

Karl Polanyi in Beijing

An essay by Left Outside

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What is happening in China?

Mao's China has been transformed – a market society has been created. This week I will be writing about the political and economic consequences of this event. Karl Polanyi dubbed a similar occurrence, that began in England over two centuries ago, The Great Transformation, and I will argue that no less a great transformation is taking place in China. The similarities between the two events are striking. Firstly, the processes of commodifying land and labour, which began two centuries ago in England are underway in China today. So too is the endemic environmental and personal degradation which occurred throughout the first industrial revolution. Indeed the similarities continue, both China and nineteenth century earth have populations approaching one and a half billion.

Just thirty years on from the beginning of reform, an economy largely built on society principles has seen such a transformation that it now unarguably operates according to a capitalistic logic. However, this is not

an occasion to celebrate. Polanyi argues that the attempt to commodify land, labour and money will only lead to social calamity. As will explain below, Polanyi insists that the trio of land, labour and money represent only fictitious commodities, because they are not created for sale. Representing the loci of weakness in a market economy they provided the structure of this essay. Next we will concentrate on land and environment the degradation which has resulted in its commodification. Then we will talk about labour and the colossal upheavals as a market was forced upon China's labour force. After that we will discuss the productive organisation of China. It will examine the close ties between state and society. Finally, I will tie it all together.

Contrary to the liberal fallacy that markets form naturally when humans interact Polanyi insists that "the road to the free market was opened and kept open by an enormous increase in continuous, centrally organised and controlled interventionism." This is evident in China where state involvement has been central to the creation of markets in both labour and land. Polanyi argues that economic action is at all times embedded in social relations, thus to disembed it – to commodify land, labour and money – is tantamount to "annihilating the human and natural substance of society". Therefore, to protect society the initial tendency towards the creation of the market is met by a countermovement; this countermovement is not antagonistic to the creation of markets, it is a necessary corollary. Polanyi not only argues that a countermovement is inevitable, but also that, when embedded, an economy will perform more efficiently. To illustrate this point we can examine the manner in which China entered the world economy at the beginnings of the 1980s. It did so not just with a cheap workforce, but with the best educated and healthiest workers in the world for any country of comparable GDP per capita. However, the imposition of the market has destroyed some of the institutions which created this competitive advantage.

As will be discussed, land and labour in China possess very little in the way of social protections, but constitute vital elements in one of the world's most dynamic economies. This seemingly contradicts Polani's assertion that embedded economies are more efficient, and will thus need to be addressed. The next section will unpick the theory of Karl Polanyi which will be applied throughout.

What the hell is an embedded economy?

The account of economics provided by Polanyi rests on two connected facts. Firstly, that people rely on their natural environment and each other for their satisfaction of needs. Secondly, that the economy requires institutions, that distribute skills and knowledge, and guarantee the worth of human beings as things other than commodities. Traditionally, the economy is discussed as an autonomous sphere of human activity, in which the social environment plays only a supporting role, and modelled at a high degree of abstraction such that a “pure market” becomes an unreachable platonic ideal. However, Polanyi believed that the economy can only be examined within social relations, and that markets are therefore only useful when embedded within those social relations; they are marvellous servants but terrible masters.

Within the Chinese context it is important to examine others who have expanded on Polanyi’s concept of an embedded economy, most notably Mark Granovetter, and Peter Evans. Granovetter’s work is instrumental in understanding the social ties which have been essential in insulating China’s business and migrant workers from the market. The role of the state in economic transformation is examined in Evans’ Industrial Transformation. As addressed below, while the Chinese state has been central in fostering economic growth, it has failed to create an economy which promotes equitable national development. Their contribution to understanding the thought of Karl Polanyi will be examined later in this chapter.

In an oft quoted introduction Polanyi stated that “the idea of a self-regulating market implied a stark utopia. Such an institution could not exist for any length of time without annihilating the human and natural substance of society.” Utopian, because a self-regulating economy is an impossible fantasy which can never be realised. Annihilation, because Polanyi believed that equating the economy with the market represented a slight-of-hand which presents an impoverished conception of the economy. The economy is the setting for numerous social interactions, equating the economy with the market ignores its role in reproducing ethics and protecting society. If man’s economic role is reduced to an input in the market “human beings would die of the effects of social exposure.” Polanyi’s theory of history views the expansion of the state apparatus and the creation of markets as intimately entwined.

In all previous societies, Polanyi believed, the economic had been subsumed within the social. “Capitalism”

was not a term Polanyi used frequently in any of his works; he preferred the term market society. I think [Tim Worstall](#) might approve of this split. Besides a desire to distance himself from Marx, he used the term to draw attention to the idiosyncratic nature of his theory. The term market society does not refer to private property, or the means of production. What was unique, and dangerous, about it, was that land, labour and money were treated as commodities. His definition of a commodity as “not merely as a good exchanged on markets but a good produced for sale on markets” is irreconcilable with land, labour, or money. Therefore, he describes labour, land and money as fictitious commodities, that is to say that “labour is only another name for a human activity that goes with life itself . land is only another name for nature, which is not produced by man, actual money, finally, is merely a token of purchasing power.”

