

### 3. “Plunges into utter destruction” and the limits of historical capitalism

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#### 1. THE RESURGENCE OF MARKET FUNDAMENTALISM AND THE DYNAMICS OF HISTORICAL CAPITALISM

Writing in the midst of the Second World War, Karl Polanyi expresses hope that humanity had been taught an enduring lesson from the great catastrophes of the first half of the twentieth century. He posits that “our age will be credited with having seen the end of self-regulating markets” ([1944] 2001, p. 148). Indeed, in the decades immediately following the Second World War, “self-regulating markets” appeared to be dead and buried. With an almost universal move toward some combination of state regulation of markets and planning (albeit in different forms and to varying degrees), it was possible to read Polanyi’s statement – that “our age will be credited with having seen the end of self-regulating markets” – as an accurate prediction.

But economic liberalism – on the defensive for decades – was not in fact dead. It returned with a vengeance less than four decades after Polanyi’s *magnum opus* was published and a decade after Nixon declared “we are all Keynesians now”. One obvious question that emerges from a reading of *The Great Transformation* is “why was there a resurgence of economic liberalism (in the form of neoliberalism) in the final decades of the twentieth century”? I will argue that in order to answer this question, we need to supplement Polanyi’s analysis – which focuses on the role of ideology and industrial society – with an explicit theory of historical capitalism that brings the pursuit of profits and power to centre stage.<sup>1</sup>

While Polanyi does not discuss, much less predict, a resurgence of economic liberalism, he did express concern that it was a powerful ideology that was far

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from dead. Polanyi argued that the persistence of economic liberalism – even in the wake of the catastrophes of the first half of the twentieth century – was rooted in the fact that it had become a quasi-religious worldview, formulated in a way that was difficult, if not impossible, to falsify. According to purveyors of “the liberal creed”, the failure of liberalism was due to “interference with the market”. But as Polanyi notes, adherents of the liberal creed will always be able to point to evidence of the imperfect application of the principles of economic liberalism, *precisely because* the effort to establish “self-regulating markets” is a “utopian endeavor” that inevitably calls forth a protective countermovement ([1944] 2001, pp. 150–151).

Polanyi worried that the advocates of “self-regulating markets” would “continue to hold the floor in the contest of arguments” – with disastrous results for humanity – unless their core claims were unquestionably refuted ([1944] 2001, p. 151). Thus, in *The Great Transformation*, Polanyi set himself the task of falsifying “the liberal creed” by demonstrating that the cataclysm of the first half of the twentieth century – fascism, depression, world wars – is unambiguously traceable, in the first instance, to “the utopian endeavor [. . .] to set up a self-regulating market system” ([1944] 2001, p. 31). Polanyi does a masterful job of falsifying the liberal creed.

Although Polanyi’s emphasis on ideology has some utility in explaining the *persistence* of economic liberalism in the face of mounting human catastrophes in both his and our own time, it is not plausible as an explanation for the re-emergence of that project in the late twentieth century.<sup>2</sup> For one thing, the defeat of economic liberalism (as ideology and policy) was so thorough and “taken for granted” in the post-war decades, that few people read *The Great Transformation*; its critique and cautionary tale (so relevant today) seemed superfluous. Indeed, Nixon’s 1971 quip that “we are all Keynesians now” was an admission that even his conservative administration would look toward Keynesian tools to solve the crisis.

