The Protective Response and the Evolution of the Capitalist State

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[Polanyi’s] arguments – and his concerns – are consonant with the issues raised by the rioters and marchers who took to the streets in Seattle and Prague in 1999 and 2000 to oppose the international financial institutions.

— Joseph E. Stiglitz, 2001

Introduction

In his foreword to the new edition of Polanyi’s The Great Transformation, from which we excerpted the epigraph above, Stiglitz asserts that:

economic science and economic history have come to recognize the validity of Polanyi’s key contentions. But public policy – particularly as reflected in the Washington consensus doctrines concerning how the developing world and the economies in transition should make their great transformations – seems all too often not to have done so.

One may share Stiglitz’s scorn for the Washington consensus policy regime without accepting his confidence that economic science has come to accept Polanyi’s arguments in key regards. We share Stiglitz’s enthusiasm with regard to the continuing relevance of Polanyi’s work, indeed its mounting relevance in this era of the neoliberal Great Capitalist Restoration.

This essay utilizes Karl Polanyi’s concept of the protective response to address the evolution of the role of the capitalist state, with some comparison to the views of other heterodox economists. We frequently use the compound expression, corporate-welfare state, to indicate that the evolution of the capitalist state is intertwined with that of other institutions,
notably corporate enterprises and labor organizations (see also Stanfield, 1995: ch. 9). The basis of this compound expression will become clear as we review Polanyi's protective response, which encompasses private as well as public institutional changes.

The first section provides an overview of Polanyi's analysis of the nature of market capitalism and its characteristic social and political economic dynamic, to which Polanyi applied the term the "double movement" to indicate the spontaneous protective response that accompanies the extension of commodity production. The second section emphasizes the importance of distinguishing industrialism from market capitalism and considers the problem of freedom in a complex society in the work of Polanyi and other heterodox economists.

The political economy of market capitalism

Polanyi insisted that market capitalism comprises a "double movement" in which extension of the sphere of the market leads to a countervailing socially protective response. It is this protective response that accounts for the increasing role of the state and private organizational power despite the market cultural celebration of individual action in voluntary exchanges and its pronounced anti-state bias. This contrasts sharply with explanations of the rise of the state and private power in terms of a leftward ideological drift (see Hayek, 1944) because Polanyi insisted that the protective response is spontaneous and not supported by any coherent ideological scheme. Indeed, those seeking protection from the ravages of the spot market are more often than not adherents to the market ideology, which should occasion no surprise since the market mentality continues to be the dominant ideology.

Polanyi also contested the notion that the market economy rose spontaneously from social life. In so doing he separated the market elements of trade, money, and market places from the market economy per se and argued that, even in the mercantilist era, there was no inherent impetus for these long-standing institutional elements to evolve into the market economy. The dramatic change was ideological: the notion of a self-regulating market system was the institutional "innovation which gave rise to a specific civilization" (Polanyi, 1944: 3) and led to the "utopian endeavor of economic liberalism to set up a self-regulating market system" (Polanyi, 1944: 29). This attempt foundered in the tumultuous period before and after World War I. Polanyi was convinced that comprehension of this turmoil and subsequent institutional reform required a focus upon the socially unrealistic notion of a self-regulating