Thus, the attempt to commodify these three fictitious commodities is doomed to failure. For Polanyi it would have meant the destruction of society, of man, and of the natural environment. “therefore, the tendency towards the creation of a self-regulating market is met by a protective countermovement. This is what Polanyi dubbed the Double Movement and cannot be examined as anathema to markets, instead being essential in mediating the rate of change and instituting the process in society. “If improvement demands too great a social dislocation, society disintegrates” as Lord Glasman has written. Polanyi examined the attempt to create a self-regulating market in nineteenth century society, and witnessed its collapse into the New Deal, Soviet Five-year plans and Fascism.

Class is also central to Polanyi’s analysis; each class participated in the self-protection of society and at some point stood for interests wider than its own. In Polanyi’s view of history land was protected by the landed aristocracy and peasants. Labour, or man, and hence the whole of society, was protected by the working classes. Hence they worked to protect the whole of society. Although they were the originators of the market, the middle class itself even turned against the demands of the self-regulating market “in the final instance even capitalist business itself had to be sheltered from the unrestricted working of the market mechanism.” Traditionally capitalist development has been led by a middle class keen to win more freedoms, but in the 1980s that class was missing in China. Now, it appears that business, and businessmen, are content within the embedded business environment of contemporary China.

The countermovement, examined above as a protective movement, describes one way of interpreting the Double Movement. However, [Fred Block](#) offers another reading, and argues that Polanyi describes an

“always embedded economy,” in which countervailing movements not only act as a protection against the commodity fictions, but also help shape the initial environment for the development of a market society. This creates an economy that is instituted by exchange but is also “embedded in law, politics and morality.” The creation of a labour market by the 1834 New Poor Law was met by Factory Acts, and an education system, to provide the needed skills; farmers were protected from rapid price fluctuations that might force them from the land; and to embed money there was the institution of central banking. The countermovement not only works to create an acceptable level of protection, but is also responsible for embedding the market institutions in practices acceptable to society. However, this does not represent an optimum level of protection, the natural environment may still be degraded, infants may go without secondary education and business, and the economy may perform less well than it could otherwise do.

However, workers in China, specifically those who make up the vast migrant workforce, lack even the level of protection described above. In the context of a reformed socialist economy, and one of such massive size and regional variation, some deviation from Polanyi’s original thought is essential. Mark Granovetter examines the importance of examining social ties when analysing economic relations. As a practice, [guanxi](#) (personal relationships or social connections) has spawned a mass of literature in China, and it would therefore be foolish to ignore the influence it has there, even if it falls outside the remit of what was described in *The Great Transformation*. Guanxi, as an idiom of social trust, appears to have grown out of Communist-era China, and is now essential for the conduct of business in China. This essay will argue that for both workers and businessmen, this represents, not a distortion of a natural market order, but an informal institution of embedding, and one that has arisen directly as a consequence of China’s growth.

Expanding upon Polanyi’s work [Granovetter](#) works to dispel the notion that economic activities occur within a vacuum. He attempts to overturn both the “undersocialised” and the “oversocialised” accounts of economic behaviour. He argues that people do not ignore the social relations they find themselves in. They can rarely be described as searching for the most efficient solution to the set of preferences, instead using previous formed social relations rather than form new efficiency maximising ones. However, neither do they find themselves so “overwhelmingly sensitive to the opinion of others... that obedience [to social norms] is not perceived as a burden” in that, they do not rationally follow a predetermined set of preferences to achieve their aims. Rather, it is proposed, a constant toing and froing occurs, in which preferences are formed and changed. His “embeddedness hypothesis” bears heavily in this essay because of the odd nature

of reform, and countermovement in China.

The Double Movement has been read as presenting a minimum level of protection. But, Polanyi's work has also been drawn upon by other writers to explain and advise economic behaviour and policy. That is to say, the minimum level provided is not an optimum level for, individual welfare, environmental protection or economic development. Most useful for this is the work of [Peter Evans](#) on the state's role in industrial transformation. The function of the state has traditionally involved making war and ensuring internal stability. Evans argues that modern states are also charged with guaranteeing minimum levels of welfare and fostering economic transformation. Evans uses Polanyi as a starting point in describing the role that states have played in shaping their economies, and creating markets.