Likewise, the second element in Polanyi’s explanation for the rise of self-regulating markets – the use of complex machines for production in industrial societies – does not help us understand the return to economic liberalism in the 1980s. While Polanyi makes scattered use of the term “capitalism”, the concept of capitalism as a historical social system with contradictions plays no role in his analysis. Rather, at the centre of Polanyi’s analysis is a theory of *industrial society*, whose key contradiction is between the requirements of

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<sup>2</sup> For a critique of Polanyi’s over-emphasis on the role of ideology – “the evangelical fervor” of British political economists – in explaining the origins of the nineteenth-century project to construct self-regulating global markets, and his discounting of the role played by the pursuit of profits and power, see Silver and Arrighi (2003).

machine-based mass production, on the one hand, and the physical and cultural well-being of humankind, on the other hand. According to Polanyi, “unless all factors involved [in production] are available in the needed quantities”, undertaking “production with the help of specialized machines is too risky [. . .] both from the point of view of the [entrepreneur] [. . .] and of the community as a whole” ([1944] 2001, p. 43). The “solution” – creating “self-regulating markets” for all inputs, including the fictitious commodities of land, labour and money – inevitably led to a series of human catastrophes. Thus, Polanyi maintained that the only stable solution to the contradiction faced by industrial societies is the pursuit of regulated markets and planning ([1944] 2001, pp. 264–6). Armed with Polanyi’s theory of the contradictions of industrial society we are still left without a plausible explanation for the resurgence of economic liberalism starting in the 1980s – i.e. we cannot answer the question, “why neoliberalism?”, rather than, say, a further consolidation of regulation and planning.

To make sense of both the shift away from “self-regulating markets” in the 1930s and 1940s, and the eventual return to economic liberalism in the 1980s and beyond, we need to make central to our analysis a theory of capitalism as a world-historical system beset by a *fundamental contradiction between the pursuit of profitability and maintenance of social legitimacy* (Silver 2003).<sup>3</sup> This inherent contradiction between profitability and legitimacy has led to an alternation over time between crises of profitability and crises of legitimacy. One type of crisis can only be resolved by measures that eventually bring about the other type of crisis. Thus, historical capitalism has been characterised by successive pendulum swings between periods when the predominant tendency is towards protecting Polanyi’s fictitious commodities, and periods when the predominant tendency is towards stripping them of protections.

The period that Polanyi focuses on in *The Great Transformation* was a deep crisis of legitimacy for capitalism. By the 1930s and 1940s, capitalism was widely seen as having failed to guarantee minimum livelihoods and physical

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<sup>3</sup> Polanyi and Marx take different paths to the same conclusion about the tendency of capitalism to produce a deep crisis of legitimacy; but Marx’s analysis also put the problem of profitability at the centre. In *The Communist Manifesto*, for example, Marx and Engels (1848) implicitly point to the tension between profitability and legitimacy. They write: “it becomes evident, that the bourgeoisie is unfit any longer to be the ruling class in society [. . .] It is unfit to rule because it is incompetent to assure an existence to its slave within his slavery, because it cannot help letting him sink into such a state, that it has to feed him, instead of being fed by him. Society can no longer live under this bourgeoisie, in other words, its existence is no longer compatible with society.” The phrase – *it has to feed him, instead of being fed by him* – recognises (already in 1848) the incompatibility of a system of capital accumulation based on the profit motivation with the generalisation (in geographical space and time) of the welfare state.

security to the mass of the population. When crises of legitimacy deepen to the point that they become dysfunctional even for political and economic elites – that is, when elites are either faced with such a lack of security that they cannot conduct business, or they are faced with such anger from below that they risk revolutions – they *attempt* to shift gears (Arrighi and Silver 1999, pp. 151–216). Such was the case in the mid-twentieth century as welfare and developmental states (and multilateral institutions) implemented policies that – by promoting full employment, extending workplace rights to labour, and reining in financial speculation – in essence, recognised that labour and money are “fictitious commodities”.<sup>4</sup>

However, these post-war social compacts were founded on the (implicit or explicit) presumption that there was no fundamental contradiction between guaranteeing profitability and guaranteeing livelihoods. While these measures resolved the crisis of legitimacy, leading to the Golden Age of Capitalism in the decades following the Second World War, they eventually contributed to a squeeze on returns to capital, provoking a crisis of profitability. When the squeeze on profits first emerged in the 1970s, the initial reaction was to double-down on the Keynesian solution. But the profitability crisis intensified further in the late 1970s, and *without a clear commitment to put livelihoods over profits* (if/when the two came into conflict), Keynesianism was abandoned, and the Reagan–Thatcher counter-revolution took hold in the 1980s. Political and economic elites began to extoll the virtues of self-regulating markets as they pursued policies that deregulated money and stripped protections from labour.

