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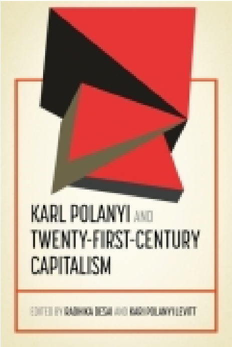

Polanyi's democratic socialist vision: Piketty through the lens of Polanyi

Margaret R. Somers and Fred Block

2014 was a remarkable year for political economy. It was the seventieth anniversary of *The Great Transformation* (*TGT*), Karl Polanyi's groundbreaking volume which is now recognized as one of the most influential works of twentieth-century social science. Unlike most other books, Polanyi's becomes ever more indispensable because of the destructive consequences of the market fundamentalism that he critiques. But 2014 also marked another milestone in the revival of interest in political economy with the publication of Thomas Piketty's *Capital in the 21st Century* (*C21*). An unexpected bestseller, *C21* is a highly intelligible economic and social history, accompanied by graphs and tables that document and explain the trajectory of inequality since the eighteenth century.

Piketty's data on the dramatic rise of income and wealth inequality since the 1970s have been essential in demonstrating the increasingly oligarchic nature of the US and the UK with parallel but weaker trends in other developed market societies. Piketty's work represents a return to political economy's historical concern with distributional equity and social change, and its broad impact has increased public awareness of the fragility of mainstream economic ideas and the pressing need for heterodox alternatives.

Although many have noted the glaring absence of any reference to Polanyi in *C21*, the two works complement each other. Indeed Piketty's study in many ways picks up where *TGT* left off. In 1944, Polanyi seemed hopeful that belief in the self-regulating market had been routed by the devastations of two world wars and a global depression. Seventy years later, Piketty's study confirms that for the *trentes glorieuses* (1945–75), Polanyi's optimism was correct; lower levels of income and wealth inequality were maintained through this period in the major market economies. However, Piketty also shows that the post-war political economy that Polanyi hoped would be enduring proved fragile and temporary, and it was replaced starting in the late 1970s with a system that has returned inequality to nineteenth-century levels.

The complementarity of the two works as well as the problem of explaining the post-1970 rise in income and wealth inequality suggest the value of putting these two works into conversation with each other. We highlight three especially important insights and contributions that emerge from looking at *C21* through the lens of a Polanyian perspective. First, we focus on those aspects of Polanyi's theoretical apparatus that can correct for a number of *C21*'s limitations. As much as Piketty stresses the importance of institutions and politics in driving varying levels of inequality, his famous r>g 'law of capitalism' naturalizes the market as a self-activating economic mechanism and effaces the centrality of power at its heart, which Polanyi identified as the foundational deceit at the core of economic liberalism and classical political economy. Secondly, we look critically at how Piketty explains the decline in income and wealth inequality that occurred between 1914 and 1970, and we suggest that Polanyi provides a more compelling explanation for that disruption in the historical pattern. Finally, we argue that Polanyi's substantivist focus on what an economy actually produces is a more useful angle of vision than Piketty's implicit argument that changes in production are irrelevant for understanding the core economic processes of capitalism.

Conceptualizing and politicizing the relationship between the economy and politics

The complementarities and commonalities between Polanyi's book and Piketty's are notable as both authors express a deep skepticism towards mainstream economics. Polanyi believed that it was precisely the hegemony of classical political economy and neoclassical economic liberalism that contributed so mightily to the calamity of twentieth-century civilization that is the subject of *TGT*. Piketty, with a PhD in economics, distances himself from mainstream economics that so valorizes abstract mathematics that it completely misses and obscures the crises of social maldistribution at the center of his analysis. Both works seek to understand the present in terms of long-term historical processes that need to be traced back to earlier centuries.

Nevertheless, the two books diverge in the way they understand the relationship between the economy and politics, and analyzing this difference allows us to develop a deeper appreciation of Polanyi's theoretical framework. The difference emerges as Piketty makes his central analytical claim that there are 'two laws of capitalism' that result in income and wealth being concentrated in the top 1 percent.

He formulates the most significant of these laws as 'r>g' – the average annual rate of return on capital investment tends to exceed the annual growth rate of the economy.

Piketty's originality and remarkable data collection should not obscure the fact that his argument rests on some standard assumptions about the economy and the state. Piketty accepts the premise that there is a fundamental structural separation between the economy and the government. From this follows the distinction between 'primary' market outcomes in income and wealth (so-called 'pre-tax'), which are the product of endogenous economic processes, and secondary 'after-market' outcomes (post-tax), which are the product of redistributive governmental tax policies. This distinction makes primary income distributions the result of 'natural' free market forces that are conceptualized as being pre-political, free of the influence of political power and driven by impersonal economic forces. For Piketty that impersonal force is r>g; for most economists, it is competition, globalization and technological development. In either case, these are self-propelling market forces that are deemed beyond our control. The government, in contrast, is the site of political power, which can readjust those primary economic outcomes after the fact based on normative standards of social justice, Keynesian demand theory or arbitrary coercive political calculations that violate natural market justice – depending on one's political viewpoint (Somers, 2008, 2018).

