

Polanyi in the United States: Peter Drucker, Karl Polanyi, and the Midcentury Critique of Economic Society^{*}

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An extraordinary trend in the social sciences has been the revival, from relative obscurity, of Karl Polanyi's *The Great Transformation*. With the end of the Cold War and the rise of neoliberalism, Karl Polanyi's ideas are, ironically, more relevant today than they were in 1944, when his book was first published. Social theorists concerned with political economy in particular have latched onto *The Great Transformation* for its powerful criticisms of market-based policies and for its defense of the role of the state. Rather than speaking of the need for governments to do what Thomas Friedman calls "the golden straightjacket" of market discipline, Polanyians speak of states *creating* the sorts of markets that meet human needs—economic structures that will serve society, not command it.¹ Enthusiasm for such an approach has led admirers of Polanyi to found the Karl Polanyi Institute of Political Economy, hold ten international Karl Polanyi conferences, translate *The Great Transformation* into at least nine languages, and publish numerous books and articles on Polanyi's ideas.

And yet, despite Polanyi's current popularity, his path to prominence has been a tortuous one. Initially, Polanyi's intellectual legacy was limited to the field of anthropology, where his insistence that the rules of the market society did not apply to much of the world was taken as an invitation to do more research on nonmarket economies. Polanyi and his followers—known collectively as the "substantivist" school of economic anthropology (a Polanyian term)—explored the exchange, control, and distribution of land, labor, and resources in the absence of the price-setting mechanism of the market. It was only really in the 1980s that other social scientists turned back to *The Great Transformation* and recognized Polanyi as having something to say to students of the modern market economy as well. Since then, *The Great Transformation* has become something of a canonical text in sociology, political science, and development studies, with its trademark

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¹ Thomas L. Friedman, *The Lexus and the Olive Tree* (New York: Farrar, Straus, Giroux, 1999), chap. 5.

concepts of *embeddedness*, *the double movement*, and *fictitious commodities* taking on rich lives of their own. Historians, however, have been slow off the mark in the race to make something of Polanyi, despite Polanyi's keen interest in historical questions. At least in the Anglophone world, the British Marxists and particularly E. P. Thompson have had such a large disciplinary influence that Polanyi's criticisms of economistic thinking and of the universality of the profit motive have seemed to many like old news. It is no great surprise the Karl Polanyi Institute of Political Economy counts on its executive board of sixteen academics only one historian.

I will not make the case here that historians ought to become Polanyians. I would submit, however, that historians, treating Polanyi as a historical subject, have an important perspective to add to the growing Polanyi literature. Examining Polanyi from within my own field of U.S. history, I will argue that *The Great Transformation* can fruitfully be read in the context of an important and only recently unearthed episode in U.S. intellectual history: the midcentury critique of economic society. In particular, Polanyi's book ought to be read alongside the early work of management theorist Peter Drucker. Doing so sheds light on a number of matters. First, acknowledging how much Polanyi shared with his contemporaries in the United States makes it easier to see how he came to develop the theories for which he is rightly famous. Second, exploring the important differences between Polanyi's critique of economic society and those articulated by his fellow thinkers draws Polanyi's theory into focus and exposes some of its limits. Finally, having placed Polanyi within the context of the United States (where he wrote and published his book), we can take *The Great Transformation* as a noteworthy contribution the disparate movement to jettison *homo economicus* as the basis for society.

The Great Transformation is a complicated and at times confusing text. Well-informed readers have disagreed about the meaning of central concepts like *the double movement* and *embeddedness*, and there has even been some controversy about which transformation the book's title is meant to refer to. Nevertheless, it remains possible to pick out the core of the argument. Polanyi's thesis, as he sees it, is that the idea of a self-regulating market is a "stark utopia" that, had it actually existed for any amount of time, "would have physically destroyed man and transformed his surroundings into a wilderness."² Specifically, the free market as imagined by classical economists is not just unrealistic but impossible because it requires treating land, labor, and money as if they were marketable commodities. But land, labor, and money are not commodities; they are, respectively, nature, humans, and social relations, and not one of them can be fully subjected to the demands of the market without being destroyed. Thus, continues Polanyi, humans have always found ways to protect themselves and their environment—to "embed" the market in society—ever since the idea of a self-regulating market was first introduced into political practice in the nineteenth century. That idea, with its portrait of the human as an individual

² Karl Polanyi, *The Great Transformation* (New York: Rinehart & Company, 1944), 3.

listic, rational profit-maximizer, is in Polanyi's view a pernicious error. Blinding those in power from recognizing the consequences of their actions, it encourages them to pursue market freedoms without regard for social cost. Although there is some debate in the literature about whether Polanyi believed that the market could truly become disembedded, he clearly blamed the pursuit of the self-regulating market for the horrendous protectionist backlash of the 1930s: fascism.³ For such a fate to be avoided in the future, Polanyi concludes, we must give up trying to imagine society as the economists do, concede that market restrictions are necessary and normal, and set about the task of planning such restrictions rationally.

Readers familiar with Polanyi will be surprised to find many of his signal ideas in the work of Peter Drucker. Consider the following passage, from Drucker's *The Future of Industrial Man*, published two years before *The Great Transformation*:

Locke's statement in the closing years of the seventeenth century that a thing becomes a man's property because he has commingled his labor with it, represented a radically new and revolutionary concept of property as basis of society and as justification of social power. . . . This new concept of property meant that the entire economic sphere had to be subject to the market. Everything had to be capable of becoming property. Hence the insistence of the market system that the basic factors of economic life be regarded and treated as commodities: land, labor, money. The claim that there is a difference in kind between land and other property, or between labor and other property, could not be allowed. It would have caused a need for social integration outside of the market; and such a claim would have been a denial of Economic Man.⁴

In that remarkable short passage, Drucker introduces the theory of the three fictitious commodities in much the same terms that it later appears in Polanyi's work. He identifies the commodification of land, labor, and money as a novel fiction that paved the way for the modern market economy. Moreover, he associates it with a particular ideology, one that sees economic motives as fundamental to, and even constitutive of, human behavior. And yet, as Drucker explains later in the book, the idea of an automatic market mechanism based on pure self-interests could never be more than a "myth."⁵ Recent crises in Western civilization had shown the bankruptcy of "the belief that man is fundamentally Economic Man, that his basic motives are economic motives, and that his fulfillment lies in economic success and

³ Kurtuluş Gemici, "Karl Polanyi and the Antinomies of Embeddedness," *Socio-Economic Review* 6 (2008): 5–33.