These policies eventually resolved the crisis of profitability by making it easier for capital to profit from financial speculation and from the exploitation of labour and nature. Indeed, by the time of the 2008 financial crisis, the squeeze on profits was long resolved. But, in the process, the pendulum swung back to a deep crisis of legitimacy for capitalism.

These pendulum swings map onto two important tendencies within historical capitalism. The first relates to the alternation between periods of financial expansion and periods of material expansion (cf. Arrighi 2010). It is no coincidence that both the late nineteenth-century and late twentieth-century moves toward global self-regulating markets for “money” were periods in

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<sup>4</sup> I have purposely left “land” out of the list of protected “fictitious commodities”, because one of the main characteristics of the mass production/mass consumption/developmentalist project of the post-Second World War decades was the “externalisation of the costs of reproduction” of non-renewable resources and nature. Put differently, while the protection of labour and money were built into the post-Second World War social compacts, their failure to recognise and provide for the protection of nature was even more extreme than in the nineteenth and early twentieth centuries.

which finance capital came to dominate the world capitalist system. Financial expansions – periods during which money capital is increasingly channelled into economic speculation divorced from trade and production – played an important role in the resolution of crises of profitability. In contrast, material expansions – periods during which capital predominantly flows into trade and production – played an important role in the resolution of crises of legitimacy (Silver 2003, pp. 124–67).

This brings us to the second important (and interrelated) tendency – the alternation between periods of rising and declining class inequality. Various empirical studies of long-term trends in class inequality have found a U-shaped curve over the past century – that is, class inequality in most countries was high and rising in the decades leading up to the 1930s crisis, it declined steadily from the crisis of the 1930s to the crisis of the 1970s, and then rose dramatically once again in the decades leading up to (and beyond) the 2008 crisis, reaching unprecedented heights today (see, e.g., Piketty 2013; Saez 2017). This U-shaped curve parallels the pendulum swing between crises of profitability and crises of legitimacy. This happens for several reasons. The most straightforward reason is the alternation between labour-friendly and capital-friendly policies; that is, between periods in which the trend is toward the protection of labour (in response to crises of legitimacy) and periods in which the trend is toward stripping those protections (in response to crises of profitability). Less directly, the rise of finance itself has a negative impact on equality because the FIRE sector tends to create fewer jobs and absorb less labour than trade and manufacturing (Krippner 2011, pp. 1–26; Phillips 1993, p. 197). Finally, financialisation of the economy tends to promote a regressive redistribution of income – the rich get richer – as the wealthy are better placed to profit from the game of financial speculation.

## 2. THE FOUR CRISES OF CAPITALISM IN THE LONG TWENTIETH CENTURY

Figure 3.1 presents a graphic summary of the four capitalist crises of the “long twentieth century”. Writing in the midst of the crisis of the 1970s, Giovanni Arrighi (1978) argued that not all capitalist crises are the same, and that the crisis of the 1970s (and 1870s) was different from that of the 1930s. The 1870s and 1970s crises were fundamentally characterised by a squeeze on profits, while the 1930s crisis was fundamentally characterised by an excessive squeeze on labour. Following Arrighi’s logic, but using the “Polanyian” terminology introduced above, Figure 3.1 classifies the crises of the 1870s and 1970s as ones in which the “protection of fictitious commodities” is “too high”, and the crisis of the 1930s as one in which the “protection of fictitious commodities” is “too low” – that is, “too low” even from the long-term point

of view of capital. Extending Arrighi's logic to the present, the current crisis of capitalism is classified as one in which the root of the crisis is the insufficient protection of the fictitious commodities labour, land and money.

