

## **ECONOMY AND DEMOCRACY, 1932**

Translated from German by Kari Polanyi Levitt

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A gaping chasm has opened between economics and politics. This briefly, is the diagnosis of the times. Economics and politics, two expressions of society, have each become autonomous, unceasingly at war with each other. They have become slogans championed by political parties and economic classes to further their opposing interests. In the name of economy and democracy, the right and the left are feuding, as if these two basic functions of society could be embodied in two separate parties within the body politic. Behind the slogans, however, lurks a frightening reality. The left is grounded in democracy; the right in the economy. The resultant disjuncture between economics and democracy is stretching the tensions of a catastrophic polarity. The world of political democracy gives rise to forces which intervene in the economy, disturb and constrain the economic process. In response, the economy mounts a general attack on democracy as the embodiment of irresponsible and unrealistic hostility towards the world of business.

No contemporary problem is more worthy of study by well intentioned people. A society whose political and economic systems are in conflict is doomed to decline - or be overthrown. Indeed, political democracy has succumbed in most of the countries of Europe. Bolshevism rules in Russia, while much of Eastern, Central and Southern Europe is under military dictatorship or fascism. And the end is not in sight.

Even here, where we are so deeply rooted in the intellectual soil of democracy, there can be no room for illusions: democracy is suffering one of the severest trials in a century of its development. Since the War, the economy and democracy are both in full crisis. In the defeated countries, the economy had scarcely overcome the trauma of the war when it was

savaged by a general crisis whose gravity surpassed anything previously experienced. Seemingly unrelated political crises of democracy and parliamentary government manifested themselves in a large number of states. This alone has diminished the authority of democracy. But the attack on democracy was intensified a hundred fold because it was now charged with responsibility for the paralysis of the economy. Not only constitutional breakdown, endless governmental and coalition crises and the degeneration of political party politics, but the unrelenting decline in prices, production and consumption, and the mounting misery of mass unemployment were laid at the door of democracy.

The indictment of the economy against democracy (and often, against politics) included responsibility for inflation, subsidization, protectionism, trade unionism, monetary mismanagement, costly and senseless support to individual enterprises, public assistance and rehabilitation of specific industrial sectors, tariff protection excessively high wages and social expenditures. Left wing governments in the victorious countries went down to defeat on the currency question. From the rubble of failed progressive democratic regimes came the new franc, the belga, the new pound sterling - now delinked from gold - and we might add, the new reichsmark. Herriot and the cartel in France, the Pouillet-Vandervelde regime in Belgium, the second Labour government in England, the Weimar coalition in Germany and even, to a certain extent, the coalition government in Austria of 1920, were all victims of inflation. In countries like England, where the trade unions are not subordinate to working class political parties and thus free of political responsibility, they pursued class oriented wage policies. Thanks in part to unemployment insurance, the trade unions were able to resist downward pressure on nominal wages in spite of the overvalued pound. This resulted in uncompetitive labour costs in industries dependent on export markets - mining, shipping, shipbuilding and the textile industry. Business enjoyed state subsidies. The least efficient were most highly rewarded, as in the case of the infamous coal subventions. This system of state subsidisation of some industries at the expense of others industries reached maximal proportions in Germany - since the war in the Ruhr, for purely political reasons. There is hardly a grain-importing country in Europe that resisted the temptation of high protective duties. Policies of autarchy, in part not feasible, and at all times damaging to the whole economy, were driven by a form of political insanity. The economy as a whole unquestionable paid a price for the preferential treatment of certain branches. For democracy,

the consequences were particularly tragic: business circles which directly benefitted from these policies, were quick to charge democracy with responsibility for the deepening general economic crisis. The charge was led by agricultural interests, by the employers, and ultimately by sections of the working class itself!. Unquestionably, fascism was nourished by the failure of economic policies of democratic regimes to satisfy the expectations of the working classes. Politics, political parties and parliaments lost credibility. Democracy fell into disrepute. Broad strata of the masses, both right and left, turned against democracy.

We thus arrive at the conclusion that only a cultural revolution of economic and political education can save democracy from suicidal demise. If the grass roots leaderships of the masses - who themselves constitute a mass movement - were better informed about the functioning of the economy, democratic governments might have avoided policies undertaken with a lack of understanding of their consequences. What is killing democracy is ignorance of the requirements and the basic laws of the modern world of business. The old truths are no longer sufficient, because the problems are new. The currency issues of the post war era are new. So is persistent mass unemployment; planned economies arising from the war; and an industrial revolution in technology and business practices. Unprecedented levels of interdependence world capital markets are totally new, and the analytical tools required to understand them are almost as new. The application of theoretical economics to issues of monetary policy, exchange rates, business cycles, economic crises, or the rationalization of industry, is virtually a new branch of knowledge. (The most important work originated in the post war period). But new knowledge does not ensure a knowledgeable and educated public!. It can contribute to the cultural development of the masses only to the degree that it lends meaning to work, life and the every day existence of the masses.