This assumption is evident in Piketty's analysis of the rise of inequality since the 1970s, which he attributes to neoliberal policies that undermined the social state so as to allow the laws of capitalism to again dominate. The system's own endogenous mechanisms are now unhindered by the state, so that the newly deregulated free market economy returns to the inequitable outcomes generated by the law of r>g. Piketty's basic framework puts him firmly within a standard approach to economics, which theorizes that market inequalities can only be corrected by using the state to adjust for the most extreme instances of income inequality.

Polanyi's critique of social naturalism

Polanyi's innovation was to disrupt this dualistic conceptual landscape through his critique of social naturalism, the philosophy invented by the classical political economists that declared the economy to be equivalent to an autonomous biological organism that is self-propelled and free of power, institutions and human artifice (Somers, 2008: ch. 7). They viewed the state, by contrast, to be a political entity driven by arbitrary rules of power, hierarchy and coercion, whose interference in the economy poses a fundamental threat to market self-regulation. Polanyi ridiculed classical political economy's biologization of any part of the social world. While he recognized the social facticity of the nineteenth-century belief that the economy and the state were two separate entities, he challenged its empirical reality.

He called his method 'the institutional approach to the economy', a political economy which rejects the idea that the economy can be a pre- or non-political naturalistic entity because the economy is itself an institutional complex of political economic rules and policies constituted by power and coercion (Polanyi, 1957a). According to Polanyi, government power cannot be an external 'interference' in the autonomous sphere of economic activity; there simply is no economy without its constitutive structure of legal and governmental rules, institutions and coercive powers. These include rules and practices that economic liberalism treats as natural to markets, including legal contracts at the heart of all market exchange; degrees of monopolization over market power; the rules for what constitutes property and how it is to be bought and sold; the rules that determine rates of unemployment and thus the bargaining power of labor and capital; the supplies of money and credit; and ultimately the institutional mechanisms designed to enforce the prevailing rules, regulations and powers (Block and Somers, 2014; Reich, 2015; Baker, 2016; Stiglitz, 2016).

We propose to use the term 'predistribution' to convey the Polanyian insight that what appear to be autonomous voluntary and 'free' market forces are in fact constituted by government policies and institutional powers, which by definition entail structures of rule and domination (Hacker, 2011).[1] Whereas much of the progressive agenda has advanced redistributive tax and benefit policies that reshuffle income to overcome market inequalities, predistribution focuses on government policies and power that influence the levels of inequality produced within markets, such as the government-orchestrated consolidation of the financial services industry and government enabling of huge increases in executive compensation. Predistribution rejects the binary that limits politics and power to the sphere of government, and freedom and contractual 'equality' to the market. It instead shines light on the distributive power 'inside' the economy that determines original market income prior to taxation. These are powers that can structure market pathways to drive the bulk of income to the top 1 percent, or they can generate a more equal distribution of wages and wealth, as was the case in earlier decades.

Predistribution plays on the term 'redistribution', which, as discussed above, is used to refer to government tax and benefit policies by which market incomes are subject to government taxation that 'redistributes' that initial income according to 'social needs' determined by legislative bodies. The conventional use of redistribution identifies two sequential and substantively opposed moments of income distribution – the first, primary market distribution, derives from wages and capital earnings based on impersonal market forces and/or effort and merit; the second, redistribution, in which the government takes a politically determined percentage of that primary income and uses it to fund the government and social programs. In this model, unequal incomes at the primary level of pre-tax earnings are not caused by power and domination but by neutral market distribution which reflects the non-political impersonal dynamics of free market processes – freedom of contract, and voluntary exchange of effort for equivalent earnings.

The concept of predistribution challenges this binary by demonstrating that both pre- and post-tax outcomes are determined by political power and policy rules: whereas the 're' in redistribution refers to policies that will distribute after gross income and profits have already been earned, the 'pre' of predistribution refers to political rules and coercive policies that determine the amount and distribution of those earned wages and profits in the first place. It aims to draw an equivalence between explicit government practices of redistribution that rearrange those original primary market incomes, and those government practices that take place beneath the radar within the sphere of economic processes and markets. The concept is designed to lay bare that no less than government redistribution, what appear to be purely economic processes and natural market outcomes are products of government policies, rules and institutional arrangements, the content and effect of which reflect the distribution of power in society, not the endogenous workings of a free market.

The concept of predistribution denies the existence of a self-governing economy whose market outcomes reflect purely economic factors or capitalist laws that are independent of policy. Although he did not use the term, the concept of predistribution is a direct legacy of Polanyi's project to develop a transformative socialist political economy, which rests firmly on his argument that there is no such thing as a 'free market' driven by natural forces (Somers, 2008, 2018). All actual markets are constituted and sustained by government actions, especially the markets in the key inputs into the economy, or what he calls the 'fictitious commodities' of land, labor and money – fictitious because they are non-economic in origin.

Indeed it is because they are fictitious and not actual market commodities (they were not produced for the purpose of buying and selling) that they must be politically and economically coerced into the market and subjected to being bought and sold as if they were in fact commodities. Like Marx, Polanyi understood land and labor to exist partially within and partially without the economy, and that it is coercion – not neutral market forces – that explains this bifurcated existence.

Indeed, for Polanyi the ultimate predistributive act was the creation of a 'free' wage labor force through the imposition of the New Poor Law (Block and Somers, 2014: ch. 6).

