



# crisis states programme

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**POLITICS, THE STATE AND THE  
IMPULSE FOR SOCIAL PROTECTION:  
THE IMPLICATIONS OF KARL  
POLANYI'S IDEAS  
FOR UNDERSTANDING DEVELOPMENT  
AND CRISIS**

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## Crisis States Programme

### **Politics, the State and the Impulse for Social Protection: The implications of Karl Polanyi's ideas for understanding development and crisis**

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In this short paper I want to discuss how some of Karl Polanyi's key ideas can help shed light on the processes of development and crisis in the world today. I will first take up the role of economic liberalisation and the state. Then I want to discuss Polanyi's identification of the "impulse" for "social protection" and suggest it is crucial to an understanding not only of the role of the state in development but also politics in the developing world. I want to finish by applying some of these ideas to understanding the actions of 11 September and the crisis related to terrorism in the developing world today.

#### **Globalisation as economic liberalisation and the state**

Polanyi's description of the zeal with which economic liberalism advocated the organisation of all aspects of social life on market principles is mirrored by modern day advocates of the advantages of economic liberalisation. Polanyi described the zealots of the 19<sup>th</sup> century:

A blind faith in spontaneous progress had taken hold of people's minds, and with the fanaticism of sectarians the most enlightened pressed forward for boundless and unregulated change in society. The effects on the lives of the people were awful beyond description.<sup>1</sup>

At the time that he published *The Great Transformation*, Polanyi believed that the experience of war-time planning, the New Deal and social democracy heralded a move away from the untrammelled propagation of economic liberalism. But twenty years after his death the failures of socialism and the failures of state-centred development strategies in the former colonies and less developed countries led to a renaissance in economic liberalism. Out of this was spun the decade of structural adjustment pushing liberalisation, privatisation and a new minimalist role for the state in the development process. While tempered first with social safety nets to give adjustment a "human face" and later with an agenda for good governance and poverty reduction now couched in the Poverty Reduction Strategy Programmes, the fundamentals remain the same.

There was nothing "natural" about the emergence of capitalism and the dominance of markets in the organisation of life and production. Polanyi demonstrated how the introduction of market principles of organisation required extensive intervention of the state – the public authority – to establish the conditions for markets to operate. The state, the public authority, throughout the 19<sup>th</sup> century had to actively create the conditions for competition to take hold, to use its coercive force to alter property rights, encourage patterns of human settlement, protect the activities of merchants and embryonic manufactures, etc

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<sup>1</sup> Polanyi, Karl, *The Great Transformation: the political and economic origins of our time*, Boston: Beacon Press, 1957 [1944], p.76.

State intervention, which had freed trade from the confines of the privileged town, was now called to deal with two closely connected dangers which the town had successfully met, namely, monopoly and competition....What to the modern mind may easily appear as a shortsighted exclusion of competition was in reality the means of safeguarding the functioning of markets under the given conditions.<sup>2</sup>

If Polanyi was right about the extent to which the public authority was required for the introduction of the foundations of capitalist markets, there has existed a fundamental contradiction in the liberalisation agenda of the past twenty years. The formula for development proposed by the advocates of economic liberalism has been based on giving free reign to market forces and rolling back the state, but historically the consolidation of markets has been achieved only through significant state intervention.

In 1981, the publication of the Berg Report on Sub-Saharan Africa summed up the “new” thinking about development in light of the development failures of the first twenty years of independence.<sup>3</sup> It ushered in the era of structural adjustment for Africa based on market principles. In fact, in light of the processes of breakdown, crisis and war in Africa since this time, what may have been required for Africa at that moment was a Marshall Plan to bolster state authority rather than weaken it in the struggling polities that incorporated imperfectly imagined communities across the continent – communities whose very boundaries and patterns of production had been determined by the vagaries of a relatively short-lived, though highly dislocating, imperialist conquest and occupation of the continent.

In Polanyi’s work in economic history and historical anthropology he appeared to have been motivated in large measure by the pressing “policy” and strategic development issues of his day. By looking back to history, Polanyi was clearly determined to distil the lessons of development to demonstrate the transitory character of capitalist organisation of society and economy with a view towards supporting initiatives in the direction of democratic socialism.<sup>4</sup> He also seemed intent on demonstrating that the destruction visited on the former colonial and “backward” societies of the South mirrored the human misery that accompanied the introduction of capitalism in the history of the developed economies.

In tracing the origins of capitalism he delved into the realities – conveniently justified or dismissed by many Marxist scholars as the process of “creative destruction”- to demonstrate that even while market society brought enhanced growth and a vast expansion of income, this was achieved at great social cost. It is attention to this dimension of the development of markets and market organisation of society that is crucial to understanding the centrality of the state in the development process today.