	<b>PROTECTION OF FICTITIOUS COMMODITIES</b>	
	<b>"TOO LOW"</b>	<b>"TOO HIGH"</b>
	(Legitimacy Crisis)	(Profitability Crisis)
RESOLUTION 4		
<b>CRISIS 4</b> (2001/2008-?)	<i>Terminal Crisis</i> 2001/2008-?	
RESOLUTION 3	<u>Redistribution to Capital – Financial Expansion (CM)</u> (Reagan/Thatcher counter-revolution)	
<b>CRISIS 3</b> (1968/73–1980)		<i>Signal Crisis</i> 1968/1973–1980
RESOLUTION 2	<u>Redistribution to Labour – Material Expansion (MC)</u> ("Global New Deal")	
<b>CRISIS 2</b> (1929–1945)	<i>Terminal Crisis</i> 1929–1945	
RESOLUTION 1	Redistribution to Capital – Financial Expansion (CM) ("Monopoly Capital")	
<b>CRISIS 1</b> (1873–1896)		<i>Signal Crisis</i> 1873–1896

Figure 3.1 Four capitalist crises of the long twentieth century and "Polanyian" pendulum swings

The "utopian endeavour" to construct a *global* self-regulating market chronicled in *The Great Transformation* stretches from the period leading up to crisis #1 through crisis #2 in Figure 3.1. Polanyi's hopes for an end to self-regulating markets found their greatest validation in the period labelled "resolution #2" – the post-war "Global New Deal"; but those hopes were dashed with the "Reagan–Thatcher counter-revolution" (resolution #3). Four decades of neo-liberal policies have brought us to where we are today – in the midst of crisis

#4, a deep crisis of legitimacy for capitalism, rooted in the failure to protect land, labour and money.

In the aftermath of the 2008 financial crisis, we might have expected political and economic elites to “shift gears” and move toward policies that, in essence, recognise the fictitious nature of the commodities land, labour and money. Put differently, we might have expected a swing of the pendulum toward greater protection – that is, a “resolution #4” analogous to “resolution #2” (see Figure 3.1). Instead of a course correction, however, we have witnessed the continued movement by the world’s elites down a path that is taking us toward a widening and deepening human catastrophe. Mushrooming class inequality, the proliferation of wars without end, the explosion of the refugee crisis, and the rise of xenophobic, neo-fascist and far right movements are among the symptoms that we have entered a period of systemic chaos analogous to the great catastrophe of the first half of the twentieth century (cf. Silver and Arrighi 2010).

### 3. “A PLUNGE INTO UTTER DESTRUCTION”

Unless the alternative to the social set up is a plunge into utter destruction, no crudely selfish class can maintain itself in the lead. (Polanyi [1944] 2001, p. 163)

Why have the world’s economic and political elites not heeded the warnings coming from the growing number of Cassandras who have come forward since the 1990s – many of them inspired by *The Great Transformation* – to warn of the urgent need to shift course away from neoliberal globalization?

This failure is puzzling from several points of view. For one thing, while there is a sense of *déjà vu* about current trends, it is important to note that Polanyi did not think that the human catastrophes of the first half of the twentieth century were inevitable. Rather he argued that, “if not for the stubborn and impassioned insistence of economic liberals on their fallacies,” both the world’s leaders and the mass of the population “would have been better equipped for the ordeal of the age and *might perhaps even have been able to avoid it altogether*” (Polanyi [1944] 2001, p. 149, emphasis added). To be sure, today’s neoliberals are also guilty of “stubborn and impassioned insistence on their fallacies”, and they deserve their share of the blame for the mounting human catastrophes.<sup>5</sup> Nevertheless, following Polanyi, there is no reason to presume that the current slide into systemic chaos was somehow pre-ordained.

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<sup>5</sup> Among the many examples, the failure of the European Union to break away from austerity policies, notwithstanding the mounting evidence of their disastrous results on all fronts (political, social and economic).