Evans recommends an active role for the state in directing businesses towards sectors of the economy that produce "multi-dimensional conspiracies" in favour of development. In his study, by directing entrepreneurs towards the information technology industry, states, which in the 1950s had no prospect of developing in this lucrative field, achieved unforeseen successes. Imperative to these successes were the close ties between state and business communities, and the ability of states to remain autonomous; to not become rent seeking cartel builders. Evans reiterates Polanyi's point that it is useless to talk of "how much" state intervention, it is more useful to discuss how, where, and why, a state intervenes.

Important is the ability to cultivate close ties between both; bureaucracy and domestic business, and between those same individual businesses. Evans examines the most successful "developmental" states — Japan, Taiwan and Korea — and discusses their bureaucracies and industrial policies. He also contrasts them with both Zaire, the archetypal "predatory state," and with the "intermediate states" of India and Brazil. Zaire, rather than having too many bureaucrats, had too few; everything was for sale, even justice and influence. Rather than being embedded in law, politics and morality Zaire's officialdom were free to maximise their individual gain through corruption and exploitation. Evans asserts that not only were the benefits of a "coherent meritocratic bureaucracy" confirmed, but links between state and society were shown to be essential as well. Both, with some qualifications, are present in China, but whether or not they can be effective in fostering further economic transformation, remains to be seen.

If we examine China's history the tradition of bureaucratic examination extends back to the Song dynasty in the seventh century CE. This bureaucratic tradition is supplemented by the close state-society ties created

by the system of guanxi described above. Contemporary trends may however, see the domestic economy increasingly dominated by foreign firms, with little domestic integration. The history of China's development has cast a shadow over what is now occurring. Therefore, the penultimate section will discuss the dual nature of China's economy. Dual, because it is embedded within close ties of social relationships, while also displaying systemic weaknesses that stand in the way of domestic upgrading.

There are, of course, difficulties in using Polanyi's work. It was developed within a specific historical situation, and it reflects its immediate surroundings; Bolshevism, Fascism, the New Deal and Total War. Polanyi presented class as the mechanism for social change; peasants and landed gentry sought to protect land, while the working class ultimately sought to protect the whole of society from the commodification of man. Thirty years of Marxist-Leninist party rule, state ownership of the means of production, and relentless Maoist mass movements, have weakened class relations in China, and this will inevitably alter how they react to the massive upheaval it is currently experiencing.

Sixty years of economic discussion on the limits of markets has passed since the publication of *The Great Transformation*. However, Polanyi's work remains important his lessons have not been learnt. The pope would agree. I'll leave you with that thought. Next we'll pick this up with a look at the natural environment of China since Deng's reforms were introduced. For now I'll leave you with a [photo of Shanghai](#) at the moment and a [link](#) to the official safety advice.



Smog in Shanghai from Instagram user euro_spring

Why is there so much smog in Shanghai?

To explain why the smog is so bad in Shanghai you can point to [air pressure, christmas, temperature etc.](#) But to really understand, like most things, you have to go back at least half a century. You might think its odd that I begin with land and nature and not people. But until very recently China was an agricultural country. It makes perfect sense to start with the environment.

So, to kick off, I won't pretend environmental damage wasn't widespread in Mao's China. "Political repression, utopian urgency, dogmatic formalism, and state-sponsored relocations affected and distorted Chinese relationships with nature in the Mao years" as Shapiro wrote in her [Mao's War on Nature](#).

Among the most bizarre attacks was an utterly mad attempt to eradicate sparrows, rats, mosquitoes and flies, from the Chinese countryside. Unfortunately, the environmental degradation produced in the Mao years pales in comparison to the damage which contemporary reforms have fathered.

Mao's death in 1976 ended the lost decade of the Cultural Revolution, but also created a power vacuum and a period of instability in the Communist Party of China. The elevation of Deng Xiaoping to leader offered a welcome solution to the Chinese people, and he entered office with a mandate for change. The change he proposed was described as "market adjustment" and "adjustment by the plan" at the December 1978 Third Plenum. Reform began in urban areas with an attempt to create an urban labour market by allowing selected managers to hire on a contractual basis. The reforms also included provisions to allow state owned enterprises to raise prices and retain profits. In 1981, amid rising inflation and urban unrest, urban reforms were brought to a halt and focus was switched to rural areas.

Rural reforms began not long after their urban counterparts in September 1980. They initiated a major step in the rural reform process; the commune based agricultural system was to be replaced by the Household Responsibility System (HRS). You don't understand anything about China unless you understand this. The commodification of land began in the countryside; the HRS divided commune land into individual family farming plots, and tied earnings to the yields produced by each family. They had to make compulsory deliveries to the state but anything above that was free to be sold on the market. Within three years 98 percent of peasant households had been incorporated into this new system. Eager to taste the new life offered to them the Chinese peasants were keen to undertake this transition.

