Karl Polanyi

Economy and Society

SELECTED WRITINGS

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Edited by Michele Cangiani
and Claus Thomasberger

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Introduction

Michele Cangiani and Claus Thomasberger

Karl Polanyi is regarded as one of the most influential social scientists of our epoch. His seminal book, *The Great Transformation*, is listed among twentieth-century classics. Polanyi was initially recognized as an economic anthropologist and historian. Later, his work entered the discourse of disciplines such as sociology, law and political science. Finally, and particularly since the beginning of the financial and economic crisis in 2007/8, he has become an indispensable point of reference in the broader public discussion. Leading intellectuals around the world refer to him as a source of inspiration. Economists, social scientists and activists engaged in challenging the current trends of neoliberal globalization, privatization and deregulation build on his writings. The 2016 *Trade and Development Report* of the United Nations Conference on Trade and Development describes the current situation as 'a "Polanyi period", in which the regulatory and normative framework on which healthy markets depend, having already warped, is beginning to buckle [...] Trust in political leadership is at an all-time low, just when the need for decisive political action is at an all-time high' (p. ii).

In the critical discourse, Polanyi's notions, such as 'embeddedness', 'double movement', 'fictitious commodities', 'liberal utopia', 'self-regulating market system', 'transformation' and 'patterns of integration', have become fundamental.

In our neoliberal era, an unprecedented wave of globalized investment and production, supported by an 'obsolete market mentality,'[1] has undermined the measures of internal protection, without eliminating the tendency to the crisis. This fragility of the twenty-first-century

world draws attention to the question of how society, culture and nature can be protected effectively against an evermore powerful market system. As Polanyi stated in 1947, 'How to organize human life in a machine society is a question that confronts us anew',[2] and we are compelled to repeat this today.

Economic stagnation, increasing inequality, ecological and technological menaces, the decay of democratic institutions, the growing influence of nationalist parties and politicians, cultural and religious tensions as well as international conflicts threaten the social order established after the Second World War. There is a prevailing sense that political leaders have been overtaken by events, that they have lost control of the situation and thus confine themselves to denying the conflicts and buying time.

Polanyi would not have been surprised by current events – neither by the attacks on democracy nor by the rebellion against economic globalization, commodification and the loss of cultural identity. He regarded the liberal project of institutionally separating the market system and subordinating the whole of society to its rules as no more than a first, utopian and historically limited response of humankind to the challenges of a technological civilization. His analysis of the collapse of the nineteenth-century European institutional set-up, the Great Depression, the rise of fascism and two world wars invites comparison with the present crisis of the neoliberal institutional arrangement.[3] Are we now witnessing the social and political disintegration of the neoliberal version of the nineteenth-century market economy that resulted in the Great Depression?

The latest financial crisis has exposed the fragility and limitations of modern civilization, thus bringing the question of the market society's future into the centre of the public discourse. Throughout his life, Polanyi was concerned with the human condition in contemporary social organization. The continuing relevance of his writings depends on the depth of his insight that a capitalist economy requiring ever larger markets and investment opportunities is incompatible with the human need for mutually supportive social relations and a well-balanced use of natural resources.

> Robbed of the protective covering of cultural institutions, – states an often quoted passage of *The Great Transformation*[4] – human beings would perish from the effects of social exposure; they would die as the victims of acute social dislocation through vice, perversion, crime, and starvation. Nature would be reduced to its elements, neighbourhoods and landscapes defiled, rivers polluted, military safety jeopardized, the power to produce food and raw materials destroyed.

Polanyi's writings included in this collection are among his most significant. In recent decades, relevant parts of his oeuvre have been translated into many European and non-European languages. *The Great Transformation* has been translated into seventeen languages. However, the greater part of his work is almost unknown to the English-speaking reader. His writings in German were not translated into English. Important essays and articles he wrote in English have never been reprinted. Only some writings have been published recently,[5] and some first-time translations into English of works in the German language are currently underway.[6] But several aspects of Polanyi's thought – documented by unpublished, or published but difficult-to-find writings – are still waiting for the attention they deserve. This publication aims at filling this gap.