⁴ Peter F. Drucker, *The Future of Industrial Man: A Conservative Approach* (New York: The John Day Company, 1942), 58–59.

⁵ *Ibid.*, 63.

economic rewards.”⁶ The passing of market society was in fact Drucker’s great theme in the late 1930s and 1940s, as can be seen from the title of his 1939 book: *The End of Economic Man*.

The commonalities between Drucker and Polanyi, although they have yet to be acknowledged in the Polanyi literature, are hardly shocking. After all, the two men knew each other in Vienna, lived together briefly in Vermont, were colleagues at Bennington College, acknowledged each other in their major wartime works, and continued to exchange letters until Polanyi’s death in 1964. Drucker even had a hand in preparing *The Great Transformation* for publication after Polanyi returned to England, leaving behind an unfinished manuscript. In spite of their many connections, though, their legacies have pointed in opposite directions. Polanyi, as described above, has been most relevant to social scientists and has been politically identified with those seeking to develop non-Marxian responses to neoliberal globalization. Drucker, by contrast, effectively exiled himself from the social sciences when he accepted an invitation from General Motors to carry out a study of that company in 1943.⁷ He earned his reputation as a founder of management theory, making his living consulting for large corporations and writing books with titles like *Managing for Results* (1964). The reception of his ideas in the business world has been overwhelming, and it is not an understatement to say that the management practices of most major corporations today can be traced to Drucker’s theories. Politically, Drucker is most often celebrated as the voice of corporate leaders and of the pro-business right. Jack Welch and Bill Gates have cited him as a major influence, Newt Gingrich regards him as one of the most influential thinkers of the twentieth century, and before his death Drucker received a Presidential Medal of Freedom from George W. Bush.⁸ It is only recently that academics have begun to take Drucker seriously as a social theorist, though, and it is telling that the two scholars to have done so—Nils Gilman and Karen Linkletter—are both unusual in having experience in the business world as well as doctoral degrees in history. Fittingly, Linkletter was the first to notice similarities between Drucker and Polanyi (she remarks in passing that the conclusion of *The Great Transformation* is cast in “language . . . surprisingly similar to Drucker’s” but says no more on the subject).⁹

We can gain a better sense of how those similarities came about by looking to the lives of the two thinkers. Both were born in Vienna to well-connected families, and Drucker recalled meeting Polanyi in 1927 at the

⁶ Ibid., 280.

⁷ Jack Beatty, *The World According to Peter Drucker* (New York: The Free Press, 1998), 50.

⁸ See Nils Gilman, “The Prophet of Post-Fordism: Peter Drucker and the Legitimation of the Corporation,” in *American Capitalism: Social Thought and Political Economy in the Twentieth Century*, ed. Nelson Lichtenstein (Philadelphia: University of Pennsylvania Press, 2006), 109–11.

⁹ Gilman, “Prophet of Post-Fordism,” 109–31 and Karen E. Linkletter, “Drucker Redux: Management as Intellectual and Philosophical Product,” (Ph.D. diss., Claremont Graduate University, 2004), 138.

offices of *Der Oesterreichische Volkswirt* while Polanyi was the editor. In 1933, Drucker left Germany for London. In 1937 he moved again, this time to the United States, where he worked as a correspondent for British newspapers, taught college, and completed the manuscript of his first English-language work, *The End of Economic Man*. Polanyi, meanwhile, also fled to England, where he taught evening classes for the Workers Educational Association. When Polanyi came to the United States in 1940 on a lecture tour, Drucker took him in for a summer, and the two spent those pregnant months together in a cabin with Drucker's wife and child, talking over their ideas and listening to reports of the war. Drucker was at the time working on his new book—the first to include the theory of the three fictitious commodities—and by his account it was then that Polanyi began to write *The Great Transformation*. In his lively but wholly unreliable autobiography, *Adventures of a Bystander*, he wrote:

As I was working on the first draft of *Future of Industrial Man* during the Vermont summer, I would test my ideas on Karl. He was as always interested, encouraging, and enthusiastic; but he was also totally out of sympathy with what I called “a conservative approach.” Yet this then forced him to clarify his own thoughts. And both of us soon realized that Karl had a major book in his head, still disorganized, disjointed, and unfocused but of real stature, provided only he could get the time and financial support to work on it for a year or two.¹⁰

Polanyi got that time and support when Drucker recommended him for a fellowship at Bennington, where Drucker would soon take a post as well.

What exactly passed between Drucker and Polanyi during their time in Vermont is unclear.¹¹ In the acknowledgments to *The Great Transformation* Polanyi thanks Peter and Doris Drucker for their “sustained encouragement” during the writing of the book but insists that the main thesis of his book had been developed in England.¹² There is little reason to doubt Polanyi's claim that he had developed the basic idea of fictitious commodities before his U.S. sojourn. Elements of the theory can be seen in Polanyi's English lecture notes and Drucker himself, never one to miss an opportunity

¹⁰ Peter F. Drucker, *Adventures of a Bystander* (New York: Harper & Row, 1978), 135. On the unreliability of Drucker's memoirs, see Kenneth McRobbie, “‘Old, Badly Peeled, Half-Raw Potatoes’ and Peter F. Drucker's Other Myths about Karl Polanyi,” in *Karl Polanyi in Vienna: The Contemporary Significance of The Great Transformation*, 2d ed., ed. Kenneth McRobbie and Kari Polanyi Levitt (Montreal: Black Rose Books, 2006), 359–77.

¹¹ Berkeley Fleming, “Three Years in Vermont: The Writing of Karl Polanyi's *The Great Transformation*” (paper presented to the Eighth Annual Karl Polanyi Conference, Mexico City, November 14, 2001), 9–13.