Although the land remained communal property, which was leased out to individual tenant farmers, the HRS amounted to a de facto commodification of land in the countryside. As well as abolishing the old order and implementing the HRS, the Chinese state has also played, and continues to play, a vital role in forcibly commodifying land; dispossessing China's peasants of their plots. Reflecting on the HRS, The Economist credits the spectacular growth in the Chinese countryside to the free play of market forces. However, what Meisner calls the most "economically successful period in the history of Chinese agriculture" can more accurately be described as the culmination of thirty years of successful state led investment. The rise in productivity being the results of a one-off price increase on compulsory grain deliveries that corrected, previously low, state prices.

Most economists would argue that China suffers because of its ambiguous property system — uncertainty prevents long term planning and investment. However, by equating commodification with free-hold, they ignore that the commodification of land can be done largely on a leasehold basis, as it was in London and New York. Within the Chinese context it is important not to equate the commodification of land merely with status as "private property." Even as commentators denounce China as Communist in name only, domestically the term private property has still not lost its subversiveness. Therefore, in urban areas, land is often traded in "primary" and "secondary" land-markets, while also remaining state property. This essay will argue, for both land here, and labour in the next chapter, that although unconventional, the commodification which has occurred is subject to the same analysis Polanyi used in *The Great Transformation*.

The Double Movement does not occur in a vacuum, class interests play an active role in fermenting and directing the countermovement. By mediating the enclosure movement in early-modern England, the monarchy and the Church represented the interests of society and prevented it from massive social upheaval. The countermovement against commodifying land slowed the pace of change and allowed new measures to be developed to deal with the new problems which were part of this new social system. After the experiment of Communal life many peasants were keen to taste the new life offered to them by the HRS. Moreover, the CCP officials who oversaw the dissolution of the Communes, often themselves profited directly from this process. Both of these factors may help to explain the initial weakness of the Double Movement in China. Unfortunately, the enthusiasm of the Chinese peasantry and the CCP for reform, has not prevented a catastrophic destruction of the Chinese environment.

The annihilation of the Chinese countryside is not a certainty; there are some embryonic examples of a

countermovement. The [Western Development Programme](#) was an attempt to demonstrate the government's commitment to national unity. It is not a simple or straightforward programme with a discernible single aim. Rather than just attempting to eliminate inequality, most of the programme aims at incorporating the underdeveloped Western China into an enlarged home market. However, this would ignore the element aimed at protecting the environment, the "Grain for Green" programme. In essence it asks farmers to refrain from using the land for profit, and instead to return it to natural forests and grasslands. This serves to protect the natural environment from over-exploitation and callous destruction.

However, projects such as the WDP do not alter the fact that the success of Chinese agriculture is threatened by the market. The institutions which had maintained the major works that allowed China to equitably feed the largest nation on Earth, have been dismantled in an effort to commoditise land. This has not been met by new coping mechanisms or new social projects. Polanyi argues that economies which are embedded will be more successful than those which are not. The HRS was the cause of a cumulatively huge one-off increase in the living standards of millions, but was followed by stagnation in living standard and declining grain yields. Grain yields declined because, precipitated by Deng's call to diversify, many farmers turned to small-scale private business instead of farming. Moreover, most damaging for individual wealth of those Chinese tied to the land the HRS has put a halt to much mechanisation of Chinese agriculture – a centuries long Chinese ambition.

[In 1997](#), it was suggested that China could take advantage of its backwardness, evade chemical pesticides and fertilisers, refuse to make extensive use of automobiles etc. and bypass the most destructive elements of development. One look at Shanghai shows you that this advice was not heeded and the Chinese people and natural environment have paid the price. The market as instituted in China is incapable of delivering the environmentally balanced development essential in China. Polanyi argued that only by mediating the change and embedding the economy, did the enclosure of England not result in social calamity.

The literature on the environmental damage of modern China abounds, but to be succinct we can restrict our discussion to idea of a "Green GDP" which has been considered by the CCP. A simple idea, the "Green GDP" subtracts the economic cost of environmental degradation, from the increase in a traditional calculation of GDP, more net domestic product than gross. Despite the fact that it "used low estimates of environmental damage to health and did not assess the impact on China's ecology" the new growth calculations were so

meagre that they were politically unusable. The CCP could not maintain its economic credibility with such poor growth figures. The commodification of land has caused huge damage; Vaclav Smil estimated that one seventh of China's potential GDP in the late 90s was sucked up by environmental abuse. Despite, and perhaps because of, this widespread destruction, there have been some recent movements towards a rebalancing countermovement; such as the WDP described above.

I've tried to outline and analyse the problems that have confronted the commodification of the Chinese countryside. In light of; the "Green GDP," the decline of public works, and the stagnation in peasant living standards since the mid 1980s, the foresight of Polanyi's argument become clear. An embedded economy will be more efficient than a disembedded market. China is experiencing a continent-wide expropriation of social property, but without being coupled with a concerted effort to maintain the standard of the natural environment essential for the well-being of the Chinese people.