Indeed, Polanyi gives us reasons to expect that a “course correction” could have come sooner and with greater ease than has been the case. Operating with an organic (solidaristic) conceptualisation of society, Polanyi sees “self-regulating markets” as posing a challenge to “society as a whole”. Because “the social interests of different cross sections of the population [are] threatened by the market, persons belonging to various economic strata unconsciously [join] forces to meet the danger” (Polanyi [1944] 2001, pp. 161–2). Moreover, Polanyi maintains that the capacity of a group or class to lead depends on “the breadth and variety of the interests, other than its own, which it is able to serve”. As such, “no policy of narrow class interest can safeguard even that interest well” (Polanyi [1944] 2001, p. 163; cf. Gramsci 1971). Working with this conceptualisation of leadership, we would expect ruling groups and classes to mobilise for the “self-protection of society” as a whole, including groups and classes lacking the power to protect themselves.

While the above passages from *The Great Transformation* suggest that it is “normal” for ruling groups and classes to protect the interests of society as a whole, in Polanyi’s historical account, what is “normal” is not what is common or prevalent. This distinction, which might at first appear odd, is analogous to the way in which Durkheim’s ([1893] 2014) “normal” form of the division of labour (organic solidarity) was quite rare in “actually-existing” capitalist societies, whereas his “abnormal forms” (anomic and forced)<sup>6</sup> were actually quite common. Polanyi makes a similar move. Whereas he argues that there are “few exceptions” to the rule that “no crudely selfish class can maintain itself in the lead” (Polanyi [1944] 2001, p. 163), he actually provides us with a wide range of exceptions – both theoretical and historical.<sup>7</sup>

Thus, while Polanyi points to the “vital function” played by “enlightened reactionaries” among the landlord class in fighting for protections for the emergent (still voiceless) British working class in the early and mid-nineteenth centuries as an example of a ruling group protecting broader social interests,<sup>8</sup>

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<sup>6</sup> It is these abnormal – yet prevalent – forms of the division of labour that, according to Durkheim, accounted for the prevalence of social conflict (rather than social cohesion and solidarity) in his own time.

<sup>7</sup> It might make sense to understand Polanyi’s “normal” as meaning “prevalent” if the temporal scope of his statement includes all human history and not just “industrial society”.

<sup>8</sup> “By interest and inclination, it fell to the landlords of England to protect the lives of the common people from the onrush of the Industrial Revolution [. . .] Their resistance [. . .] averted ruin for several generations and allowed time for almost complete readjustment. Over a critical span of forty years it retarded economic progress, and when, in 1834, the Reform Parliament abolished Speenhamland, the landlords shifted their resistance to the factory laws [. . .] The Ten Hours Bill of 1847, which Karl

he also argued that the triumphant British bourgeoisie lacked the capacity to perform the task of social protection.

[The triumphant bourgeoisie] *had no organ to sense the dangers* involved in the exploitation of the physical strength of the worker, the destruction of family life, the devastation of neighborhoods, the denudation of forests, the pollution of rivers, the deterioration of craft standards, the disruption of folkways, and the general degradation of existence including housing and arts, as well as the innumerable forms of private and public life that do not affect profits [. . .] [Their] all but sacramental belief in the universal beneficence of profits [. . .] disqualified them as the keepers of other interests as vital to a good life as the furtherance of production. (Polanyi [1944] 2001, p. 139)

Likewise, in explaining the catastrophe that befell colonised peoples, Polanyi argued that the protection which “the organized states of Europe” could secure for themselves was out of reach for those who lacked sovereign governments and for those whose sovereign states were relatively weak (Polanyi [1944] 2001, pp. 192, 216–17). Not only did the European colonisers have “no organ to sense the dangers” to colonised societies; equally important, the “self-protection of European societies” and the devastation of colonial societies were often two sides of the same coin (Silver and Arrighi 2003).<sup>9</sup>