Predistribution is a term that also builds on the classical insights of the legal realists (Hale, 1923; Fried, 1998; Block, 2013; Rahman, 2014) who argued that legal rules shape the relative bargaining power of labor and employers through laws affecting the rights and capacities of unions. The outcome of political battles influences the way that market exchanges provide different rates of return to employees and employers, tenants and landlords, consumers and firms through mechanisms of predistribution that are able to move wealth and income upward towards the rich through structures of domination operating under the guise of the free market. So, for example, all modern economies have central banks whose job it is to manage the supply of money and credit. And the specific policies chosen by the central bank, such as the Fed's bias towards fighting inflation over full employment, have had enormous consequences for the bargaining power of labor and thus for the distribution of income. Hence former Director of the Fed, Alan Greenspan, famously justified his anti-inflationary policies by stressing the importance of maintaining a continuous level of job insecurity among workers to prevent them from becoming overly confident about their bargaining power over wages (Woodward, 2001: 168).[2] These policies contributed to the stagnant wage levels since the 1980s. Central bank policies are part of the political apparatus of predistribution whose success in keeping wages stagnant for decades is instead passed off as the result of impersonal natural labor market forces that are beyond our control, such as inflation, globalization and automation (see also Baker, 2016).

There are several caveats to be noted. First, there is some ambiguity in Polanyi's approach to the relationship between the state and the economy. At times he appears to argue that as an empirical reality, what made the nineteenth century unique was the separation of the economy from the government into two distinct spheres. At other times, he insists that the separation was ideological, as the very idea of an economy independent of government and political institutions is utopia: 'The utopian nature of a market economy explains why it never could be really put into practice. It was always more of an ideology than of an actual fact … the separation of economics and politics was never carried completely into effect' (Polanyi, 2014a: 218).

What brings coherence to his approach, however, is that even if the split between government and the economy is only ideational, Polanyi is adamant that ideational power has empirical institutional effects ([1944] 2001 [hereafter *TGT*]: 124–125; Block and Somers, 2014: 106–107). These compel social conformity to the needs of a socially factitious self-regulating market, such as the commodification of humans, nature and exchange into labor, land and money as central factors of production, regardless of the societal destruction this induces. It also compels a legal and political firewall between economy and politics, which is used in the name of market efficiency and autonomy to prevent the demands of labor and popular democratic constituencies from influencing distributional practices in the economy. This has been enshrined in American constitutional law and reflected in the anti-democratic policies in both traditional economic liberalism and modern neoliberalism (Hayek, [1939] 1980; Buchanan and Tullock, 1962; Crouch, 2011; Streeck, 2014a; Burgin, 2015; MacLean, 2017). That this same 'firewall' is so readily breached in the service of capital, such as the financial bailouts in 2008–10 and in the unquestioned hegemony of government patent and copyright laws which ensure corporate monopolies, attests to the ideational nature of the split (Baker, 2016).

A second caveat: Polanyi's emphasis on the predistributive power of the state in shaping putatively neutral market outcomes should not be mistaken for an argument that the state is neutral. Polanyi emphasized the dynamics of the nineteenth- and early twentieth-century state in the context of furthering the project of building markets through its powers of coercion:

> [T]he introduction of free markets, far from doing away with the need for control, regulation, and intervention, enormously increased their range … even those who wished most ardently to free the state from all unnecessary duties, and whose whole philosophy demanded the restriction of state activities, could not but entrust the self-same state with the new powers, organs, and instruments required for the establishment of laissez-faire. (*TGT*: 147)

One of Polanyi's signature contributions to modern political economy is the argument that the state is not only critical to the successful rise of market societies, but it is equally critical in maintaining the economic foundations of market societies: 'The road to the free market was opened and kept open by an enormous increase in continuous, centrally organized and controlled intervention' (ibid.: 146). At the same time, Polanyi also acknowledges that under certain conditions nineteenth- and twentieth-century counter-movements of resistance successfully compelled the social state to become a necessary ally in the form of statutory labor regulations, such as the 1847 Ten Hours Act (Somers, 1997).[3] Even in these instances it is arguable, as Marx ([1867] 1977) demonstrated, that by restricting the ability of employers to exploit workers to death, the government saved capitalists from themselves. Moreover, the same government that passed the Ten Hours Act imposed the draconian New Poor Law, the most anti-working-class, pro-business Act of the nineteenth century (*TGT*: 82–88, 143–146; Block and Somers, 2014: ch. 6).