¹² Polanyi, *Great Transformation*, xiii.

to boast, assigned full credit for the theory to Polanyi.¹³ In fact, Drucker frequently admitted Polanyi's influence, citing him with enthusiasm in footnotes and acknowledgments and writing a remarkable letter in honor of Polanyi's seventy-fifth birthday, in which he told his old friend, "I doubt whether anyone has been more deeply formed by your influence and your friendship."¹⁴ There is reason to think, however, that the influence did not run exclusively one way. Although the theory of the three fictitious commodities was Polanyi's, Drucker had been working for years on his thesis that economic society was no longer viable and that the presuppositions of both capitalists and Marxists were outdated. Like a number of important intellectuals of his era, Drucker emphasized the embeddedness of the market, citing it as a major fact about modern society. While Polanyi might have developed the same ideas entirely independently of Drucker, it is more likely that Drucker played a significant role in shaping *The Great Transformation*.

Intellectual paternity, like biological paternity before the age of DNA testing, can be a maddeningly difficult thing to prove. It is not the purpose of this essay to produce a definitive account of who-thought-what-first, but rather to set both Polanyi and Drucker in their shared context. That context is something we are learning a good deal more about as historians are recognizing the unsettled and tentative nature of midcentury capitalism in the United States. Howard Brick's *Transcending Capitalism* (2006) and Nelson Lichtenstein's edited collection *American Capitalism* (2006) have reminded us how many thinkers of the time regarded capitalism as outdated, impermanent, non-existent, or irrelevant. Such reminders are necessary. One of the stock claims of U.S. history is that the United States has never had a significant socialist tradition. Within intellectual history, that claim has come with the corollary that intellectuals from the United States never grappled with Marxism as fully as European intellectuals did.¹⁵ Unfortunately, the lack of Marxism is too often confused with the lack of a critical tradition entirely. As Brick, Lichtenstein, and their colleagues have demonstrated, though, the poverty of Marxism in the United States has *not* meant an uncritical acquiescence to the dictates of the free market. In fact, Marxism's failure to take root made room for other forms of social criticism, from the right as well as the left. It particularly opened a space for whole-

¹³ See Karl Polanyi, "Conflicting Philosophies in Modern Society," 1937–1938, Karl Polanyi Archive, Concordia University, Montreal, Container 15, Lecture 2, 13–15; Drucker, *Adventures*, 136. Thanks to Fred Block for supplying the first reference.

¹⁴ Quoted in McRobbie, "'Half-Raw Potatoes,'" 374.

¹⁵ See particularly Louis Hartz, *The Liberal Tradition in America: An Interpretation of American Political Thought since the Revolution* (New York: Harcourt, Brace & World, 1955); Warren I. Susman, *Culture as History: The Transformation of American Society in the Twentieth Century* (New York: Pantheon Books, 1973), chap. 5; and Brian Lloyd, *Left Out: Pragmatism, Exceptionalism, and the Poverty of American Marxism, 1890–1922* (Baltimore: The Johns Hopkins University Press, 1997). The opposing view can be found in Michael Denning, *The Cultural Front: The Laboring of American Culture in the Twentieth Century* (London: Verso, 1997), chap. 12.

sale attacks on economistic thinking, attacks that targeted Marxism as fully as they did orthodox capitalism. Critiques of *homo economicus* had of course appeared in Europe as well—one could mention Emile Durkheim’s “noncontractual bases of contract” or Max Weber’s Protestant ethic—but the weak footing of Marxism gave such lines of thought a particular force in the United States after the bottom of world system fell out. It is appropriate, then, that Polanyi wrote and published his great attack on economic society in the United States, and that it enjoyed its widest audience there.

More than anything, the experience of the Depression and the New Deal paved the way for critical thought about classical economics. For the liberals who stood behind the Roosevelt administration, old slogans about markets and states would not do. Orthodox economic policies had failed, but Soviet-style socialism did not seem to offer a viable solution. Rather than staking out some conceptual middle ground—it would not be until after the war that Keynesianism would emerge as a dominant doctrine—New Dealers sought to jettison academic theory altogether in favor of a pragmatic eclecticism. Just as philosopher William James had called for a renunciation of “fixed principles” and “closed systems,” New Deal proponent Thurman Arnold called for a sort of political pragmatism that would favor policy experiments over dogmatic theory.¹⁶ “The holy war between Capitalism, Communism, and Fascism is one of the greatest obstacles to practical treatment of the actual day-to-day needs of the American people,” he wrote. “All sorts of sensible suggestions are drowned in the din of battle.”¹⁷ Classical economics was, for Arnold, a retrogressive priesthood, commanding obedience but offering nothing of practical worth to the policymaker. Worse, the crisis of the Depression was quickly rendering it obsolete, replacing the self-interested individual at the heart of economic theory with “a new abstract economic man who does not work for his own selfish interest, but only for others.”¹⁸

As Arnold criticized orthodox economics in the popular arena, anthropologists and sociologists were making the case more rigorously within their disciplines. The sociologist and one-time economist Talcott Parsons has been singled out by Howard Brick as an important theorist of the critique of economistic thinking. In the late 1930s and early 1940s, Parsons came to see the privileging of the economic as a major obstacle to developing an accurate model of human action. Acquisitiveness, the foundation of economic modeling, was in Parson’s view not a universal human trait but rather the result of “a peculiar institutional structure which has grown up in the Western world.”¹⁹ That institutional structure was itself a noneconomic

¹⁶ William James, *Pragmatism* (1907; Indianapolis: Hackett Publishing Company, 1981), 28.

¹⁷ Thurman W. Arnold, *The Folklore of Capitalism* (New Haven: Yale University Press, 1937), 14.

¹⁸ Thurman W. Arnold, *The Symbols of Government* (New Haven: Yale University Press, 1935), 264.

