures can be read as a series in their own right, but they are equally fascinating as in effect summarising Polanyi's thinking at the time about the developing shape and content of the Great Transformation. (Smith and Pettifor, 2017, p.4)

The first three lectures constitute a summary outline of The Great Transformation. (Kari-Levitt, 2017).

The five lectures do not have some important ideas used by Polanyi in his later analysis; however, the lectures are certainly the blue print for *TGT*. First, in relation to 19<sup>th</sup>-century civilisation, Polanyi focused only on two international systems; that is, he omits the domestic realm at that time. Moreover, the idea of the self-regulating market, which is central in *TGT*, is not foregrounded, and the relationships among the institutional systems of 19<sup>th</sup>-century civilisation are not clear. Thus, we can infer that Polanyi could not grasp the interrelationships at the time of writing the five lectures. Moreover, the definitions of the international system in the *TGT* and the five lectures are different. In *TGT*, the balance of power serves as the premise for the international gold standard based on the self-regulating market. Therefore, the evaluation of the five lectures as 'summary outline' of *TGT* is not accurate because *TGT* enquires into the cause of the collapse of 19<sup>th</sup>-century civilisation, which are due to the functioning of the self-regulating market.

In addition, the idea of the liberal state, which is a component of 19<sup>th</sup>-century civilisation, does not appear yet. The perspective used in the five lectures cannot discuss the ideal international relations created by a global alliance in the future. In particular, Polanyi had a high opinion about the League of Nations. So, the argument of the five lectures lays stress on explaining the social situation of the day, rather than a future world, like other British publications of that era.

In relation to this point, it is worth mentioning that, unlike Robert Owen, who criticised

classical economics, Polanyi did not refer to a theory of economics or social thought. It will not be a surprise to discover that Polanyi might have studied social thought in detail to improve the precision of his analysis after delivering the five lectures. The ignoring of social thought is strange because *Livelihood of Man* contains detail notes dealing with a social thought, starting from Montesquieu and including thinkers on economics. Moreover, he did not refer to economic history, despite having gained sufficient knowledge during the period when he taught British social history to workers attending classes at the Workers' Educational Association. Instead of viewing the five lectures as a summary of *TGT*, it is reasonable to assume that Polanyi made further studies and synthesised his findings in *TGT*, which he wrote during his life in the US.

Next, although the five lectures do not use the terms 'fictitious commodities' or 'commodity fiction', substantive discussions on labour and land emerge. For example, Polanyi says that 'Amongst the factors of production there are land and labour, both of which can be treated as commodities only on a more or less fictitious basis' (Polanyi, 1940, p.19). However, he does not explain why money in the market is not fictitious, despite defining labour, land, and money as the original factors of production. Making an exception for money in the discussion of fictitious commodities make the lectures difference from *TGT*. However, there is a discussion on the connection of money with the international market. The ambiguous discussion of money and the difficulty faced in theorising about it might be the reason for the inadequate references to money in *TGT*.

In relation to the ambiguous idea of the fictitious commodity, the double movement discussion in the lectures considers only labour, with both land and money omitted. The idea of protection is already present in the use of the term 'external', but it has not yet been connected to society. Considering the earlier discussion about the lack of studies on economics until he began to write *TGT*, it is evident that Polanyi had a strong sense of the inconsistency of merging economy with society.

What is especially strange and interesting is that Polanyi did not refer to the historical analysis of archaic society to explain that a market exchange is not a universal system for humans. The lack of a historical or anthropological perspective characteristics his thought at that time because of his immersion to the anthropology of the US at that time. Conversely, he got in touch with anthropology between 1940 and 1944. The process by which this happened will become the next research agenda.

Adducing similarity of the five lectures with *TGT*, the understanding of fascism and the critical stance against it cohere as the problem of freedom in economy and politics. Considering the discussion above, the studies on economics until *TGT* makes Polanyi have a strong opinion about the inconsistency involved in merging economy and society, as economic liberalism and political freedom. The raising of an alarm about the dangers of a society becoming fascist indicates that Polanyi paid attention to contemporaneous political problems.