The Life Cycle of Karl Polanyi

'My life was a "world"-life – I lived the life of the human world [...]. The opposition which my world of thought has called forth at last is a good sign. I should have loved to last and be in at the fight, but man is a mortal thing.'[7] Polanyi wrote these words to a friend of his youth in 1958. His life was really marked by vicissitudes and upheavals of world history between the end of the nineteenth century and the first six decades of the twentieth. The richness of insights in his work reflects his life path, which brought him from Hungary, where he grew up, to Vienna, London, the United States, back to England, again to the United States and finally to Canada. For the greater part of his life, he earned his living as a journalist and tutoring adults. He had to wait until his appointment at Columbia University in 1947 for an academic position: in England, despite his impeccable references, he was not considered qualified. *The Great Transformation* was written in America and above all addressed an Anglo-Saxon audience. Nevertheless, the roots of his thinking lay in Central Europe, especially in Hungary and Austria where he had lived and worked for the greater part of his life.

In spite of the changing social conditions which formed the background of his activity, there is a common thread running through Polanyi's work. The question of how the inhumanity of modern society can be overcome is the crucial issue which is at the centre of all his studies – inhumanity to be understood not only as a question of economic organization, of social justice and fair distribution of income and wealth, but also as an issue of human freedom and of personal responsibility, i.e., as an ethical challenge.

Polanyi shared with Karl Marx, Robert Owen, Max Weber, Karl Mannheim, Friedrich Hayek, Walter Lippmann and many others the conviction that the question of *freedom* has to be posed while recognizing the conditions of a technological civilization. He considered the Industrial Revolution a divide in human history more for its social implications than for the material progress it brought about. However, he accepted that technological advancements, mass production, mass consumption and a worldwide division of labour cannot be reversed and that, therefore, no modern society can be grounded in direct human relationships alone. '*How can we be free, in spite of the fact of society?* And not *in our imagination only*, not by abstracting ourselves from society, denying the fact of our being interwoven with the lives of others, being committed to them, but in *reality*.'[8] With these words, Polanyi summed up the crucial question that gave meaning and direction to his research: how to safeguard personal freedom and responsibility, if in a complex society human ties lose their transparency and the single person is robbed of the possibility of taking responsibility for his/her decisions because he/she is unable to oversee the consequences for other human beings.

Born in 1886 in Vienna, Polanyi spent his youth in Hungary. While studying law and philosophy, he started to engage actively in political debates. In 1907, his first articles were published in the journal *Twentieth Century* (*Huszadik Század*) whose editor was Oszkar Jászi. One year later, he became one of the initiators and the founding president of the student movement known as the 'Galilei Circle', and continued as editor of the periodical *Free Thought* (*Szabádgondolat)* (1913–1919). The objective of the Circle was not just to criticize the conservative character of university teaching but to organize numerous lectures and courses for adults, primarily aimed at workers. This was their way to engage in a vast political movement, which fought for the democratization and moral regeneration of Hungary and for a non-dogmatic science – against religious, ethnic and class prejudices. Several members of that variously progressive or revolutionary culture, often personal friends of Polanyi, participated in the activities of the Circle: among others, György Lukács, Karl Mannheim, Werner Sombart, Max Adler, Eduard Bernstein, the psychoanalyst Sándor Ferenczi and the composer Béla Bartók, the poet Endre Ady and the philosopher of law and historian of institutions Gyula Pikler. At the same time, Polanyi cooperated with Jászi, leader of the Radical Party and a minister of the first Hungarian Republic in 1918.

The early period of his life ended after the First World War when political reasons prompted him to seek exile in Vienna. 'After a nine months' interval almost equally divided between a democratic and a

Communist revolution,' he writes, 'the feudal nobility regained political control' of Hungary.[9] Polanyi had been a supporter of the coalition government led by Mihály Károlyi, and he had laboured three months for the People's Commissariat of Social Production in the Communist Republic of Béla Kun, though disagreeing with its tendency 'to control every aspect, including the economic, of its citizens' life'.[10] The seizure of power by the reactionary government of Miklós Horthy in 1919 caused Polanyi to choose to live in Vienna, where many Hungarians took shelter, among them Ilona Duczynska, whom he married in 1922.