There are clearly no autonomous state interests at work here but predistributive ones. Thus, in some of the most memorable words of *TGT*, Polanyi gives us a classic case of predistribution by emphasizing how much pitiless coercion was necessarily exercised by the state under the guise of 'freedom of contract':

> To separate labor from other activities of life and to subject it to the laws of the market was to annihilate all organic forms of existence and to replace them by a different type of organization, an atomistic and individualistic one. Such a scheme of destruction was best served by the application of the principle of freedom of contract. In practice this meant that the noncontractual organizations of kinship, neighborhood, profession, and creed were to be liquidated [by the state] since they claimed the allegiance of the individual and thus restrained his freedom. To represent this principle as one of [government] noninterference, as economic liberals were wont to do, was merely the expression of an ingrained prejudice in favor of a definite kind of interference, namely, such as would destroy noncontractual relations between individuals and prevent their spontaneous reformation. (*TGT*: 171)

Viewed through the concept of predistribution, Piketty's focus on r>g thus misses how much of the maldistribution of income is not the result of an internal law of capitalism but a result of politics and policy operating to shape original market outcomes. Indeed, from a Polanyian perspective the very fact of r>g is not a natural law but is itself a product of actions that consistently drive up the rate of return on capital in relationship to a lagging growth rate. So, for example, government antitrust policies have a sizeable impact on the rate of profit of large corporations. When antitrust policies are nonexistent or weakly enforced, established firms can extract monopoly profits by arbitrarily bidding up their prices. Those firms can claim, as big Pharma firms do today, that they are so profitable because they are superbly managed, but the reality is that predistribution is occurring. Their heightened profits reflect the power of 'law and economics' judicial policy to turn antitrust law upside down so it now condones and facilitates monopolies and oligopolies in the name of the Orwellian concept of 'consumer welfare' (Piraino, 2007; Crouch, 2011; Somers, 2012; Rahman, 2014, 2016;).

Polanyi's work corrects for *C21*'s chief analytic flaw, which ascribes to r>g – the causal force in generating inequality – the status of a fundamental economic law of capitalism. For Polanyi there are no economic laws of capitalism because capitalism is a political economic entity, which by definition is continuously co-created by historically variable political and economic powers. The concept of predistribution pierces the heart of neoliberalism's foundational deception that obscures the fact of power and coercion within the black box of the 'free market'.

Polanyi's political critique

But Polanyi is not merely a source of analytical insight; equally important, his socialist political economy, which includes the concept of predistribution, is also a necessary political corrective to *C21*'s failure to provide a convincing political strategy to combat massive inequality and a necessary weapon in the battle against neoliberalism more generally. In condensed form, one way of characterizing these differences is to contrast Polanyi's democratic socialism, with its clear goal not to tweak the effects of market inequality but to eradicate the malignancies at the core of the capitalist economy, against the classic weaknesses of Piketty's political program, which aims less at transforming the market itself and more at using government to correct its flaws after the fact.

One way that Polanyi's approach provides a more powerful challenge to neoliberalism than Piketty's is in the conceptualization of democracy. As an unabashed critic of egregious inequalities Piketty, like Polanyi, puts great stake in the power of democracy to combat both inequality as such and market fundamentalism more generally. Thus, while capitalism 'automatically generates arbitrary and unsustainable inequalities that radically undermine the meritocratic values on which democratic societies are based', Piketty expresses the hope that there are 'nevertheless ways democracy can regain control over capitalism' (*C21*: 10). But because his main proposal for regaining control is limited to using governments' redistributive tax capacities to impose a global wealth tax, Piketty restricts the mobilization of democratic forces to the public sphere and downplays their potential to exercise power inside the market itself. In this way, he inadvertently reproduces the conservative attack on democracy as a threat to the necessary firewall between politics and the economy, and thus defangs the real potential of democratic empowerment.

Polanyi's democratic socialist commitments manifest very differently. For him, 'Socialism is, essentially, the tendency inherent in an industrial civilization to transcend the self-regulating market by consciously subordinating it to a democratic society' (*TGT*: 242–243). Some of the ways that Polanyi envisions the power of democracy to disrupt and dethrone the putatively untouchable price mechanism at the heart of the neoliberal market include his ideas of guild socialism, socialist accounting methods and employee participation in the governance of the workplace as has been developed in systems of collective bargaining, works councils and codetermination, all of which challenge and 'violate' the fictitious firewall between market dynamics and democratic organization. To oppose monopoly, for example is to support an independent democratic citizenry against financial autocracy (Rahman, 2014). Despite the various strategic approaches in his socialist project, for Polanyi they all aim to strike at the heart of the market economy by decommodifying the fictitious commodities of labor, land and money, and removing them from being subordinated to the forces of marketization (*TGT*: 259–262; Block and Somers, 2014: ch. 8).

Thus, in his incisive rejection of the free market conception of 'freedom' (*TGT*: ch. 21), Polanyi argues that ideological demystification is a critical instrument of socialist critique. This is especially true in the case of predistribution. With so much at stake in the claim that market outcomes reflect impersonal natural market forces, the reality of a politically organized economy has been fiercely guarded from public scrutiny. Indeed, the unfamiliarity of the term 'predistribution' testifies to the successful depoliticization and naturalization of so-called primary market inequalities. Because they take place not in the public sphere of government 'coercive' agencies such as the Internal Revenue Service that collects taxes in the US, but inside the black box of the 'prepolitical' market, predistributive political practices effectively go unrecognized and market outcomes continue to be attributed to forces beyond our control.

One of predistribution's great political assets is precisely its demystifying capacity. It reveals how the singular focus on redistribution limits the presence of political coercion to the site of government, and thus falsely naturalizes unequal power in the market, a naturalization that can manifest in any argument from r>g to the impersonal forces of globalization, technology and automation. By demonstrating how it is free market advocates who peddle the myth that freedom depends on an economy unfettered by the yoke of governmental power, Polanyi helps explain the right wing's otherwise puzzlingly tenacious appeal: it offers an ideal of a world free of 'coercive' constraints on economic activities while it fiercely represses the fact that power and coercion are the unacknowledged features of all market participation.