The market is systemically unable to deliver economic growth without doing environmental damage. It is possible to price these externalities, but just because it is possible does not mean it is happening. Pricing externalities requires complex institutional design and a class of people to make the case. The people most badly affected by the damage done to the environment are too weak politically to respond. That a pigou tax is possible but not in place strengthens Polanyi's position that an economy works better when embedded. If we look at labour next I will tell a similarly ugly story.

Who are China's workers?

The labour market in China is in its infancy. It is, in fact, incorrect to speak of a labour market in China at all; there are many disparate situations where we find working people. Although discussion will be on industrial workers it should not be forgotten that there are still more than 200 million peasants working the land in China, however for brevity these must be excluded from discussion. The state began allocating labour in the 1950s and continued until the 1980s when the attempt to commodify labour began. However, the creation of a labour market has not seen the state wither away; instead it has turned its already considerable repressive powers towards the task of creating a Labour market. Polanyi argued that the creation of markets involved a dramatic increase in the coercive power of the state; this is in marked difference to others who emphasise the natural germination of markets, which occur where the state withdraws from the economy as is typical with most economists.

In an examination of China, Polanyi's account is by far the more convincing than that of conventional economists. Chinese workers have been reshaped into commodities. This has first been done by the central Chinese state through the smashing of the "iron rice bowl" and the stripping of state provided welfare from the employed, and the exclusion of China's vast migrant workforce from what little support remains. Moreover, enforced redundancy and bankruptcy have created vast reserves of the unemployed, "freeing" them to find their wage on the market. These reforms were met by a series of Labour Laws, intended to mitigate their negative effects. However, the laws concerning minimum wages, factory conditions etc. go largely ignored due to a second movement towards commodification.

Local government has received much devolved power; for example, in fiscal terms, China has perhaps the most devolved government in the world. In return for this power, local government is charged with fostering economic growth, this usually entails the circumvention of these labour laws. Sole responsibility for the bypassing of these laws should not be levelled at the local state. For example, 78% of state-owned enterprise employees and 95 percent of state-owned enterprise retirees were to be covered by the state-run pension scheme. This reform replaced schemes run by individual enterprises but will not be honoured because of the fiscal limitations of the central state.

There are obvious benefits to China's current configuration, Chinese workers no longer need to contend with the repression Maoist state, and there have been notable relaxations since the Tiananmen Square Massacre. However, this internal confrontation has been replaced by an external one; workers now have to combat the combined legal departments of several transnational corporations. For years they have been engaged in intensive lobbying against the extension of further labour rights in China, Arrogantly declaring that the labour laws in place, already largely unenforced, are enough for China's workers.

The creation of a labour market has required de jure, and some de facto, ending of lifetime tenure. In 1983 state-owned enterprises were ordered to hire new employees on a contractual basis, this began the drive to convert labour into a commodity, to be bought and sold as a commodity, and abolished the socialist commitment to full employment. This was consolidated in the mid-1990s with large scale redundancies at SOEs. However, those who still enjoy urban state sector employment remain very immobile; the real effects of market reforms have been felt by the vast and growing rural-urban migrants. The dissolution of the communes led to the creation of a vast migrant labour force, which numbered around 50 million in the late 1980s, and over 150 million now.

This process [shares similarities](#) with the making of the English working class: peasants, handicraft workers, artisans and small manufacturers all suffered displacement as their livelihoods were destroyed, whether, through land enclosure or market competition from more productive capitalist farms and factories. However, in England as the attempt was made to commodify labour in Britain a countervailing measure arose to protect society: [Polanyi interpreted](#) legislation concerning public health, factory conditions, social insurance, public utilities, municipal services and trade union rights in Victorian England as countervailing measures to check the societal effects of the unfettered expansion of capital.

This countervailing measure is far from obvious in China. The expansion of the state required to commodify labour is described above. However, the application of the commodity fictions has only been partially implemented. The local state, at times, undermines the institutions designed to embed Labour within a social minimum. Deng aimed to refashion workers as commodities, to be bought and sold. However, the appeal of the Chinese economy was not just cheap labour; there is a wealth of the desperately poor in the world. China succeeded because its labourers were healthy, educated and disciplined. A population more literate, more educated, and with longer life-spans than any country with a comparable GDP, entered the world

market in the 1980s. This was achieved with rural Communes and urban Danwei which operated as miniature welfare states, providing cradle to grave security.