The First World War was the decisive event in Polanyi's life. When in 1919 he arrived in Vienna, issues of socialization of the economy were being hotly debated. On the fringes of Austro-Marxism and influenced by Guild Socialism, Polanyi participated in the debate on the feasibility of a socialist economy based on efficiency, social justice and participatory democracy. In 'Red Vienna', he felt at ease. In his contributions to the debate, he rejected dogmatism and opposed both the economism of the Second International and Bolshevist methods of seizing and keeping power by fratricidal struggle.[11] British Guild Socialism and such prominent representatives of Austrian socialism as Otto Bauer and Max Adler clearly influenced his point of view. Democracy should be kept alive through the participation of individuals in organizations corresponding to diverse aspects ('functions') of their existence, such as political parties and trade unions, local administrations and neighbourhoods, consumers' cooperatives and cultural associations.

In Vienna in the early 1920s, the question of socialization was not an abstract academic issue. A socialist transformation of society seemed an achievable objective. While in Austria the political power was in the hands of conservative forces at the federal level, in Vienna the Social Democratic Workers' Party had won the elections for the city council in 1919 and continued to dominate until 1933. The influence of trade unions and the consumer cooperative movement was strong. Important measures were tackled – such as limiting rents, the expansion of social housing and the creation of community colleges. The general aim of reforms was the improvement of working and living conditions and of workers' education. The question of how to organize a socialist economy was at the top of the political agenda. Intellectuals from various political currents participated in the discussion. In these debates, Polanyi opposed models of an administrative economy based on central planning. He also contested the idea of a moneyless 'natural economy', proposed by, among others, Otto Neurath. In his own socialist perspective,

socialization had to be grounded in associations of collective interests at the local, regional and national levels. Negotiations between associations of workers representing producers and cooperatives representing consumers should partly replace and partly complement the market process.

The fertile and vibrant intellectual climate in 'Red Vienna' and the debates with the protagonists of Austro-Marxism and the Austrian School of Economics (Friedrich Wieser, Eugen Böhm-Bawerk, Ludwig Mises, Friedrich A. Hayek) continued to shape Polanyi's thinking for the rest of his life. The three articles we publish in the first section originate from this context. In 'On Freedom', Polanyi lays down the basic ideas of his social philosophy. Marx's writings play a key role in his thinking, not the economic analysis, but Marx's critical theory of reification and alienation and, most of all, the idea of social freedom – that is, freedom within and through society, freedom in the 'positive' sense of a conscious participation in relevant decisions for social life. The question of how to pursue social freedom and personal responsibility under the conditions of a complex technological civilization is at the heart of the 'problem of overview' (*Übersichtsproblem*) – or 'the problem of freedom in a complex society', as Polanyi prefers to say in the 1940s and 1950s.

'On Freedom' deals mainly with such questions. This 1927 manuscript intended to be a philosophical investigation on the problem of the 'socialist theory' he had previously dealt with in 'Some Reflections Concerning our Theory and Practice', building on guild socialism and Otto Bauer's idea of functional democracy. This article, in its turn, follows two interventions in the debate on 'socialist accounting' that Polanyi published in one of the most important social science journals of the German speaking world, *Archiv für Sozialwissenschaft und Sozialpolitik*.

'The Functionalist Theory of Society and the Problem of Socialist Economic Accounting' is Polanyi's rejoinder to comments by Ludwig von Mises and Felix Weil to his 1922 essay 'Socialist Accounting'.[12] Here Polanyi challenges Mises's provocative statement that socialism would necessarily destroy not only freedom but also economic rationality.[13] He rejects Mises's contraposition of central planning versus self-regulating markets. Functional socialism, he maintains, allows for organizing a socialist economy in which democracy and social efficiency would strengthen each other. The fact that an article written by an independent intellectual with no formal qualification in economics or sociology elicited a response from Mises, and a published reply by Polanyi indicates how open and lively the intellectual climate in Vienna was.

In 1924, Polanyi started to work as a member of the editorial team of *Der Österreichische Volkswirt*, the most important economic and financial weekly in Central Europe. This position allowed him to follow the international affairs and the unfolding world crisis in great detail. He wrote more than 250 pieces for that magazine. The article 'Economy and Democracy' was published at the end of 1932, just a few weeks before Hitler's appointment by Hindenburg as Reich Chancellor. In this article – and also in the following 'The Mechanism of the World Economic Crisis' – Polanyi demonstrates his awareness of the deadly tensions threatening European civilization even before the rise to power of fascism in Germany. In his interpretation of the Great Depression, the focus is not on the economic crisis as such but on the conflict between the market system and democracy, finding its expression in that between classes. In particular, he argues, the attempt to restore the international gold standard proved itself to be incompatible with the achievements of the labour movement and parliamentary democracy.