Polanyi thus anticipates the critical power of predistribution to unveil the deception behind the self-serving claim on the part of economic liberals that markets are superior mechanisms of efficiency as well as of morality and freedom because they operate in a space free of power, coercion and domination. It is not nature but the invisible power and coercion of government that accounts for the disproportionate rewards going to a small sector of the population. Polanyi can then be mobilized to point to the predistributive government-driven war on unions launched by Reagan and Thatcher as setting the stage for the rapid increase in the share of income and wealth going to the top 1 per cent that Piketty and his colleagues have documented.

An essential political strategy to make this argument persuasive is to challenge the concept of 'deregulation', which is the watchword for those who celebrate the freedom they claim to be found in the sphere of the non-political free market. The conceit of deregulation is that there is a prepolitical market that if not for exogenous political interference would self-regulate efficiently like an organic entity. Deregulation then becomes defined as a project of *restoration* that frees the market to return to its natural state. But if we accept that predistribution is constitutive of all economies, then there is no such thing as a prepolitical market to be restored, and deregulation is impossible. What is possible, however, and what deregulation actually entails, is the replacement of more egalitarian regulations by alternative regulations that serve a different, distinctly inegalitarian purpose, such as protecting the claims of developers or corporate predators.

Taking Polanyian political economy seriously means using predistribution to redefine deregulations as re-regulations (Block and Somers, 2014). Because just as redistributive tax policies can be designed to advantage wealth and oligarchy or to foster more equality, even more so can predistributive policies be calibrated to guarantee that greater profits and earnings go either to the top of the economic ladder or to a more equitable structure of incomes. If regulations and predistribution are always necessary components of markets, the question becomes what kinds of regulations do we prefer? Do we want those designed to benefit wealth and capital? Or those that benefit the public and common good? Similarly, since the rights or lack of rights that employees have at the workplace are always defined by the legal system, we must not ask whether the law should organize the labor market, but rather what kinds of rules and rights should be entailed in these laws – those that recognize that it is the skills and talents of employees that make firms productive? Or those that rig the game in favor of employers and private profits?

A final way in which the Polanyian concept of predistribution provides a more powerful weapon against neoliberalism than Piketty's redistributive strategy is in its ability to puncture the moral high ground that has been monopolized by economic liberalism. Conservative and neoliberal political actors have peddled the myth of market meritocracy. This ideology posits that whatever the market produces in the way of income, wage or wealth inequalities is equivalent to differences in contributory effort and worth. In other words, people are paid in precise proportion to their level of hard work, effort and productivity, and thus earn exactly what they deserve. In the conservative playbook, unequal market outcomes thus represent a 'market justice' that is merit-based and not subject to the distorting powers of government coercion or political special interests. By contrast, it attributes the state's redistributive policies to calculations of 'social justice' that are entirely arbitrary, driven by envy of the rich, subject to the excesses of democratic entitlement as spelled out by public choice theory (Buchanan and Tullock, 1962) and ultimately coercive. And because redistribution entails government policy that violates the original merit of market justice, they view it as deeply illegitimate as well as an economically dangerous distortion of market dynamics (Somers, 2017, 2018).

In this context a political strategy focused on redistribution reinforces the image of an economy free of political meddling whose market earnings accurately reflect the distribution of worth and desert. And while it is empirically the case that since the 1980s the majority of redistributive tax policy has redistributed upwards and vastly favored the highest earners, the language of redistribution is associated almost exclusively with the transfer of wealth from 'hard workers' (mostly white) to the 'lazy poor' (mostly minorities). This is decried as the government punishing – even stealing from – those whose often only minimally higher earnings reflect greater work effort, only to reward those whose low incomes indicate their lack of contributory worth. In the popular jargon of neoliberalism, the state illegitimately taxes the 'makers' to give to the 'takers' (Foroohar, 2016; MacLean, 2017; Somers, 2017). The strength and wide reach of this conservative assessment of redistributive taxation as little short of theft, combined with the overwhelmingly disproportionate political power of wealth, reveals that as a political attack on neoliberalism Piketty's global wealth tax flounders on the moral high ground of market meritocracy.

With its ability to burst the self-serving fiction of market meritocracy, Polanyi's socialist alternative once again benefits from the political power of predistributive analysis. Once we accept his argument that market outcomes are shaped not by individual effort, merit and desert but by politics, rules and power, it is much easier to understand his carefully constructed thesis that wealth and income are in fact not individually but collectively produced. This means that the privileges long associated with the control of wealth must ultimately be subject to Polanyi's deconstruction of their illicit foundations (*TGT*: 262–267).

Accounting for historical shifts in income distribution

Piketty recognizes that the period from about 1910 to 1970 was an exception to the trend of ever-growing inequality of income and wealth. His data clearly show a marked decline in both forms of inequality in the United Kingdom, France and the United States during these six decades. His explanation for this unusual pattern centers on disruptions caused by two world wars. His key explanation appears to be that the destruction of physical capital in the wars combined with war-induced budgetary and political shocks meant that the normal pattern of returns on capital investment could not be maintained (Piketty, 2014: 147–148).