### **The impulse for social protection and the role of the state and politics in the developing world**

This brings me to the discussion of Polanyi’s insights in relation to the “impulse” for social protection that accompanied the consolidation of market society. While Polanyi saw the state as essential to imposing the “unnatural” relationships required by market society he also saw

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<sup>2</sup> Polanyi (1957[1944]), p.66.

<sup>3</sup> World Bank (The Berg Report), *Accelerated Development in Sub-Saharan Africa: An Agenda for Action*, 1981.

<sup>4</sup> Although, as Kari Polanyi-Levitt noted in her paper, Polanyi never used the term “development” (‘Keynes & Polanyi: Then and Now’, Paper given at Development Research Centre, LSE, Research Seminar Series, 25<sup>th</sup> November 2002).

the state as essential to making the “process of economic improvement” “socially bearable”.<sup>5</sup> The advance of market forms of organisation of society involved the wholesale destruction of communities and existing forms of social organisation.

Polanyi showed that even the fiercest advocates of free markets supported regulatory measures to temper the destructive effects of market logic. After describing the ravishes of market society cited above Polanyi wrote, “Indeed, human society would have been annihilated but for the protective countermoves which blunted the action of this self-destructive mechanism.”<sup>6</sup> This was the famous “double movement” that Polanyi identified in the rise of capitalism.<sup>7</sup> He meticulously demonstrated in the face of liberal propagandists (who claimed protectionist measures were a “conspiracy”) that society demanded a tempering of the destructive effects of market economy. As economic liberalism sought to establish the dominance of the self regulating market, pressures emerged from *all sectors of society* (including capital) based on a “principle of social protection” that drove the public authority to use its coercive power to conserve man and nature and productive organisation – “using protective legislation, restrictive associations, and other instruments of intervention”.<sup>8</sup>

By rolling back the state the neoliberal reformers of our age undermine the vehicle for social protection so essential to the development of capitalism historically.

Second, there is another dimension in the impulse for social protection crucial to understanding patterns of crisis in the developing world today. When Polanyi was demonstrating the inevitability of the impulse for social protection that accompanied the rise of capitalism, he was intent on showing that this had no determinant ideological direction.

The great variety of forms in which the “collectivist” countermovement appeared was not due to any preference for socialism or nationalism on the part of concerted interests, but exclusively to the broader range of the vital social interests affected by the expanding market mechanism.<sup>9</sup>

The essential point here is that the impulse for social protection experienced so deeply within society can be mobilised by any number of political tendencies or would-be aspirants to social and political power. This could be a political party of any stripe, a religious movement, a charismatic populist appealing to ethnic or caste identity, a warlord or a fascist. Indeed, Polanyi saw, in the rise of modern fascism, leaders capable of stepping up to power on the desires of ordinary people for social protection. Fascism could take hold, Polanyi said, when, “Fear would grip the people, and leadership would be thrust upon those who offered an easy way out at whatever ultimate price”.<sup>10</sup>

The impulse toward social protection is not only and perhaps not even primarily protection against economic exploitation. It is protection against the destruction of human dignity. Polanyi showed how people are seldom motivated by uniquely class interests, or by purely economic motives. This observation he shared with Weber and in this he differed with much of the Marxist tradition:

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<sup>5</sup> Polanyi (1957[1944]), p.38.

<sup>6</sup> Polanyi (1957[1944]), p.38.

<sup>7</sup> Polanyi (1957[1944]), p.132ff.

<sup>8</sup> Polanyi (1957[1944]), p.132.

<sup>9</sup> Polanyi (1957[1944]), p.145.

<sup>10</sup> Polanyi (1957[1944]), p.236.

The outstanding discovery of recent historical and anthropological research is that man's economy, as a rule, is submerged in his social relationships. He does not act so as to safeguard his individual interest in the possession of material goods; he acts so as to safeguard his social standing, his social claims, his social assets.<sup>11</sup>

This was true not only in societies of the past, but in market societies:

Purely economic matters such as affect want-satisfaction are incomparably less relevant to class behavior than questions of social recognition...the interests of a class most directly refer to standing and rank, to status and security, that is, they are primarily not economic but social.<sup>12</sup>

I would argue that this Polanyian insight is crucial to understanding patterns of politics in the developing world today.

### **Understanding terrorism in the developing world**

I would like to finish by applying these reflections on the state and politics to a discussion of the events of September 11 and the actions of terrorist organisations in the developing world today.<sup>13</sup> It is almost impossible to understand why terrorist organisations and terrorist activities have had such success in gaining legitimacy in so many societies across the developing world, without addressing the manner in which the dignity of people in those societies has been undermined by the processes of Western dominated market development. Much more than poverty motivates people in these circumstances.