Later, in *The Great Transformation* in the first instance, that conflict is considered in its deeper sense. The market capitalist economic system, led as it is by the motive of monetary gain, tends to subordinate the needs of its human and natural environment to its own goals. Polanyi points out, then, a fundamental contradiction: society cannot but be 'caught on the horns of a dilemma: either to continue on the path of a utopia bound for destruction, or to halt on this path', thereby undermining the functioning of the market system.[14] The inevitability of this dilemma, in which the class conflict is inherent, led society to an impasse when the crisis cut off economic and political space for compromise. At this point, Polanyi concludes, the time 'was ripe for the fascist solution',[15] which refers specifically to the conditions in 1930s Europe but holds a more general significance. When capitalism and democracy become incompatible – as he points out in 'The Essence of Fascism' – the survival of the former requires the abolition of the latter.

The spreading of fascism, the changing political climate in Austria, accelerated by the suspension of the parliament, and the impending attack against organized labour and the Social Democratic Party induced Polanyi to intensify his research on fascism. In 1933, he decided to leave Vienna for London. In the difficult situation created in March by the authoritarian measures taken by Engelbert Dollfuss, the Austrian chancellor, in a vain attempt to control the subversive Nazi movement, Polanyi's well-known anti-fascist and socialist position could cause trouble for *Der Österreichische Volkswirt*. In England he continued to work as foreign editor of the weekly till

1938, when its publication was interrupted as a consequence of the annexation of Austria by the Third Reich.

Polanyi's analysis of the rise of fascism is a consistent further development of his study of economic breakdown. In so far as he highlights features that are topical again in our times, the question is worthy of closer consideration. The fascist threat occurred, he maintains, when the body politic lost the capacity to implement effective reforms of the market system, however necessary these might have been. As a consequence, the economic mechanism upon which society depended for its material existence was brought to a halt. In 'The Fascist Virus', Polanyi underlines that:

> Isolated interventions, though vital to the survival of society, tended to impair the mechanism of the market. Yet, at the mere hint of a more comprehensive planned intervention the market panicked and there was imminent danger of a complete stoppage of the productive apparatus. A crisis of confidence intervened and the political forces responsible for the messes were promptly made to disappear from the scene. [...] Any comprehensive and planned reform of the capitalist system at the hands of the working class was therefore impossible, as long as the market mechanism and its regime of panic ruled the day.

In the 1930s in Europe the conflict between society and the market system had reached a new level. The 'regime of panic' blocked necessary reforms.

The understanding of the intractability of the clash in this particular situation in Europe distinguishes Polanyi's analysis from conventional approaches. The 'double movement' – the enforcing of the market system on the one hand and the 'defence' of society on the other – was not as responsible for the collapse of civilization in the nineteenth century as was the impasse and the impossibility of appropriate radical reforms. Indeed, fascist movements took the lead when the double movement had come to an end. In 'Fascism and Marxian Terminology' Polanyi had already pointed out that:

> Democracy and Capitalism, i.e., the existing political and economic system, have reached a deadlock, because they have become the instruments of two different classes of opposing interests. But the threat of disruption comes not from these opposing interests. It comes from the deadlock. [...] Mankind has come to an impasse. Fascism resolves it at the cost of a moral and material retrogression. Socialism is the way out by an advance towards a Functional Democracy.

These lines are crucial if we want to learn from Polanyi's understanding of the breakdown of nineteenth-century civilization in order to tackle current challenges. Under the conditions of the 1930s in Europe, only those forces that were able to offer an escape from the deadlock had a chance of seizing power. Fascism was the backward-looking reaction, Polanyi maintained, which sacrificed freedom and democracy so as to safeguard the economy in its capitalist form.

Polanyi was interested not only in the economic and social conditions that produced the rise of fascism, but also in its historical and philosophical roots. In 1935, he joined J. Lewis and D. K. Kitchin to edit the book *Christianity and Social Revolution*, to which he contributed 'The Essence of Fascism'. As the writings in Section III of this book show, Polanyi also collaborated in England with the Christian left movement, which organized seminars, debates and lectures not only for its members but also for a larger public. The debates turned on current problems, such as the political role of Christians and pacifism, and also on philosophical and theoretical questions. Marx's *Economic and Philosophical Manuscripts* of 1844, published for the first time in Germany by S. Landshut and J. R. Meyer in 1932, were examined in a group reading guided by Polanyi. The influence of these studies and discussions is evident in 'Community and Society', 'The Christian Criticism of our Social Order' and 'Christianity and Economic Life' and continues to be traceable in his later reflection, in particular in the last chapter of *The Great Transformation*.