Polanyi used institutional analysis to suggest a very different explanation that again centers on how government policies, including particularly predistributive policies, changed the nature of the economy from within. He demonstrates that the efforts in the last decades of the nineteenth century to organize a self-regulating global market through the gold standard created a powerful counter-movement in the form of a mass movement of working people organized through trade unions and socialist parties (*TGT*: 183–186). One of the main targets of this movement was the existing distribution of income and wealth and by 1910 these movements began exerting influence on policy-makers to enact policies to reduce economic inequality. This influence became particularly serious with the success of the Bolshevik Revolution and the continuing strength of the working-class movement in the decades before and after the Second World War.

Moreover, in the three decades immediately after the Second World War, the replacement of the gold standard with Bretton Woods created a global context in which governments had much greater leeway to enact policies that improved the distribution of income and wealth. In Europe and the US, both predistributive and redistributive policies in this period produced more egalitarian outcomes. However, with the shift from fixed exchange rates to floating exchange rates in 1973 and huge increases in international capital flows, that benign context disappeared and egalitarian policies were scrapped, so that income and wealth inequality started to climb again (Block and Somers, 2014).

In short, there is a political explanation for the changed pattern in the distribution of income and wealth that Piketty describes that is more compelling than his focus on the disruptions of war. Moreover, this alternative political explanation highlights the rise and fall of socialist movements and their trade union allies, an approach that is important in thinking about any possible challenge to the current pattern of increasing inequality. The fact that social movements were effective in the past in reducing the level of income and wealth inequality provides some grounds for imagining that they might be able to do the same thing again in the future. In contrast, Piketty's explanation offers little hope since nobody would be foolish enough to favor global warfare as the route to greater equality. Piketty's call for a global tax on wealth ends up sounding abstract and unrealistic, since he has failed to identify any actors who might have the capacity to overcome a logic that is built into the current economic system.

There is also a second Polanyian point that has to do with explaining the origins of the two world wars. Rather than seeing these as exogenous events, Polanyi sought to explain both wars as a consequence of choices made about the organization of the global economy. Polanyi rejected the Leninist argument that powerful financial interests drove Britain and Germany into imperialist expansion that ultimately made war inevitable. In fact, Polanyi argued on the contrary that global banking interests had served as a 'peace interest' that had worked assiduously to discourage a general European war during the Hundred Year Peace from Waterloo to Sarajevo (*TGT*: ch. 1).

Polanyi's alternative explanation for the First World War focuses on connections between a rising working-class movement and the mechanism of the international gold standard. Under the pressures of the gold standard, European powers could not afford to make significant concessions to the rising industrial working class either in the form of higher wages or protections against the periodic waves of unemployment that came during business cycle downturns. Instead, some governments chose to insulate their economies from the pressures of the gold standard by imposing tariffs on foreign goods. Even this was not enough; virtually all the major European powers in the last decades of the nineteenth century turned to colonialism as another strategy of protection. Those colonies with resources could produce a revenue stream that could help stabilize the home economy and the colonies also provided safe markets for domestic products. In Polanyi's argument, the rush to empire at the end of the nineteenth century was an effort to manage the growing class divide at home.

The search for lucrative colonies brought Germany into direct conflict with Britain and the result was an arms race as each of these powers sought to intimidate its opponent. The antagonism also froze Europe into two competing alliances that disrupted the balance-of-power mechanism that had kept the European peace for a century. In this account, the assassination in Sarajevo was just the spark; the European war was an inevitable consequence of the growing class divide within Britain and Germany that could not be ameliorated because the gold standard had taken on the status of a virtually necessary fact of nature.

Polanyi went on to argue that after the First World War, European leaders made the horrendous mistake of trying to restore the gold standard. This deeply flawed decision led directly to the Great Depression, the rise of fascism and the Second World War (ibid.: ch. 2). So, in Polanyi's view, the exceptional period that Piketty identifies from 1910 to 1970 can be seen as a direct consequence of the rise of the industrial working class and the pressure it was able to exert on political elites to pursue both predistributive and redistributive policies that shifted income away from the top 1 percent.

Moreover, this alternative Polanyian context highlights the importance of political interventions such as the decision to abandon the Bretton Woods regime of fixed exchange rates in 1973 that worked to tilt national politics away from social democrats and towards market liberals. It was in this different global context that Margaret Thatcher and Ronald Reagan were able to change tax, regulatory and social policies in ways that shifted both pre-tax and post-tax income towards the wealthiest households. The impact of these policies, including the rapid growth of the financial sector, continues down to the present.

Transformations in what the economy produces

While Piketty provides many trenchant criticisms of the weaknesses of mainstream economics, there is yet another way in which his mode of analysis replicates these shortcomings. Conventional economic analysis pays very little attention to what a market economy produces; the assumption is that whether the principal product of an economy is foodstuffs, automobiles or computer chips is irrelevant. Production is production; whatever the product, it requires some mix of capital, labor and raw materials and those details do not matter in understanding the important questions. Piketty basically follows this same logic when he uses an umbrella concept of capital that includes land, slaves, machinery, factories and a wide range of different financial instruments.