I would suggest that the increased terrorist activity emerging from organisations outside the state is a consequence of the *weakening of state organisations*: states unable to steer their people out of poverty and increased inequality or to arrest destructive corruption; and state failures to rule by law and ensure security of the people and communities under their authority. That is, states unable to play the roles that Polanyi saw as crucial in the historical process of development. States have been weakened in part by the negative impact of globalisation, liberalisation and privatisation, reducing their fiscal capacity and consequently their organisational capabilities – to manage economic development and to organise accountable armed and police forces. In many parts of Africa, states have collapsed leaving room for the rise of armed organisations regularly employing terror to achieve their ends. In the Philippines and Indonesia, weak states have provided a fertile terrain for armed organisations to pursue politics through kidnappings, assassinations and other acts of terror.

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<sup>11</sup> Polanyi (1957[1944]), p.46.

<sup>12</sup> Polanyi (1957[1944]), p.153.

<sup>13</sup> I first presented these reflections on 11 September at a panel discussion at the London School of Economics on 'Terrorism and the Developing World', 12 October 2001 ([www.crisisstates.com](http://www.crisisstates.com)). There, I defined terrorism in the following terms: "I see as terrorist action any act of violence directed against civilian populations designed to strike fear, demoralisation and disorganisation into their midst – whether this be perpetrated by individuals, non-state organisations or state organisations, including military and police forces. Many of us abhor and oppose any kind of violence - and war in particular - but recognise these as blights on our civilisation, which we must work to bring to an end by seeking out their causes and designing remedies and doing so through systems of law at local, national and international levels. Terrorism, by definition, lies outside our laws and deserves our condemnation".

States have also been weakened by internal political failures, which in themselves, I would suggest constitute the second reason for the growth and increased support for organisations that use terror in pursuit of their political aims. This is not a terrain that Polanyi discussed at any great length. I suggest that there has been a decided decline in programmatic politics, a movement away from the pursuit of power through persuasion based on clear political party platforms for governance and economic management. Worldwide, the realm of political organising has been denigrated – through past failures of ideologically driven programmes like socialism or the abuse of democratic pluralism and through a consistent attack on the principles of secular politics even in the world's most advanced democracies. Politics is portrayed not as a noble pursuit, but as riddled with corruption and self-seeking, self-interested abuse of power. This has created in many societies a political vacuum that allows the rise of sectarian organisations and increases the appeal of fundamentalist tendencies within them. The instrumentalism that accompanies fundamentalism of all varieties opens the way to justify any means by ultimate goals and creates an environment in which terror can be seen as a legitimate means to pursue political objectives.

Finally, I would suggest that organisations that employ terror have gained legitimacy by the often cynical, hypocritical and abusive exercise of power in the international realm by today's most developed democracies. Preaching the protection of rights at home, the military and intelligence organisations of the great powers have too often supported abusive regimes abroad if in doing so they gain strategic military advantage or access to natural resources. The United States and other western powers supported Ossama Bin Laden and his networks when they mobilised forces to fight the Russians in Afghanistan. For years the Afghan people have suffered regimes that abused basic human rights and left a population mired in poverty while external powers have been more willing to send arms to one group or another than to comprehensively address that suffering. One policy is adopted towards the abuse of Kurdish people in Iraq while another is adopted when the same abuse is carried out by Turkey. The long condition of statelessness and hopelessness among Palestinians tolerated by the international community has provided legitimacy to organisations within Palestine that have turned to terror to pursue the quest for statehood. These abuses of power and this neglect weakens the moral authority of our democratic states on the world scene and creates a fertile terrain for organisations advocating terror and a rejection of the West and the agenda of good government and democracy it promotes in the developing world.

Polanyi's attention to the damage done to social institutions through the processes of development provides a route to understanding the kind of upheavals that may be common fare for some time to come.

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The aim of the Crisis States Programme (CSP) at DESTIN's Development Research Centre is to provide new understanding of the causes of crisis and breakdown in the developing world and the processes of avoiding or overcoming them. We want to know why some political systems and communities, in what can be called the "fragile states" found in many of the poor and middle income countries, have broken down even to the point of violent conflict while others have not. Our work asks whether processes of globalisation have precipitated or helped to avoid crisis and social breakdown.

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### **Research Objectives**

- We will assess how constellations of power at local, national and global levels drive processes of institutional change, collapse and reconstruction and in doing so will challenge simplistic paradigms about the beneficial effects of economic and political liberalisation.
- We will examine the effects of international interventions promoting democratic reform, human rights and market competition on the 'conflict management capacity' and production and distributional systems of existing polities.
- We will analyse how communities have responded to crisis, and the incentives and moral frameworks that have led either toward violent or non-violent outcomes.
- We will examine what kinds of formal and informal institutional arrangements poor communities have constructed to deal with economic survival and local order.



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