In the second half of the 1930s, Polanyi undertook several lecture tours in the United States before he started to work as a teacher for the Worker's Education Association (WEA) under the presidency of Richard Tawney, with whom he maintained a friendly relationship beyond their engagement in the WEA. Polanyi shared with Tawney the idea that politics and culture should recover the dominant place that the economy in its market capitalist form had occupied. His teaching, mainly given in small towns in Sussex and Kent, further acquainted him with the living and working conditions of the English working class. The encounter with working-class life in 1930s England gave him a culture shock. In the richest country of Europe, the condition of the working class seemed much worse than in Red Vienna, in impoverished Austria, where social status and cultural achievements of workers had reached exceptionally high levels. His courses for the WEA did not only comprise world affairs but also English social and economic history. The lecture notes for these courses formed the skeleton on which *The Great Transformation* was constructed. Also, the essay *Europe To-day*,[16] which

deals with international politics from the First World War to the Spanish Civil War, is addressed to working-class students. In his preface, G. D. H. Cole signifies his approval by commending the book both 'as a friend' of the author and because of the 'comprehensive' analysis it offers. In particular, he supports Polanyi's 'essential point' which unfortunately is still topical eighty years later: the need for 'an international democratic front [...] against war-mongering and aggressiveness' (p. 11).

The lecture tours in the United States presented an opportunity to establish connections with American universities. In summer 1940, a teaching position at Bennington College was offered to Polanyi by President Robert D. Leigh on the recommendation of Peter F. Drucker. A subsequent grant from the Rockefeller Foundation allowed him to work on what would become *The Great Transformation*.[17] Even though a draft submitted by Polanyi was criticized by a reviewer of the Foundation for lacking scientific rigor, the grant was extended for a second year. Robert MacIver, a renowned political economist and sociologist at Columbia University, recognized the extraordinary significance of the book, declared his readiness to write the preface and subsequently invited Polanyi to join Columbia. Without these fortunate circumstances, a classic of the twentieth century might never have been published.

The articles in Section IV demonstrate that in America Polanyi continued his studies in political philosophy, sociology, history and international politics. He turned to Rousseau so as to raise fundamental questions of political science: is there a solution to 'the paradox of freedom'? May people be at the same time ruler and ruled, educators and educated? Studying the parliamentary cultures in England, France, America and Russia, he intended to promote democracy as an ideal which would be differently pursued by each country, according to its own history and choices.

In 1943, Polanyi left two of the last chapters of *The Great Transformation* unfinished and hastily returned to London to participate in discussions on the post-war order. The Labour Party victory of 1945 seemed to open the door to a socialist future for Britain. In the article 'British Labour and American New Dealers', Polanyi envisages the possibility of a new solidarity between British and American progressive forces. He was also realistically aware of the minority nature of those forces. Though the American transformation – the New Deal – had taken a different way from fascism, even before Roosevelt's death the fall of many democratic reforms was foreseeable, in so far as the *Pax Americana* was going to coincide with the diffusion of 'universal capitalism' and free-market universalism. As

the pieces in Section V indicate, it was Polanyi's hope that the wartime alliance with the Soviet Union would endure; he envisioned a world of peaceful coexistence of major regional formations, including Britain and its Commonwealth offshoots, Europe, India and China. By 'coexistence', Polanyi means the possibility that different forms of democratic societies, each of them upholding its particular way of life, could cohabit peacefully.[18]

The appointment at Columbia University in 1947 gave him the opportunity to continue his studies of the relationship between the economy and society in primitive, archaic and modern times. Already in *The Great Transformation* he had drawn on the findings of Malinowski, Thurnwald and other anthropologists. At Columbia, his class 'General Economic History' attracted numerous students from different fields. The collective research he organized, together with some colleagues and students, resulted in the 1957 book *Trade and Market in the Early Empires*, which includes his groundbreaking essays 'The Economy as Instituted Process', 'Aristotle Discovers the Economy' and 'Marketless Trading in Hammurabi's Time'.[19] This book started a debate on the comparative theory of economic systems, which continues to this day among anthropologists, archaeologists and historians.