The communes have long since been dissolved and so, as SOEs are transformed, most working people have lost access to their social safety net, including pensions, housing, health care and increasingly even primary and secondary education. To illustrate, after three decades of reform, healthcare is in freefall and the World Health Organisation ranks China last in terms of equal access to healthcare. Furthermore, China alone is helping to partially refute the idea that “wealthier is healthier.” The marketisation of its healthcare infrastructure has caused improvements in health to accrue more slowly, and less equitably, than in any comparable state in history — the poorest now go without healthcare altogether. As discussed above, the countermovement against the commodification of land is notable for its weakness and for the damage which has been wrought in its absence; regrettably the same is true, to a lesser degree, of labour. Labour laws exist in China; there are a number of rights which have been introduced, from pension reform to minimum wages. However, the Double Movement is not a matter of formal labour rights. If rights such as those above go unenforced, as they do in China, they cannot be described as constituting a Double Movement.

After examining the conditions of workers in China; both their hardship and their lack of protection offers evidence that might be used to refute the existence of Polanyi’s Double Movement. However, informal institutions of embedding have arisen in order to overcome the abusive application of China’s labour laws. This essay will argue that, as with business in China, rural-urban migrants have developed a complex system of guanxi to insulate themselves from the market. The work of Granovetter describes the limits of spot markets between anonymous individuals to transfer information and build social trust. Moreover, it helps us to understand that legal protection and social security are not the only ways in which the economy can be embedded. Within China, informal systems of embeddedness have come to be incredibly important.

A brief description of the origins of China’s migrant labourers is necessary to place them in the correct context. Revolutionary China used a hukou, or household registration system, to all welfare provision to its population. It also constituted an intrusive method of social control, preventing all but a limited amount of internal migration. Initially registering the population was simply about finding out the numbers involved, but hukou soon became a tool to restrict mobility. The hukou system’s weakening has granted labour the freedom of movement around China, but it also prevents migrant workers from claiming the pensions, schooling, unemployment benefits, etc. enjoyed by those who have an urban hukou. In official Chinese

parlance peasant workers in urban jobs are not migrants; as it would denote a more settled status. They are a “floating population,” without the rights that those who possess urban hukou enjoy. It is this group who make the most extensive use of guanxi as it is they who lack the most basic of protections.

Guanxi is an informal set of ties and obligations whose origin can be traced back to Communist China. In contemporary business relations its importance is well documented (and I will discuss it more tomorrow). Granovetter’s study examined the behaviour of individuals within a developed market, and found that they often substituted embedded social relations for rational economic maximising behaviour. A similar and more intense version is employed to glean useful information from fellow migrants to find work, and protect themselves from unemployment. To illustrate, it is argued that because of the guanxi between current migrant workers and potential migrants as few as just five to ten percent of newcomers to Chinese cities could not find work within a week of arriving. The emphasis placed on guanxi can help us to understand why it is that China’s rural migrants can survive and remain productive in such a hostile environment.

The demands made by the market can prove utterly disastrous for human beings if their basic needs are not protected. However, the Double Movement is more fundamental than this. Guanxi has helped to explain the survival of Chinese workers in a hostile environment, often devoid of the social protection Polanyi argued was essential; however, this only addresses one aspect of the Double Movement. It is also fundamental in embedding economic relations in a legal system that ensures that the commodity fictions are upheld in a market-society. As explained the Double Movement is not anathema to markets, it is a necessary condition.

[Fred Block](#) discusses the embedding of the economy in “law, politics and morality,” the economy insist be embedded within reasonable and lawful practices. Thus, even an approximation of a market system requires embedding within a social minimum. The evasion of Labour standards illustrates the weakness of the Double Movement in China. This view, though controversial in Polanyi’s time, is now firmly embedded in the new institutional economics of people like [Douglass North](#), [Daron Acemoglu](#) and [James Robinson](#).

Non-payment of wages is a major problem in China, sometimes used to discipline workers, it is used to ensure workers do not quit, as if they do they risk losing all right to unpaid wages. It is incredibly widespread, in a survey it was reported to have had affected 72.5 percent of workers. It is cited as a major cause of protest in China; but by using it to discipline workers further protests are being prevented. The non-payment of wages is a method used in China by capitalists to enforce discipline and expropriate capital from their

workers. This practice is credited with allowing such a large amount of wealth to be accumulated by such a small group, in such a short amount of time.

At times this is discussed as a shocking denial of human rights, the simple right to be paid what one has agreed as remuneration for one's labour. It is presented as an example of how brutal capitalist development has been in China. But, the true interpretation of this practice is rather different. Capitalist exploitation under a market system involves the sale of labour as a commodity. The theft of labour is evidently not part of this. This practice illustrates again the weakness of the Double Movement in China; it has failed to provide an adequate legal framework to ensure wages are paid on time, or even at all. Without a Double Movement to embed market structures they don't exist. You don't get capitalism you get something even more brutal.