As such, it is not inevitable that ruling groups and classes rise to the challenge and take on the “vital function” of protecting the broader interests of society. At the same time, if “a crudely selfish class” maintains itself in the lead, then “a plunge into utter destruction” in the form of a long period of systemic chaos is, sooner or later, inevitable (Arrighi and Silver 1999). A long period of systemic crisis on world scale characterized crisis #2 (1929–45) and the odds are increasing that with crisis #4 (the contemporary crisis of capitalism) we have entered another long period of global systemic chaos (see Figure 3.1).<sup>10</sup>

In the twentieth century, it was only with the rise of mass workers’ movements and the force of anti-imperialist revolts – that is, with the threat of revolution from below – that ruling groups and classes awakened to the dangers

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Marx hailed as the first victory of socialism, was the work of enlightened reactionaries” (Polanyi [1944] 2001, pp. 173–4).

<sup>9</sup> These two illustrations point to two types of failure that are both relevant to today’s predicament. One is a failure of dominant classes to protect subordinate groups within a given state; the other is the failure of strong states to facilitate, or at least not impede, the “self-protection of society” in weaker states.

<sup>10</sup> Both crisis #2 and crisis #4 are conceptualised as terminal crises of a cycle of hegemony in Figure 3.1 – UK (crisis #2) and US (crisis #4). This is an important part of the story, but beyond the scope of this chapter (cf. Silver and Arrighi 2010; Arrighi and Silver 1999).

inherent in the project of a global self-regulating market. This sense of danger was kept alive in the 1950s and 1960s by ongoing anti-imperialist struggles in the Third World and the active Cold War rivalry between East and West. It is in this context that the United States (as the world hegemonic state) used its power to implement policies that helped swing the pendulum back toward the self-protection of society at the local and global levels (Figure 3.1, resolution #2). But it took a depression, the rise and spread of fascism, and two world wars for it to become clear that, if capitalism were to survive, a change of course was essential.

Why have today's economic and political elites been so slow to sense the danger? To be sure, the Trump presidency marks a change of course in the sense that his administration openly proclaims the end of US adherence to global "free trade" policies.<sup>11</sup> But this project involves *stripping* the remaining protections from fictitious commodities in order to further enrich the super-wealthy, rather than a swing of the pendulum back toward protection of the general interests of society (nationally or globally). As such, it is one more step down the road of systemic chaos.

Perhaps the *après moi le deluge* attitude of today's ruling groups is not much different than their counterparts a century ago. Yet, one would have hoped today's ruling groups would have learned some lessons from the disastrous experience of their counterparts, if not from reading *The Great Transformation*. It is worth pondering – in another context – whether we have seen an evolution in historical capitalism that has produced especially venal ruling groups. Might, for example, the growing surplus population on a world scale – that is, surplus to the needs of capital – help explain the shocking level of disregard for the dangers to the physical and cultural well-being of the majority of the world's population exhibited by today's ruling groups? Might the stratospheric wealth of today's super-rich be deluding them into thinking they can immunise themselves from the effects of the systemic chaos – be it wars, social revolution or societal breakdown – by setting themselves up with luxury bunkers in remote locations? Might their wealth in combination with an abundant faith in science and technology, make them think that they can keep safe from rising seas and otherwise protect themselves from the devastation of nature even as the majority suffer and die?<sup>12</sup> But even more palpable than these dystopic plans and visions are the growing movements proposing a vision that

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<sup>11</sup> As we argue in Silver and Arrighi (2003), although the United States adopted a free trade rhetoric beginning in the 1980s, it never actually adopted free trade policies.

<sup>12</sup> A spate of articles have appeared in the press in recent years with titles such as 'The super rich of Silicon Valley have a doomsday escape plan', 'Inside billionaires bunkers where richest plan to sit out apocalypse', and 'Survival of the richest'. For the latter see Osnos (2017).

moves us beyond the contradictions of historical capitalism to a world that unequivocally chooses to place the protection of humans and nature over the pursuit of profits.

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