But Polanyi insisted in *The Great Transformation* that it was the shift from agriculture to manufacturing in the early decades of the nineteenth century that drove the momentous transformation in the role of markets in society. He argued that markets had existed throughout most of human history, but what was new and unique in Britain in the nineteenth century was the creation of a self-regulating market system to govern the production and sale of all commodities, including the fictitious commodities of land, labor and money. For Polanyi, the project of creating a self-regulating market system was indelibly connected to the rise of factory production itself. For him, the reality of industrialization was central to the dynamic he was describing (ibid.: ch. 6).

The Great Transformation was published in 1944, probably the year in which the industrial working class in the US reached its peak size and far too early for any discussions of a post-industrial era. But in a newly available manuscript from 1958, Polanyi (2014a: 32) explicitly uses the term 'postindustrial' – around the same time that others including Daniel Bell and David Riesman were initially using this term (Bell, [1973] 1976: 37). From the context, it seems that Polanyi was using the term in reference to the tightening interconnections among science, technology and production.

The timing is not surprising since the late 1950s saw a great deal of debate about automation and the potential for job loss. From our current vantage point, the factory automation of that time appears quite primitive. However, the advances made it possible for a constant or declining industrial workforce to produce an ever-expanding flow of goods. Moreover, these early steps towards automation pointed towards a future in which the industrial working class would shrink in size and lose much of its political clout. While this single reference is hardly enough to recruit Karl Polanyi as a theorist of postindustrialism, his approach to analyzing the economy indicates that for him the question of what is being produced is of central importance. This is what motivates Polanyi to make his critical distinction between the formal and the substantive meaning of economics (Polanyi, 1968: ch. 7). The former focused on the problem of economizing scarce resources while the latter analyzed how human communities secured their livelihoods. It followed that whether people were hunter-gatherers or engaged in settled agriculture or secured much of their food from the sea or depended on factory jobs made a huge difference in how their societies were organized.

Building on this insight today requires understanding distinct economic periods that occur as a market economy adjusts to changes in technology and production. One of the most useful theorizations along these lines is the argument developed by Social Structures of Accumulation scholars (Gordon, Edwards and Reich, 1982; Kotz, McDonough and Reich, 1994). Building on the analyses of long cycles of Kondratiev and Schumpeter, they make the argument that as the outputs of a market economy change over time, earlier social structures become obsolete and turn into barriers to further economic development. This happened with the global economic crisis of the 1930s. The rapid advances in industrial productivity in the US in the 1920s helped precipitate the crisis as the combination of electrification and the assembly line facilitated the mass production of consumer durable goods such as automobiles and appliances. These capacities erupted in an economy that had not yet created the institutions required for a mass consumption economy, and the result was the deep crisis of the Great Depression (Block, 2015).

The New Deal and post-Second World War reforms created new social structures of accumulation and the results were the *trentes glorieuse* – the thirty years of global economic growth from 1945 to 1975. This was based on a mass consumption economy in the developed nations that relied heavily on individualized household consumption through suburbanization, the automobile and the purchase of various other appliances. While the resulting pattern of growth intensified pre-existing inequalities of gender and race, it did not involve the upward trend in income and wealth inequality that would characterize the period from 1980 onward (ibid.).

However, this mass consumption structure of accumulation had begun to reach its limits by the mid-1960s. One set of problems centered on the structure of employment as the need for factory labor began to shrink as a consequence of technological advances such as automation. Another set of problems were environmental since the suburban pattern of growth was wasteful and energy-intensive. There were also cultural shifts that influenced demand as women revolted against the homemaker role and young people rejected the suburban lifestyle. Finally, the business class in the US was disoriented as it suddenly faced intensive competition as a result of the successful rebuilding of the European and Japanese economies.

The resulting crisis in the 1970s provided an opportunity for the long-time critics of Keynesian fiscal policy and New Deal social policy to claim the high ground. There was a period of heated debate about the types of restructuring that would be necessary to restart growth. Some liberal analysts talked about a postindustrial transition and the need for new forms of social and economic planning to redirect investment in more productive ways. But the political forces behind progressive reform were divided and weakened by the extent of the economic crisis, and they were unable to win support for their approach. In the context of continuing economic difficulties, the emerging neoliberal right was able to step in and offer a much simpler and business-friendly solution. They argued that tax cuts, reduced government civilian spending and laxer regulation of business were all that was needed to restore economic growth. With the electoral victories of Margaret Thatcher and Ronald Reagan, neoliberalism or market fundamentalism became enshrined as the dominant policy for the next forty years (Block and Somers, 2014: ch. 7).

It was a policy designed to squeeze additional life out of the mass consumption social structure of accumulation while using both redistributive and predistributive measures to reverse the more egalitarian distribution of income that had made the New Deal settlement effective. So, for example, thanks to continuing tax incentives for home ownership, single-family residential homebuilding continued to be one of the main drivers of the economy even while the trend towards urban living accelerated. At the same time, the long-term decline in unionization rates accelerated and government spending on civilian services was squeezed at both the federal level and at the state and local levels.