In law the situation concerning labour appears far better than that concerning land. However, in practice both appear to be subject to the damaging infliction of commodity fictions. [Giovanni Arrighi](#) suggests that the Chinese state has presided over gradual economic reform and met these with countervailing actions to promote a "synergy between an expanding national market and a new social division of labour." However, this represents an astonishing, though predictable, misreading of what is occurring in China. With regard to labour the Chinese economy tacks not only the protection necessary to ensure wages are paid on time, but reform has also hollowed out the institutions that made the Chinese economy a success in the first place.

Since I wrote started researching China about half a decade ago a lot has changed. It's a country that moves at an astonishing rate. [Over the past decade](#), China has rapidly expanded the numbers going to university from from 2.2 million in 2000 to 6.6 million in 2010 students. Job creation hasn't keep pace and there were 100 job applicants in mid-2013 for every 80 jobs which require a university education in China. The scenario was reversed for jobs which don't require tertiary education, there were 100 applicants for every 125 slots in China. This has led to a narrowing in wages. Since 2009, professional wages have climbed 12 percent annually. In the same period, average wages in manufacturing, agriculture, and construction have risen 14 percent annually. I'll chalk this one up as a success for Polanyi's Double Movement and a sign I was probably too pessimistic 5 years ago.

China has been successful in destroying the old institutions, which allowed it to enter the world economy and out perform all previous expectations. However, they have not been replaced with new institutions to guarantee further success, although some elements are improving. On one level this is evident in the

endemic non-payment of wages, and the callous exploitation of the local state. You can also see the frictions in the [mass gathering incidents](#) documented by [Jamie](#).

I would argue there are two seams to the protests now occurring in China. These can be used to locate where people feel threatened by China's Great Transformation. Some occur because some workers have been left to the mercy of the market, protesting against enforced SOE dissolution, low wages, and a scandalous marketisation of basic services; such as healthcare and education. Others occur precisely because the same set of commodity fictions are not enforced, people are robbed of their labour and land because a market has not been instituted inside reasonable institutions. The same is true in the countryside where Chinese robber-barons have seized huge tracts of land. Both stem from the same source, the weak countermovement in China. If action is not taken to embed the market, then the ecological and human damage that will result will be matched by the collapse of China's economy. We've heard lots about China's capitalists in passing, but I'll go into more detail tomorrow.

Why are China's capitalists so successful?

The economic reforms introduced in the late 1970s were, argued the CCP, essential to combat economic stagnation and waste of the Mao years. So it was the Party that created the market in China. In Europe, Polanyi described an insurgent middle classes who “developed an all but sacramental belief in the beneficence of profits” and faith in the market. In China the market was introduced to break the bureaucratic control of the economy, but reform has ironically led to the enrichment of China's bureaucrats. It has also left land and labour deeply unprotected. In contrast, China's private and state-owned businesses are deeply embedded in social relationships. Its a deeply contradictory and complicated place as only a country of over a billion people can be.

In *The Great Transformation* ([full pdf](#)) Polanyi runs three chapters concurrently, Market and Nature, Market and Man and Market and Productive Organisation. This essay has followed a similar course and this penultimate section will look at China's breakneck economic growth and discuss whether that invalidates Polanyi's idea that “a embedded economy will be more efficient than a disembedded market.”

I started by saying that China's party decided to create a market, that is how Polanyi and I talk about it, but it isn't the normal parlance. The main school of thought on liberalisation emphasises the spontaneous creation of private enterprise wherever the state withdraws; this school draws on Adam Smith's assertion about man's “natural propensity to truck and barter.” I haven't much truck with this. Capitalism got going in large part thanks to the [fiscal strength of the British war state](#) being able to enforce property rights and help capitalists accumulate capital through dispossession. Likewise in the US the government opened up the west with bloodshed and dispossession which helped America's farmers accumulate land and helped prop up the wages of its working class. But I digress.

One half of Polanyi's theory was that while laissez-faire was planned, the response was automatic and universal, even capitalists rebelled against the market. Good free marketeers like [Tim](#) and [Chris](#) see this as lamentable, they should see it as inevitable. Polanyi insisted that against the tide of market utopianism even capitalists will strive to protect themselves against the market. In China there has been no unconditional acceptance of the market, and its implementation has been limited, even if its effects have been broad.

Contrary to the liberal belief that those engaged in private business will seek further economic and political freedom, it appears that those engaged in business in China prefer stability to economic liberalism. There's more parallels to this: authoritarian capitalism can be pretty stable, Bismark's Prussia, Meiji-era Japan and Pinochet's Chile were all stable for extended periods of time. Just like in these countries, embedded markets can be remarkably effective at delivering growth.