¹⁹ Talcott Parsons, “The Motivation of Economic Activities,” *The Canadian Journal of Economics and Political Science* 6 (1942): 199.

set of “moral sentiments,” norms particular to modern Western society. What is more, those norms were increasingly irrelevant.²⁰ The rise of the professions—one of the defining features of modern society in Parsons’s opinion—had given new prominence to a new set of norms that emphasized altruism and loyalty to the profession over self-interested gain.²¹ Thus, like Drucker and Polanyi, Parsons had come to believe that the thought-pattern of economics was misleading, outdated, and historically specific to advanced nations. Such conclusions led to what Parsons called his “shift away from economics” and his founding of the Department of Social Relations in 1946 to undertake an interdisciplinary study of the noneconomic bases of society.²²

While Parsons doubted the relevance of the presumptions of classical economics for his own society, a number of anthropologists in the United States came to doubt their relevance for non-industrial societies. In Europe, Bronislaw Malinowski’s *Argonauts of the Western Pacific* (1922), Marcel Mauss’s *The Gift* (1925), and Richard C. Thurnwald’s *Economics in Primitive Communities* (1932) had already offered influential portraits of humans behaving in emphatically noneconomic ways. Such ideas were picked up in the United States by Boasians Margaret Mead and Melville Herskovits, among others. In his pathbreaking survey, *The Economic Life of Primitive Peoples* (1940), Herskovits insisted that economists had mistakenly posited laws of human behavior when in fact all their data had been drawn from one culture. A more expansive view, he argued, would expose the fact that most economies did not obey the laws of the market; the only societies that economists could accurately describe were those in the thrall of the “mechanistic philosophy” that came with industrialization.²³ Mead had come to similar conclusions in the course of editing her comparative study of cooperation and competition.²⁴ But in her wartime propaganda effort, *And Keep Your*

²⁰ *Ibid.*, 192.

²¹ Talcott Parsons, “The Professions and Social Structure,” *Social Forces* 17 (1939): 457–67.

²² Howard Brick, “Talcott Parsons’s ‘Shift Away from Economics,’ 1937–1946,” *Journal of American History* 87 (2000): 490–514 and Howard Brick, *Transcending Capitalism: Visions of a New Society in Modern American Thought* (Ithaca: Cornell University Press, 2006), chap. 4. See also Talcott Parsons, “Some Reflections on ‘The Nature and Significance of Economics,’” *Quarterly Journal of Economics* 48 (1934): 511–545; Talcott Parsons, “On Building Social System Theory: A Personal History,” *Daedalus* 99 (1970): 826–81; and Parsons’s exchange with economist Frank Knight: Frank H. Knight, “Professor Parsons on Economic Motivation,” *The Canadian Journal of Economics and Political Science* 6 (1940): 460–65 and Talcott Parsons, “Reply to Professor Knight,” *The Canadian Journal of Economic and Political Science* 6 (1940): 466–72.

²³ Melville J. Herskovits, *The Economic Life of Primitive Peoples* (New York: Alfred A. Knopf, 1940), 6. See also Herskovits’s debate with Frank Knight: Frank H. Knight, “Anthropology and Economics,” *The Journal of Political Economy* 49 (1941): 247–68 and Melville J. Herskovits, “Economics and Anthropology: A Rejoinder,” *Journal of Political Economy* 49 (1941): 269–78.

²⁴ Margaret Mead, “Interpretive Statement,” in *Cooperation and Competition among Primitive Peoples*, ed. Margaret Mead (New York: McGraw-Hill Book Company, 1937), 458–511.

Powder Dry (1942), Mead also adopted Parson's conclusion that Western society had reached a new age, a post-machine age, in which the old pre-suppositions no longer held.²⁵ Technological success meant that the fight for subsistence was over; the new challenge was to acquire "control of the social world."²⁶ The new society, she argued, would need to rely heavily on the science of anthropology so that it could have a full sense of the variety of human experience, free from the intellectual provincialism that had be-deviled the previous age.

The ideas developed by Mead, Herskovits, and Parsons received an especially forceful articulation in Peter Drucker's *The End of Economic Man* (1939), *The Future of Industrial Man* (1942), and "The Meaning and Function of Economic Policy Today" (1943). Drucker was not, of course, a native of the United States as the others were but, as Karen Linkletter argues, he plunged himself enthusiastically into the thought-patterns of his adoptive country, taking up James Madison as his political guiding light and celebrating the classlessness and individuality he saw all around him.²⁷ Like Herskovits and Mead, Drucker regarded market society as a modern phenomenon. Drucker did not deny that economizing and exchange could be found in all societies, but he insisted that only in the West, and only since the nineteenth century, was there a society in which humans were regarded as fundamentally economic, in which all other ends were subordinated to economic ones.²⁸ He further argued, as Parsons did, that there had always been something incomplete about economic thinking. As discussed above, he regarded the commodification of land, labor, and money as a fiction, necessary for the functioning of the market but requiring a sort of willful blindness to the social realities that stood behind each of the three "commodities." And those social realities had a way of making themselves known, even as economists denied them. Drawing on his own experience working in the City of London, Drucker noted how elaborate but informal codes were required to prevent bankers and investors from endangering the system by blindly pursuing personal profit. "It was a badge of statesmanship in the market to be known for putting the functioning of the market above one's own economic interests," he explained, further remarking that anyone unwilling to abide by the financial community's hints and suggestions would soon find himself locked out of the market.²⁹ In Polanyian language, such an example demonstrated the embeddedness of the market, at the very core of the system.

²⁵ Margaret Mead, *And Keep Your Powder Dry: An Anthropologist Looks at America* (New York: William Morrow and Company, 1942), 227–30.

²⁶ *Ibid.*, 231.

²⁷ Linkletter, "Drucker Redux," especially chap. 5.

²⁸ Peter F. Drucker, *The End of Economic Man: A Study of the New Totalitarianism* (New York: The John Day Company, 1939), 37–38, 45–50; Drucker, *Future of Industrial Man*, 54–59; Peter F. Drucker, "The Meaning and Function of Economic Policy Today," *Review of Politics* 5 (1943): 217–18.

²⁹ Drucker, *Future of Industrial Man*, 64.

Drucker did not, however, follow Polanyi in condemning outright the fictions of the self-regulating market. Although Drucker recognized the dangers in establishing a society in which economic means and ends stood above all others, he also saw the benefits. The history of the civilization, he argued, was the history of human attempts to achieve freedom and equality in successive spheres. Religion had been the first socially constitutive sphere, followed by the intellect in the sixteenth century and the economy in the eighteenth. Each had allowed humans to address new problems and discover new solutions, but none could claim completeness.³⁰ The best that could be hoped for any one of those societies was that its reigning ideas match its actual problems—that its creed be in step with its reality. And Drucker thought that the idea of Economic Man *had been* appropriate for a mercantile age. The problem for him was not the inherent bankruptcy of economic ideas, but rather that they had become obsolete.