Logically, this economic strategy should not have worked at all, and, in fact, on most measures the performance of the economy was considerably worse than it had been in the thirty post-Second World War years. There were economic expansions in the 1980s and 1990s, but by the 2000s expansion had become much weaker. Two factors are most important for explaining why this contradictory economic policy had some successes. First, to sustain demand economic growth became far more dependent on increases in consumer debt, primarily through increased home mortgage borrowing. This was, of course, facilitated by a continuous rise in home prices that made this 'privatized Keynesianism' of increasing household indebtedness appear to be sustainable (Schwartz, 2009; Crouch, 2011). It was not, of course, and the severity of the crisis that unfolded between 2007 and 2009 was a consequence of the huge number of homeowners who owed more on their houses than the post-downturn market price.

Secondly, the expansion in the 1980s and 1990s was facilitated by the positive shock of the emergence of the personal computer and the internet as drivers of both consumer and business demand. Both of these technologies were products of the 'hidden developmental state' in the US (Block, 2008). Years of under-the-radar government funding of research and early-stage technology companies had nurtured these technologies. Moreover, the huge global advantage that came to the US from being the first mover in these markets has helped to sustain the US economy ever since.

Nevertheless, the severity of the 2007–9 global financial crisis indicated that the strategy of trying to squeeze additional life out of an exhausted social structure of accumulation had reached its limits. Moreover, since the crisis there has been no significant shift in public policies; if anything, economic policies have intensified distributional inequity. This is most evident in the global economy that has teetered at the edge of renewed recession for more than ten years since the crisis.

The problem of growing income and wealth inequality is therefore closely linked to the absence of new economic policies to support a new period of sustainable global growth. Since the 1970s, conservative resistance to building a new social structure of accumulation has driven the spectacular and continuous growth of income and wealth inequality. Moreover, without reversing the current trend of income and wealth inequality it is going to be almost impossible to address the problem of how to renew growth.

The implications are that Piketty's preferred policy proposals, including redistributive taxation, would gain greater resonance if he analyzed the post-1970s trend in inequality in relation to a theory of changing social structures of accumulation. The reforms of the 1930s and 1940s were implemented precisely because they simultaneously addressed the injustice of entrenched economic inequality *and* the need to restore economic growth. This combination made it possible to construct an unstoppable pro-growth coalition that stretched from the poor to some parts of the business class. Constructing such a coalition is the urgent task we face today with the additional complexity that such a coalition must be committed to immediate and radical action to halt and reverse global climate change (Block, 2018b).

Finally, adding a Polanyian dimension to Piketty alerts us to the danger in our current circumstances. The dystopia that Piketty warns against is an entrenched global oligarchy that is able to control an ever-growing share of the planet's wealth. But Polanyi's analysis of the 1920s and 1930s tells us that when established business and political elites are unable to protect populations from high levels of economic instability and uncertainty, the threat of fascist movements, authoritarianism and war becomes increasingly severe (*TGT*: 245–268). And indeed, in the few years since Piketty's book was published, the global retreat from democracy has accelerated and neo-fascists are on the march around the world.

Conclusion

To recap, our initial concerns are that Piketty's discovery of r>g as an inherent feature of a capitalist economy obscures an essential dimension of the inequality he seeks to explain, namely the predistributive political policies and practices that take place inside that economy. Politically, we worry that Piketty's adoption of the standard picture of an autonomous economic dynamic inadvertently reinforces the dominant belief that market outcomes, however unequal they may be, nonetheless derive exclusively from natural market forces and contributory merit. For the state to then act in the name of 'social justice' to redistribute what has been meritoriously earned is thus convincingly represented as the coercive powers of an unjust arbitrary government, which in turn generates a radical anti-statist reaction against the 'takers'. This perception, despite resting on specious foundational assumptions about the impersonal market sources of primary income distribution, makes support for Piketty's global wealth tax almost inconceivable.

Our intention in subjecting *Capital in the 21st Century* to a Polanyian critique is not to demean Piketty's remarkable achievement; even less is it to suggest that Polanyi had the answers to all important questions of political economy. However, Polanyi's institutional analysis is an absolutely indispensable tool for the urgent project of developing a critical political economy, one that can break through the mystification that endows the economy with natural powers that must, at all cost, be walled off from the 'distorting' influence and 'coercion' of governmental, politics and social norms – in short, the *demos*. It is absolutely essential, even for progressive analyses such as Piketty's, to analyze economic processes and primary market outcomes not independently of politics and power but as fundamentally constituted and determined by them.

While it remains essential to advocate for redistributional policies such as taxes on wealth to correct for the market's profound distributional inequities, this approach, by itself, is not however sufficient. We must instead follow Polanyi all the way into the heart of the economy to find the source of that maldistribution in an institutionalized complex of deeply regressive but unrecognized rules and relations of power. Only by forcing those to the surface and out of the shadows can we regain the moral high ground by asking not the question of whether we prefer government or market solutions, but rather what kind of predistributive policies do we want to shape economic processes. Do we want the political organization of the market to advantage only the 1 percent, or do we want it to advance the common good?

Notes

1 For an extensive discussion of how Polanyi's theory of market utopianism lays the groundwork for the modern concept of predistribution, see Somers (2017b).
2 We are grateful to Radhika Desai for this reference.
3 The state's support for the Ten Hours Act was also the subject of Marx's famous chapter on 'The working day' in Volume One of *Capital*.