As a result, the content of the five lectures corresponds to parts 1 and 3 of *TGT*. Although the five lectures show Polanyi's research motivation and basic analytical stance, the content appearing

in part 2 of *TGT* is absent. Part 2 of *TGT* has 2/3 pages of the book, and discusses economic theory, economic history, and social thought. Therefore, it is more reasonable that the five lectures are not considered the outline of *TGT* but there is awareness of the problem and the conclusion that may be drawn at that time.

#### Conclusion: Shift towards Economic Analysis

This research confirms the development of Polanyi's thought by comparing *TGT* with the five lectures. It cannot clarify the process that led to the creation of *TGT*, but only points the lack of a core idea for *TGT* in 1940. The lack indicates that Polanyi's knowledge of international relations is not organically connected with that of British social history, gained during his involvement with the Workers' Educational Association. To figure out the process of the connection and the absorption of anthropological perspective, a new source may be needed.

In addition, the five lectures stress the political problem, rather than the economic one. This could be because of Polanyi's incomplete comprehension of classical economics theory. The emphasis on the political agenda make the lectures more similar to other works published in Britain at that time—'Europe today' or 'Citizen and Foreign Policy' than to *TGT*<sup>5</sup>. Assuming that the shift in Polanyi's interest towards the economic problem from the political one was based on his focus on the domestic as the reason for the collapse of 19<sup>th</sup>-century civilisation, it is clear that the change in his thought occurred after he moved to the US from Britain. In other words, it occurred during the gap between the five lectures and *TGT*. Thus, his view that the emergence of the self-regulating market and the separation of the domestic and the economic invites the collapse of the 19<sup>th</sup>-century civilisation, was formed after 1940.

---

<sup>5</sup> On the International Relations in "Citizen and Foreign Policy", see Kasai (2017).

## References

- Block, Fred and Somers, Margaret (2014) *The Power of Market Fundamentalism: Polanyi's Critique*, Harvard: Harvard University Press.
- Dale, Gareth (2016a) *Reconstructing Karl Polanyi*, London, Pluto Press.
- Dale, Gareth (2016b) *Karl Polanyi: A Life on the Left*, Columbia: Columbia University Press.
- Dale, Gareth (ed.) (2016) *Karl Polanyi: The Hungarian Writings*, Manchester: Manchester University Press.
- Kari, Polanyi-Levitt (2017) "Introduction" in "The Present Age of Transformation: Five Lectures by Karl Polanyi Bennington College, 1940", p.12.
- Kasai, Takato (2017) "The Cause of War and Role of People by Karl Polanyi: A Change in Realm of International Relations after The Great Transformation", *Journal of Economic and Social Thought*, Vol. 4, No. 1, pp. 67-76.
- Polanyi, Karl (1940 [2017]) "The Present Age of Transformation: Five Lectures by Karl Polanyi Bennington College, 1940", Prime Economics (Smith, Jeremy and Pettifor, Ann eds.).  
<https://static1.squarespace.com/static/541ff5f5e4b02b7c37f31ed6/t/58a451f415d5dbb6a1a69ee8/1487163903243/Polanyi+5+lectures+Publication+15+Feb+final+.pdf>
- Polanyi, Karl (1944 [2001]). *The Great Transformation*, Boston: Beacon Press.
- Polanyi, Karl (1947). *Citizen and Foreign Policy*, London: Workers Educational Association.
- Polanyi, Karl, & Pearson, Harry (1977). *The Livelihood of Man*, New York: Academic Press.
- Smith Jeremy and Pettifor, Ann (2017) "Market-Utopia"- lessons from the past, implications for our future" in "The Present Age of Transformation: Five Lectures by Karl Polanyi Bennington College, 1940", pp. 3-11.
- Stanfield, J.R. (1986). *The Economic Thought of Karl Polanyi: Lives and Livelihood*, Macmillan Press.
- Watkins, John (2017) "Financialization and Society's Protective Response: Reconsidering Karl Polanyi's Double Movement" *Journal of Economic Issues*, Vol. 51, No. 1, pp. 98-117.