At first, in *The End of Economic Man*, Drucker attributed the obsolescence of economic society to the exhaustion of both capitalism and socialism as ideologies—neither had provided the freedom and equality it promised. Sometime before writing *The Future of Industrial Man*, however, Drucker read the influential New Deal text, *The Modern Corporation and Private Property* by Adolf A. Berle, Jr., and Gardiner Means, and used it as the basis of a more sophisticated analysis. Berle and Means's main achievement was to document and recognize the significance of a single fact: that the owners of corporations were no longer in control of them. The growth of corporations, the dispersal of stock ownership, and the rise of a class of managers had effected a split between legal ownership and actual control, leaving the managers in charge of the largest and most important economic entities in modern society.³¹ For Drucker, the thought-patterns of economic society had left people completely unprepared for such a development. The old ideal of achieving freedom and equality through a diffusion of ownership—promised by both capitalists and socialists—had become simply irrelevant as ownership itself became marginal. Economic concerns like guaranteed wages and income had become “not solutions for the future but unfinished business of the past.”³² The new social reality required another drastic reconception of society, this time subordinating economics to politics.³³ The Nazis had already made that shift; the challenge, Drucker felt, was to reconceive society on noneconomic grounds without falling into fascism as they had. He sought a society “in which the socially constitutive sphere is organized on the principle of the responsible decision of the members of the society.”³⁴ And yet, Drucker did not identify himself with the radical democratic tradition but rather with conservatism. In a

³⁰ Drucker, *End of Economic Man*, chap. 8.

³¹ Adolf A. Berle, Jr., and Gardiner C. Means, *The Modern Corporation and Private Property* (New York: The Macmillan Company, 1933), see particularly 353–57.

³² Drucker, *Future of Industrial Man*, 113.

³³ Drucker, “Meaning and Function of Economic Policy.”

³⁴ Drucker, *Future of Industrial Man*, 168.

changing society, he argued, the best protections against fascism were the core principles of the “conservative counterrevolution of 1776” in the United States—deference to legitimate authority, political checks and balances, decentralization of decision-making, protection of minority rights, and a foreswearing of radical political action.³⁵

Many of Drucker’s ideas about industrial society were shared by James Burnham, whose influential *The Managerial Revolution* (1941) appeared after *The End of Economic Man* but one year before *The Future of Industrial Man*. Like Drucker and Herskovits, Burnham saw market society as peculiar to the modern West. Thus, he argued, while its features may seem natural, especially the commodification of everything in the market, history and anthropology had shown that the institutions of modern capitalism “are so far from being inevitably ‘natural’ to man that they have been present in only a small fraction, the last few hundred years, of the lengthy history of mankind.”³⁶ “The concepts of bourgeois ideologies are not written in the stars, are not universal laws of nature,” he continued, “but are at best just temporary expressions of the interests and ideals of a particular class of men at a particular historical time.”³⁷ Burnham further agreed with Drucker and Parsons that the market was embedded in social institutions; it is instructive to compare Polanyi’s famous denunciation of the self-regulating market as a “stark utopia” to Burnham’s claim that laissez-faire was “an unattainable and, in reality, unwished-for ideal.”³⁸

Like Drucker, Burnham believed economic society to be obsolete. He, too, turned to Berle and Means for his understanding of modern society. The managers had taken control of the means of production from the owners of property and, in doing so, had set off what Burnham called “the managerial revolution.” Burnham’s picture of the new epoch, however, was grimmer than anything offered by Drucker, Mead, and Parsons. Stalinism, Nazism, and New Deal technocracy, he declared, were rapidly converging, killing both the capitalist ideal of the sanctity of property and the socialist ideal of the classless society. Totalitarianism, he suggested, would be “the permanent political frame of managerial society.”³⁹ Although Drucker and Burnham were developing their ideas simultaneously, *The Future of Industrial Man* was clearly intended in part to respond to Burnham’s pessimistic predictions by pointing to ways in which the totalitarian tendencies of managerial society might be overcome.

The idea of the end of economic society had thus risen to a certain prominence in the United States by 1942. Not only had academics like Parsons and Herskovits developed or reanimated the idea within their disciplines, but public intellectuals like Arnold, Drucker, Mead, and Burnham had

³⁵ *Ibid.*, chap. 7–9.

³⁶ James Burnham, *The Managerial Revolution: What is Happening in the World* (New York: The John Day Company, 1941), 18.

³⁷ *Ibid.*, 35.

³⁸ *Ibid.*, 21.

³⁹ *Ibid.*, 154.

expressed it clearly in their predictions for a new society. By 1944, one could find Julian Huxley, the eminent British biologist who toured the United States during the war, proclaiming the death of economic man and the advent of a “new epoch of civilization . . . the age of social man” (Huxley acknowledge Drucker as the source of the idea).⁴⁰ A year later, Norman Cousins, editor of the *Saturday Review*, gave the idea its most memorable popular formulation. Writing in the immediate aftermath of the bombing of Hiroshima and Nagasaki, Cousins penned a much-reprinted editorial, “Modern Man Is Obsolete,” arguing that humankind’s “savagely competitive impulses” had become outdated, and with them the worldviews of Darwin and Malthus. Prosperity, technical prowess, and the prospect of atomic warfare laid the conditions and supplied the need for a transition from the age of “competitive man” to that of “cooperative man.” Cousins’s editorial was popular enough that he soon turned it into a book of the same name, which “had a tremendous impact,” according to one historian of the period.⁴¹