The case for more a more educated public as a prerequisite of a well functioning democracy, may be mistaken for a wish to play economics against politics. But it must be stated loud and clear that the leaders of industry and business are as deficient in the understanding of politics, as the politicians are of economics. How often in the course of the last ten years has the economy not received priority over politics! In every single case, economics failed. And that is not all. The leading industrialists have proved to be as ignorant in economic affairs as the politicians, without having even a rudimentary understanding of politics. What has the world

not been led to believe by economic experts since the first private supply agreements; the creation of the international cartel by the now deceased Mayrisch and his Luxembourg advisory group; the potash agreements of Arnold Rechberg; the so-called commercialization and mobilization of reparations, and Loucheur's planned cartel as a proposed solution of the German-French problem?. On the international level, we have the Genoa conference where, amidst general astonishment, the petroleum interests proposed to solve the Russian question with a 25 million pound sterling limited liability corporation. Or consider Morgan's amazing contribution to the problems of the world system of credit by the creation of the Bank of International Settlements; or the numerous world economic conferences; or finally the failure of almost all bank directorates to contain the problem of short term credits - borrowers and lenders alike. With the exception of Morgan's short-lived contribution to the financial cease-fire known as the Dawes Plan, every economic initiative toward the solution of political question has proved worthless. Stinnes and Kreuger are not the problem; but rather Thyssen and Loucheur, Hoover and Ford.

That the leading business groups had no knowledge of economics had added to the comedy of errors. Not only did they lack understanding of politics, but in their own field of they failed to comprehend the interdependence of problems. With the aid of inflationary monetary policies, countless investments were made whose profitability could only be secured by high protective tariffs. First in Germany, then in France, and now in England, protectionism and state intervention are trumps. Certainly, favours granted to the private sector were often given as compensation for the consequences of socio-political interventions by democratic governments. This unholy alliance of economic interests of the left and the right, of which those concerned were frequently only partially aware, inflicted serious damage to the image of democracy.

However, the declining authority of democracy did not increase the influence of business leaders in the democracies. This was their greatest failure. Instead of educating the public in economic responsibility, they abandoned democracy. In many countries where parliamentarianism and democracy were relatively recently established, as in Germany, Italy, Poland, and most of Eastern Europe, economic interests deserted democracy and civil rights. In the post-war period, the working classes manifested greater intellectual and moral

resistance to dictatorships than did the bourgeoisie.

Democracy was abandoned and permitted to fall as if it were a triviality rather than the highest expression of moral awareness within the modern state. It fell with a casual unconcern unthinkable in the Anglo-Saxon countries, where democracy was ideologically anchored in religious foundations of puritan origins. In Europe, democracy went down to defeat as if nothing more was at stake than external formalities, rather than the embodiment within the state of the highest expression of moral consciousness. To the English, "Free Trade" means more than the freedom to trade in the continental sense; it also means peace, liberty, and civil rights. Nothing betrays the underdeveloped political culture of the regions of Europe physically isolated from the West, or economically backward, than the failure to understand this most elementary relationship.

This applied as much to politics as to economics. In the post-war period, the understanding of politics and political process has advanced in a number of areas. Here also, there have been new problems: the surprising failure of proportional representation by a system of rigid lists; the limitations of the incorporation of professional interest associations and groups into the constitution; the significance of referenda to the viability of a well functioning parliamentary democracy; and several other issues. But above all, the rise of fascism.

We are confronted by the challenge of new knowledge to understand our times. Modern technologies and modern communication have created complex structures of interdependence in the national and international division of labour; the resulting alienation of the individual is the most profound cause of the rift between democracy and economy. Any individual is both an economic and a political actor; when economics and democracy are at war, he is at war within himself. The resulting disillusionment has stripped democracy of legitimacy. In the mirror of knowledge, the individual would be astonished to discover that his economic and his civic identities are equally frustrated by the war between economy and democracy. This knowledge may awaken him to his dual responsibilities as worker and as citizen of which he was previously unaware. The more richly, deeply and diversely the institutions of democracy are cultivated, the more realistic is it to devolve responsibility on the individual. But here we are stepping over the line which separates science from ideology. But there is no need to leave

the realm of science to lend wholehearted support to the professions of economics and political science and their popular diffusion: to bring democracy to maturity through scientific knowledge and personal responsibility.

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