The texts in Section VI of this collection are a result of Polanyi's research at Columbia. With the exception of the first one, they were posthumously published in *The Livelihood of Man* (1977). In these studies, Polanyi develops well-known concepts such as 'economic fallacy' and the distinction between 'embedded' and 'dis-embedded' economy. His principal objective is to demonstrate that the separation of the economy from society is a peculiar arrangement that distinguishes the market society from all other societies known in human history. In the introduction to that book, he explicitly gives the need to face present social problems as the motive for his comparative analysis of economic systems. The 'economic determinism' is thereby criticized as the ideological expression of our society's typically 'economic' organization.

Polanyi's focus on the conflict between economy and society produced by the self-regulating market system accounts for the uniqueness of his approach. His analysis differs from interpretations in the tradition of economic liberalism as well as of Marxist sociology in so far as he examines economic institutions and their 'place' in society from the point of view of society as a whole. This approach does not mean that Polanyi denies the existence of the economic laws and contradictions that characterize the capitalist market economy; indeed, explaining the historical specificity of those 'laws' makes his analysis

immune to any form of 'economic determinism'. Economic conflicts separated from the social context offer only a limited explanation of modern civilization and its transformations. Such conflicts become relevant, Polanyi demonstrates, when (or in so far as) they influence society as a whole. The point of view of society allows studying the historical limitation of the market society, which comes dramatically to the fore when the balance between the market system and democracy is thrown into turmoil.

I

Red Vienna

1

On Freedom*

Every thoughtful socialist will have publicly or inwardly asked himself the painful question: isn't there a kernel of truth in our opponents' objection that modern socialism only addresses the meeting of economic needs, that at best it represents a demand for justice but cannot claim to be an outlook on life, a *Weltanschauung*?

We would like to look this question squarely in the eye here, without fear of the consequences. Is socialism a *Weltanschauung* and, if it is, what is its meaning and content? That is the question we are facing.

There is a succinct formulation of socialism's final goal, which derives from Friedrich Engels. It is the notion of the leap from the realm of necessity to the realm of freedom. This formulation may seem like a mere catchphrase to some. And to some extent it would be if this leap were to be understood in the epistemological or dialectical sense. Epistemologically, we cannot see why the course of development, seen to be necessary – that is, determined by natural law – should simply cease to be determined – that is, necessary – exactly on the day in which socialism celebrates its victory. In the same way, it would also not mean much if freedom were thought of here merely in the sense of the dialectical movement of the Spirit up to the stage of freedom à la Hegel. But Engels's formulation has a different meaning. He expresses a social insight, an insight into the

* 'Über die Freiheit', ms., 1927, Karl Polanyi Archive 2–16 (*hereafter KPA, followed by the file number*). Now in K. Polanyi, *Chronik der großen Transformation*, M. Cangiani, K. Polanyi-Levitt and C. Thomasberger, eds, Band 3, Marburg: Metropolis Verlag, 2005, pp. 137–70. Translated by Eric Canepa.

character of mutual human relations, indeed in a way intended to highlight the ethical implications of this insight. We should begin by developing this sociological insight.

The necessity that socialism overcomes in favour of freedom is, as we know, the necessity of the historic laws of the capitalist economy, which operate as the natural laws of this society. The overcoming of these necessities is tied to the dissolution of those spiritual realities that, having arisen due to capitalism, are part of the true essence of this socio-historical stage.

There are a whole series of spiritual realities in capitalist society that exist and operate independently of the will of each individual in society and thus have an objective existence. The way in which they operate is likewise independent of the will of the individual; for him, their operation represents a sequence of events governed by objective laws.

This is above all the case with the economy. 'Capital' and 'labour' have an objective existence here. They confront each other independently of the will of individual capitalists and workers. What is more, capital bears interest, supply and demand meet each in the markets, and crises interrupt the course of production. We continually see that, despite the existing machines and raw materials, the available labour power and urgent, unsatisfied needs, the productive apparatus is idle and paralysed, with no earthly power able to set it in motion. Not human will but prices decide how labour is deployed. Not human will but interest rates command capital. The capitalist is just as powerless in the face of the laws of competition as the workers are. Capitalists and workers alike, human beings in general, appear as mere players on the economic stage. Only competition, capital, interest, prices and so on are active and real here, objective facts of social being, while the free will of human beings is only a mirage, only a semblance.[1]

Marx spotted a problem in this state of affairs. He asked: how can lifeless objects like machines and natural resources master living beings? How can the prices of commodities, which do not adhere to them by nature, become properties of these commodities, like the material of which they consist? How can machines bear interest as if they were trees whose fruit one can pick? Or, more generally, what is the essence of this ghostly process that appears to us as reality under capitalism? And what explains the laws according to which this reality proceeds?