What can Arnold, Parsons, Herskovits, Mead, Drucker, Burnham, Huxley, and Cousins tell us about Karl Polanyi and *The Great Transformation*? I would like to suggest two things. First, we ought to see Polanyi as a participant in the U.S. scene. That we rarely do; most Polanyi scholarship places him within a disciplinary tradition or explores his European roots. The one notable exception to the rule, an article by Walter C. Neale about the “strange” similarities between Polanyi and the U.S. institutionalists, concludes that the similarities were simply coincidental.⁴² But as Drucker’s housemate, colleague, and frequent interlocutor, Polanyi could not have been anything less than deeply familiar with the general terms of the discourse described above, and, indeed, he cited Mead, Herskovits, and Drucker in his book. The strong possibility that Polanyi learned something from his colleagues in the United States is important because it gives some credence to Fred Block’s influential contention that, in spite of Polanyi’s insistence that he worked out the main idea of the book before his arrival in Vermont, an examination of the text itself suggests that Polanyi’s “theoretical framework shifted” midway through its composition.⁴³ Specifically, Block argues that Polanyi experienced something akin to an “epistemological break” during his time in the United States, causing him to jettison his Marxian framework in favor of a non-economistic theoretical position grounded in the theory of fictitious commodities and the embedded mar-

⁴⁰ Julian Huxley, *On Living in a Revolution*, 4th ed (New York: Harper & Brothers, 1944), 21.

⁴¹ Paul Boyer, *By the Bomb’s Early Light: American Thought and Culture at the Dawn of the Atomic Age* (New York: Pantheon Books, 1985), 39–40.

⁴² Walter C. Neale, “Karl Polanyi and American Institutionalism: A Strange Case of Convergence,” in *The Life and Work of Karl Polanyi: A Celebration*, ed. Kari Polanyi Levitt (Montreal: Black Rose Books, 1990), 145–51.

⁴³ Fred Block, “Karl Polanyi and the Writing of *The Great Transformation*,” *Theory and Society* 32 (2003): 276.

ket.⁴⁴ If Polanyi did indeed come to reject Marx during his time in the United States, it seems highly likely that Drucker and the others helped him along, especially given the deep similarities between their work and his.⁴⁵

The second thing to note is that there is an important way in which Polanyi stood apart from his contemporaries. The difference is that while they spoke of the obsolescence of economic society, Polanyi maintained that it had *always* been a mistake. He did not see the attempt to commodify land, labor, and money as a useful fiction, but as a catastrophe brought on by the great hubris of economists like Townsend, Ricardo, and Malthus. Polanyi would never have agreed with Drucker's summary of the history of civilization as the passage from Spiritual Man to Intellectual Man to Economic Man to Industrial Man. For Polanyi, the bounds of human nature were tightly fixed. Block likens society as envisioned by Polanyi to a "giant elastic band." History might bring with it various misguided attempts to reconceive the basis of society, but any distortion of human nature will inevitably produce a reaction—the backward pull, or snap, of the band.⁴⁶

Inherent in Polanyi's insistence on the invariance of human nature was a repudiation of the long tradition of German historicism of which Drucker, the Boasians, and Parsons were all heirs. The idea that humans or human society were plastic, that they could take on fundamentally new forms, struck Polanyi as reckless. Berle and Means, of such import to Drucker and Burnham in marking a new historical era, meant little to him. He openly doubted whether there *were* any great differences between industrial and non-industrial societies. "The differences existing between civilized and 'uncivilized' peoples have been vastly exaggerated, especially in the economic sphere," he wrote.

For, if one conclusion stands out more clearly than another from the recent study of early societies, it is the changelessness of man as a social being. His natural endowments reappear with a remarkable constancy in societies of all times and places; and the necessary preconditions of the survival of human society appear to be immutably the same.⁴⁷

Although Polanyi adopted the trope of obsolescence and spoke of the demands of industrial society in his 1947 article, "Our Obsolete Market Mentality," he still had little to say about what those demands were, and continued to speak of the need to recover the "savage endowment" of humanity.⁴⁸

⁴⁴ Ibid., 302n.

⁴⁵ For a criticism of Block's hypothesis, see Kari Polanyi Levitt, "Tracing Karl Polanyi's Institutional Political Economy to its Central European Source," in *Polanyi in Vienna*, 379–391.

⁴⁶ Fred Block, introduction to *The Great Transformation: The Political and Economic Origins of Our Time*, by Karl Polanyi (Boston: Beacon Press, 2001), xxv.

⁴⁷ Polanyi, *Great Transformation*, 45, 46.

⁴⁸ Karl Polanyi, "Our Obsolete Market Mentality: Civilization Must Find a New Thought Pattern," *Commentary* 3 (1947): 115.

Polanyi's rejection of historicism did not make him a Rousseauian romantic, pining for a return to the state of nature. It just meant that, as far as he was concerned, history only brought with it novel complications of the same age-old problems.⁴⁹ The advent of market society, which Drucker saw as the collision of two great epochs of history, appeared to Polanyi as merely the collision of a good idea and a bad one. Interestingly, when their views on human progress are compared, it is Polanyi who seems more the conservative.

The relative positions of Drucker and Polanyi underwent an important change, however, when Drucker published his next book in 1946, *Concept of the Corporation* (the title was taken from a chapter in Berle and Means's book). Drucker's migration from academia to the corporate world and his experience in the final years of the war led him to rethink his old claim that capitalism and socialism were both dead. "Nothing could induce the overwhelming majority of the American people to give up the belief in a free-enterprise economic system except a major catastrophe such as a new total war or a new total depression," he wrote on the first page.⁵⁰ Society as an end in itself—Polanyi's ideal and formerly Drucker's as well—had been definitively spurned in the United States, and Drucker saw no reason to keep pursuing it.⁵¹ Drucker's new position was a significant departure from the old one, and it marked the start of his career as a champion of privatization.

What led Drucker to change his mind about market society? Although surely personal and social factors played a role in Drucker's decision, from a theoretical standpoint the key was, ironically, the publication of Polanyi's *The Great Transformation*. Drucker had previously published a version of the theory of fictitious commodities and seemed to have a basic grasp of its importance, but, as he confessed to Polanyi in two letters sent after Drucker read the page proofs of *The Great Transformation*, it was only upon reading the book that Drucker experienced the full weight of Polanyi's ideas.⁵² In a market society, Drucker reasoned, everything must be treated as a commodity, finding its price on the market.

But no society can allow labor, physical resources of land or equipment and money to be treated as "commodities." Labor is man. Land and capital equipment are his environment and his productive resources. Money and credit are the social organization itself which brings together man and his resources. Clearly, all three must be preserved for society to survive. The market cannot be allowed to destroy them nor to destroy their stability. To limit the

⁴⁹ Michael Hechter, "Karl Polanyi's Social Theory: A Critique," in *The Microfoundations of Macrosociology*, ed. Michael Hechter (Philadelphia: Temple University Press, 1983), 158–189.

⁵⁰ Peter F. Drucker, *Concept of the Corporation* (New York: The John Day Company, 1946), 1.

⁵¹ *Ibid.*, 130.

⁵² Fleming, "Three Years in Vermont," 11.

operations of the market for the sake of the maintenance of the social fabric has been the purpose of most of our economic policy in the last hundred years.⁵³

The impossibility of commodifying land, labor, and money—the self-regulating market’s Achilles heel in Polanyi’s view—was for Drucker its saving grace. If, as Polanyi argued, it really was impossible to achieve a self-regulating market and if humans would spontaneously organize to protect themselves and their environments from the threat of it, then there was relatively little to worry about: the market came with built-in protections. Anti-market critics, including Polanyi himself, were attacking a straw man. There was *no such thing* as a self-regulating market, so there was no need to argue about whether it was good or bad. For that reason, Drucker found Polanyi’s criticisms of the market puzzling. He praised Polanyi’s analysis but expressed regret that Polanyi fell prey to “the same economic absolutism he so deplores in others.” Drucker could not understand why Polanyi believed that “the market must either be absolute and universal, or cannot be at all.”⁵⁴ For Drucker, the obvious conclusion to draw from the theory of the fictitious commodities was that markets were always mixed, not that they were impossible.

Thus convinced that no market ever regulated itself, Drucker pinned his hopes on the institution that he believed played the largest role in subordinating market to society: the corporation. His experience in the business world had taught him that corporations were anything but slaves to the imperatives of supply and demand and he hoped that, as social actors, they could act as responsible leaders in the new industrial age. As before, he advocated full employment, the purposive restriction of the market in some areas, the prevention of monopoly, and the conservation of the human environment as “pillars on which an economic policy for a free-enterprise society rests.”⁵⁵ But given such restrictions—and Drucker was willing to allow that they were substantial—he believed that profit-seeking corporations could function as the leading institutions of a modern society, and that society would be better off for it.

Behind Drucker’s change of heart about the market lay his skepticism about the state. Whereas Polanyi had relatively little to say about the Soviet Union, Drucker had been arguing since the start of the war that Stalinism was no different from Nazism, a position that won him the ire of his colleagues at Bennington.⁵⁶ In his view, the unchecked state was as dangerous as the self-regulating market, except that it had proved to be a lot easier to achieve. Both state and market had much to offer—they represented the social and individual ideals of humanity, respectively. “Without them,” he wrote, “there could be no human society; there could only be the beehive or

⁵³ Drucker, *Concept*, 256.

⁵⁴ *Ibid.*, 256n.

⁵⁵ *Ibid.*, 286.

⁵⁶ Linkletter, “Drucker Redux,” 47.

the madhouse.”⁵⁷ But both were founded on abstractions of human nature, and neither could on its own serve the entirety of human needs. The trick was to embed *both* in society, to make sure that neither became too powerful.

The task of politics, for Drucker, was therefore to discover “where to draw the line and how to make one sphere balance and support the other.”⁵⁸ But the two spheres were not perfectly symmetrical. As noted above, Drucker believed the self-regulating market to be a utopia, but regarded the absolute state as entirely plausible. What is more, he argued that markets, unlike states, provided a language and metric for decision-making. Markets were not just mechanisms for distributing goods and organizing production, he argued, they were also efficient carriers of information. The market price of a good compressed an enormous amount of data about individual needs and social structure into a single number, a number that could then be compared to other numbers. The market thus offered a “yardstick” by which the cost and impact of social decisions could be measured. “Without the common denominator of price,” he wrote “every single decision of social policy would be a political duel beyond compromise, and to be decided solely by political pressure.”⁵⁹ Thus, although Drucker freely admitted that certain social goals could not (and should not) be accomplished by the market, he felt that the market—the real, concrete institution, not the textbook abstraction—must undergird the entire system.

The contrast between Polanyi and Drucker on the subject of the state is telling. For Polanyi, the commodification of land, labor, and money were unnatural, but protectionism and planning were spontaneous (hence his famous paradox: “*Laissez-faire* was planned; planning was not”).⁶⁰ So concerned was he with deploying society in opposition to the market that he gave little thought to the conflict between society and the state.⁶¹ Even in his detailed treatment of Speenhamland, the notorious English welfare scheme that has since served as a major historical example for those seeking to abolish social safety nets, Polanyi’s only conclusion was that the Speenhamland system was too local, burdening the township with the chores of the nation.⁶² Thus, although he allowed that there might be technical difficulties in government’s ability to meet the need of its populace, Polanyi did not much doubt that in normal times, the state could represent society. In many cases, it was the *only* institution that could, and he was apt to speak of “protection of the kind that only government intervention can provide.”⁶³ Polanyi’s views on the subject, although more explicit than the views of most of his contemporaries, were not particularly unusual.

⁵⁷ Drucker, *Concept*, 255.

⁵⁸ *Ibid.*, 255.

⁵⁹ *Ibid.*, 258, 259.

⁶⁰ Polanyi, *Great Transformation*, 141.

⁶¹ See Michael Burawoy, “For a Sociological Marxism: The Complementary Convergence of Antonio Gramsci and Karl Polanyi,” *Politics & Society* 31 (2003): 193–261.

⁶² Polanyi, *Great Transformation*, 95.

⁶³ *Ibid.*, 201.