Putting it in this form was tantamount to answering the question; those feigned extra-human realities are ultimately nothing other than the effects of certain relations in the human world. They are effects

of relations between persons, specifically of those relations in which human beings face each other as economic actors, in other words: the relations of production.

Why does 'capital' exist? The machine, which in a human sense represents nothing other than past labour, is able to confront living labour, the workers, as a power independent of him or her, as capital, only because past labour, the product of labour – machines or tools – was alienated from present labour by becoming the property of others. Without this alienation of past labour – that is, without private ownership of the means of production, which deprives the present worker of his control of his own past labour – present labour would be a simple continuation of past labour. That it is otherwise in capitalism is a consequence of the fact that here the interrelationship of the economic actors is not the cooperative relation of the joint workers who use the joint product of their past labour, the means of production, as tools for their current labour but is the capital relation between the workers – whose past labour (the means of production) has been alienated from them – and those who are in possession of that past labour, that is, the capitalists.

Un-freedom therefore is part of the moral essence of the 'capital relation': the un-freedom of the wage workers, the proletarians, who depend on means of production in possession of others. They work under external command. It is not degrading to work under orders: any collective work requires its coordination through orders. What is degrading is the fact that under the given conditions the power to command, to which the workers are subjected, is an alien power, although it should be the workers' own since, from the social point of view, it rests on the product of their own labour, the machine. However, this un-freedom is also degrading because it curtails the individuality of those who are subjected to it.

Being separated from his product, the worker is in a sense separated from himself. A part of himself – his past work – is being alienated from him. The worker is in part alienated from himself. And, in the end, this part of his life, which is alienated from him, is in control of the remaining part of his life.

What is a 'commodity'? What is 'price'? Why do these things exist?

The 'prices' that appear as 'properties' of 'commodities' are also ultimately no more than relations between human beings, actually between the persons who have produced these commodities. The relation of producers to each other, in a society with a division of labour based on private ownership, is a unique one: They produce goods for each other without knowing about each other. They do not work in a cooperative way but in isolated groups, isolated from one another

through the private property of the owners of the firms, and thus allocation of the total labour to the individual workers is impossible to plan in advance. This allocation takes place retrospectively since the prices in the market show whether too much or too little of a commodity was produced. Therefore, what appears to be price, that is, the relation of exchange between commodities, is nothing other than the relation of the different persons producing within the division of labour. The relation of the owners to those who are propertyless (the capital relation), and the relation of the workers to each other in a society based on a division of labour in which workers are separated from each other through the private ownership of the owners – these relations of people make up the ultimate basis of social realities in capitalism such as capital, commodity prices, interest and so on. If the worker's past labour (the means of production) were not alienated from him, there would be no 'capital'; if the workers were not alienated from each other through the private capital of the owners of companies, and if they only produced in a cooperative way, there would be no 'commodity price'. The estrangement of man from man and the estrangement of things ('commodity', 'capital') from man are both thus consequences of private ownership in a society based on a division of labour. 'Capital' and 'prices' only appear to dominate human beings; in reality, human beings are being dominated by human beings here. This is true not only of the economy but also of the state.

Society creates an organ to safeguard its common interests against internal and external enemies. This organ is state power. As soon as it arises, this organ *assumes an independent existence* in the face of society. [...] And what goes for the economy and state is also true of the other entities, organs, reifications and 'pseudo-natural laws' in the realm of society.