Drucker, by contrast, had grave doubts about the ability of governments to represent their citizens for two reasons. First, he was deeply concerned with minority rights. Like James Madison, Drucker understood modern society to be essentially and unfortunately fractious and for that reason he regarded plain majoritarianism as a misguided doctrine.⁶⁴ A state might succeed in creating a structure that allowed all citizens to realize their own freedom, or it might succeed in protecting them from each other, but it could never embody Rousseau's "general will" without doing great violence to minorities (Drucker titled a chapter of one of his books "From Rousseau to Hitler"). This position put Drucker at some distance from Polanyi, who recognized the existence of competing groups but tended to minimize their importance, substituting a holistic vision of society for Marx's class analysis. "Class interests offer only a limited explanation of long-run movements in society," Polanyi argued—the self-regulating market's dangers were universal, and the imperative to protect society from it was also universal.⁶⁵ Scott Cook, one of Polanyi's most incisive critics, believed that Polanyi's undertheorization of group conflict came from his anti-historicism, from his belief that nonmarket societies showcased the essence of human nature. The problem with such a decision on Polanyi's part, explained Cook, was that Polanyi had a "utopian model of primitive society" that emphasized the social unity and soft-pedaled conflict and strife.⁶⁶ Largely indifferent to political fragmentation, then, Polanyi did not share Drucker's worries about the prospects for democratic governance.

Drucker's second reason for doubting the efficacy of the state was his analysis of political responsibility. The story told by Berle and Means was so remarkable to Drucker because it was the story not of managers wresting control of the economy from stockholders, but of the stockholders handing it to them. It was not a coup d'état, in other words, but an abdication.⁶⁷ Responsibility—the right of the stockholder—had become a burden, and was passed into the only hands willing to take it. For Drucker, the same dynamic could be seen in the political sphere. The primary problem of a complex industrial society, in fact, was that the masses preferred to "flee the responsibility of freedom" than to take power into their own hands.⁶⁸ Only a government that had legitimated itself could really engage the active participation of its subjects. Any other would devolve into a totalitarian managerial society, a head without a body.

Thus, whereas Polanyi accepted it as given that the state could step in where the market failed, Drucker worried that even a formally representa-

⁶⁴ Drucker, *Future of Industrial Man*, 174–89.

⁶⁵ Polanyi, *Great Transformation*, 152.

⁶⁶ Scott Cook, "The Obsolete 'Anti-Market' Mentality: A Critique of the Substantive Approach to Economic Anthropology," *American Anthropologist* 68 (1966): 328. See also J. H. Hexter, review of *The Great Transformation*, by Karl Polanyi, *American Historical Review* (1945): 501–504 and Charles P. Kindleberger, "The Great Transformation by Karl Polanyi," *Daedalus* 103 (1973): 45–52.

⁶⁷ Drucker, *Future of Industrial Man*, 93.

⁶⁸ *Ibid.*, 129.

tive government, with a full and fair franchise, might fail to be substantively representative because it might stand atop a fractured or apathetic polity. That is why Drucker felt the need to use the private sector to counterbalance the state. While Polanyi advocated familiar forms of government intervention patterned on the New Deal, Drucker advocated private solutions. For example, his full employment plan did *not* involve Keynesian fiscal policy, but rather a reform of tax laws so that businesses would have incentives to engage in small-scale countercyclical spending themselves, investing their savings in capital during depressions, and filling their coffers in prosperous times.⁶⁹ That proposal contained the essence of Drucker's approach: a market society, mediated by corporations, shaped and prodded in the right direction by the state.

What is more remarkable than the differences between Drucker and Polanyi, however, is the mere fact that two men of such obviously contrary dispositions could, during their periods of greatest intellectual creativity, converge on a theoretical matrix. Certainly, they did not travel the same path to their shared conclusions. As someone immersed in the conservative tradition, Drucker became suspicious about market society because he was already sensitive to questions of status, hierarchy, and noneconomic springs of human behavior.⁷⁰ Polanyi, meanwhile, came to reject economism from his disillusionment with orthodox, deterministic Marxism—a disillusionment many leftists of his generation shared.⁷¹ It was only upon arriving in the United States and coming in contact with each other, however, that these Austrian transplants developed their suspicions into a more formal theory. Precisely how much that theory depended upon the widespread rejection of market society in the United States is hard to measure. But given Drucker's deep engagement with U.S. political traditions and New Deal thought, some substantial degree of cross-pollination is undeniable. Certainly, the theories of Drucker and Polanyi were quickly added into the hearty stew of Boasian anthropology, Parsonian institutionalism, and popular fear of the overreaching of both state and market that so many thinkers of the time consumed.

It is crucial to recognize how much Drucker, Polanyi, and their contemporaries shared because the development of social theory since the 1940s is more often seen as an extended competition between Drucker's vision and Polanyi's. As his thought progressed, Drucker became increasingly enamored of the corporation as the legitimating feature of modern society and increasingly critical of the role of the state. One need not credit his boast that Margaret Thatcher got her ideas about privatization from his writings, but the suggestion is nonetheless indicative of his intellectual trajectory.⁷² And yet, the further Thatcherism has progressed, with its twin

⁶⁹ Drucker, *Concept*, 264–84.

⁷⁰ Linkletter, "Drucker Redux," chap. 2.

⁷¹ Block, "Polanyi and *The Great Transformation*."

⁷² Peter F. Drucker, *The Age of Discontinuity: Guidelines to Our Changing Society* (New York: Harper and Row, 1969), chap. 10; Peter F. Drucker, *A Functioning Society: Selec-*

slogans “There is no alternative” and “There is no such thing as society,” the more necessary Polanyi, with his attention to the social foundations of the market and the varieties of market society, has become.

From the perspective of the twenty-first century, the close proximity in which the two thinkers once stood seems like an extreme case of strange bedfellows. But the bedfellowship of Polanyi and Drucker is strange only in retrospect. It is only as new battle-lines emerged and ossified that Drucker became a man of the right and Polanyi a man of the left. In the fertile soil of the early 1940s, even Drucker’s hope that corporations might responsibly embed both state and market in social relations was compatible with the basic ideas that a number of intellectuals—of all stripe—were converging upon. The critique of economic society proved to be capacious and flexible, accommodating managerialist, social democratic, conservative, and even primitivist variants. It was under that broad umbrella that Drucker and Polanyi thought through the theory of the three fictitious commodities, and that Arnold, Parsons, Mead, Herskovits, and Burnham joined them in a critique of economic society. Now, when a variant of the Druckerian strain has grown out of proportion, and when Polanyi has been revived to do battle with it, it is helpful to think back on their common roots. In doing so, we may discover, for our generation, a usable past.