Between the realms of nature, where necessity reigns, and the human realm, where freedom reigns, there is, 'up to now' as Engels says, 'the realm of history'. Or, according to Marx, between being and consciousness there is the world of 'social being'. The relation of flesh and blood individuals to one another is the only real relationship in society; those ostensibly real relationships can be theoretically resolved into relations between human beings.[2]

In capitalism, this resolution can only be achieved in thought; it remains a *theoretical insight* of sociology. *To turn it into a reality*, to carry it out practically, *is the task of socialism*. Socialism resolves on the *practical* level the ghostlike and feigned realities of society controlling us today into what Marx, on the *theoretical* level, resolved them into: the direct relation of human being to human being.[3]

Freedom and *humanness* are equivalent for Marx. Instead of a bourgeois society, he wants a '*human* society'. The more directly, the more meaningfully, the more lively the human essence emerges in social relations, the freer is the human being and the more human is his society. No estranged 'will', which in essence is his own alienated will, no lawfulness that is not dominated by him because it emerged, so to speak, behind his back – none of this any longer limits his conscious, responsible and therefore genuine human will.

We see that not only is an unjust order to be overcome here in favour of a just one but that humanity, through the manner in which it overcomes this, is to climb to a new, hitherto undreamed of stage of freedom. The socialist ideal goes beyond the demand for justice, which had already been raised by the bourgeois revolutions; they had originally demanded permanent equality and justice, a goal only later occluded by the economy. However, the outward recognition of the equality of human beings, that is, justice, represents an indispensable precondition of a social order based on human beings. Precisely the impossibility, for constitutive reasons, of realizing economic justice in capitalism – because in it men cannot become masters over the law of value (the law of the accumulation of capital) – is a basic reason why socialists demand the socialization of the means of production. However, even a just condition of society can remain an ethical-external condition because it does not necessarily have to be founded on the freedom and responsibility of individuals. There can also be dictatorial justice, and if justice, when realized through democracy, really is to mean ethical progress, this is not due to the nature of justice but to that of democracy, which is inseparable from the responsibility, however small, of the individual.

Socialism, however, does not limit itself to the demand for the external equality of people, that is, *the demand for justice*. Since it extends the demand for justice to the economy, it faces a social situation in which injustice prevails as an economic necessity but in which men do not control their economy and thus the requirements of this economy. The struggle for economic justice leads to the struggle against a state of society in which man does not have control over the effects of his will; it leads to the struggle to overcome social necessity as such in favour of a new freedom, the social freedom of man.

This idea of *social freedom* is a specifically socialist one. Both the sociological knowledge of the purely human conditionality of social being and the drive to give this knowledge a historic material form originate from proletarian life. Since the proletarian recognizes himself as what he is, as the lowest element of social existence, he

recognizes the social being as a purely human-conditioned construct of which he himself, the human being, is quite simply the lynchpin.

The proletarian can only free himself from the capital relation by replacing it with the purely human relation of human beings to human beings – the cooperative relation of working people. With this, not only does the dominion of man over man cease but at the same time men become masters of themselves, no longer servants of the social laws that are apparently independent of them but directly carry out their own will.

However, the impulse towards a form of life – the cooperative form – in which this conditionality of social being would resolve itself directly in his own life, arises from his struggle against the capital relation, which can only be overcome by that form of life. Just as he needs no scientific re-education to arrive at this knowledge, he also needs no ethical re-education to arrive at this impulse: science and ethics only open his eyes to that segment of his mental existence which is conditioned by his class position.[4]

However, neither proletarian sociology nor proletarian ethics arise historically from nowhere. As we know, just as Marxian sociology came into being through the analysis of the economic categories of classical political economy, therefore as the continuation of Physiocratic-Ricardian sociology, so the proletarian ethic is the continuation of ethics beyond its bourgeois possibilities. Not only the objective but also the ethical preconditions of a new social order develop in the womb of the old society because, just like the objective possibilities, the ethical requirements of an outlived social order also point beyond its own limits. And so it is with the idea of freedom, which in its highest bourgeois form leads to an irresolvable contradiction, for to be free means to be accountable to my conscience and only to my conscience. Responsibility to myself – this is the material out of which freedom is realized. My personality passes the test when it itself weighs the responsibilities which present themselves to it. No other subject can or should take this decision from me. The state and society must not be accepted as moral subjects. When it comes to feudal corporative powers, the church, the guild and the dynasties, the citizen may well inwardly hold onto this negative attitude. But he cannot do this with regard to his own society, bourgeois society, for he can neither deny his share in it nor come to terms, within and with himself, with the responsibilities that arise from his participation. And he also cannot give up the demand for unlimited self-responsibility. [. . .] The heroic shaping of this contradiction leads to Kant's categorical imperative, to the desperate adherence to an empty concept of duty as the social function of personality. Within