China's business operations rely more on connections than on private property, they are embedded networks of guanxi. I think you should conceptualise guanxi differently for migrant workers versus business men. For labour, it has arisen as a protective last resort, a countermovement which provides shelter in place of hollow labour laws. For businessmen it has become an integral part of "doing business." Rather than decreasing as China's economy develops, guanxi has increased its prevalence as businessmen develop new ties, and deepen old ones, in order to achieve their aims. On one level it functions, not as a system protecting against the market, but as a method for smoothing the transition between different state policies, in which extralegal activities are permitted in order to maintain smooth operation of business. There's a parallel in the Soviet Union where boxes of cigarettes and bottles of vodka lubricate the workings of a badly drafted plan. In China gifts lubricate systems of insecure exchange.

At a macro level, the state also supports businesses and economic growth. The ideal developmental state, as described above by [Evans](#) possesses a "concrete set of social ties that binds the state to society and provides institutionalised channels for the continual negotiations of goals and practice." It is easy to dismiss guanxi as clientalism, or "crony capitalism" that distorts a natural market conditions. In reality China's capitalists have the ear of the Chinese state and mutually assured destruction ensures they are focused on growth. Where [Scott Sumner](#) sees pragmatic policy making I see the fear in their eyes.

The state has laid the foundations for China's economic growth and like other developmental states, it has sporadically suppressed market activity and supported strategic investment at the behest of its capitalists. China's business situation is a system in which legal foundations of private property do not matter as much as ensuring that personal connections with local government and party are good. This can be a method by which private capitalists can extort money, power and influence from society at large. But it is also a method for ensuring capital investment is incentivised and profitable opportunities exploited. The institutionalisation of guanxi is a symptom of the decentralization of power which has occurred in China as

both an impetus to, and consequence of, China's economic rise.

To a degree the Chinese state has failed. For the majority of China's development, while attempting to build global leaders the vast majority of the Chinese economy remained wedded to low-wage manufacturing. "Manufacturing" may prove to be a superlative a word for what occurs in China. It can perhaps be better described as "assembling" imported inputs. High-value adding components are constructed outside and shipped to China for final manufacturing before being re-exported. The challenge for a developing country is to move up the value added chain. In the mid-2000s I was relatively sceptical of this happening, now I am more optimistic.



From The Independent, taken by [Leonardo Finotti](#)

The tight state-industry link hasn't been severed and remains very strong. In return for a huge degree of state control Chinese capitalists can help direct infrastructure spending. Britain has built one new runway since the Second World War. China has been building [ten a year or more](#) for over a decade. Britain was rather well endowed with runways following the war, but China's achievement is colossal. China's expanding its infrastructure at an astounding pace and it is a close coalition of capitalists and bureaucrats directing it. While some reports suggest lots of this investment is in empty ghost cities and roads to nowhere others are [more optimistic](#):

In the case of Henan's Zhengzhou—frequently dubbed China's "largest ghost city"—Ms. Wong notes that a number of media portrayals of the city's newer areas have used photographs taken between 2010-12, before the metro system connecting the district to the city's more established neighborhoods was completed. On her most recent visit there in August, Ms. Wong said she saw many cars, "hordes of pedestrians" and considerable ground activity in addition to curtains and air-conditioners installed in numerous residential buildings.

"I asked local people about what they think...about Zhengzhou being a ghost city and the answer is, 'What?' They don't actually have any idea they're being labeled a ghost city," Ms. Wong said.

Western reporters are the least likely to understand movement and patterns of production in China. Infrastructure investment is being directed by a coalition of capitalists and bureaucrats using local knowledge passed through to the might of the Chinese state.



From the BBC, taken by [Pu Yongfang](#)

Of course, the state can also be expected to expropriate the poor as necessary. As the poor and dispossessed become wealthier and therefore more powerful it seems that land grabs are becoming a little rarer than they used to be. This could also be because all the good land has already been grabbed. In any case, capitalist production is [closely embedded in the state apparatus](#). Seizing land isn't fair, but it is a pretty good way to accumulate capital. Capitalists are also more productive than poor people and development is all about putting things to their most productive use. This is the ugly side of development, and China is very good at it because its capitalists and government need to keep the economy growing.

The Chinese economy contains a business community embedded in close sets of social ties, this having given it the potential to direct its domestic industry in socially productive ways. To some degree it has certainly succeeded. In centres of development on the coast modern economies have grown up but it is unclear that this will spread to China's interior. Firms are moving up the value added chain but China remains a very poor country. Above I've discussed the increasingly large tail risk is being built up in the poor treatment of China's workers and its environment. China has managed to leverage some of the connections between business and state towards useful investment but at great cost to people and planet.

Karl Polanyi in Beijing, or There and Back Again

To conclude we'll finally talk about the Third Plenum, but first a little anecdote.

An important landmark on the road towards a labour market was the remarkable change in government policies that took place in the mid-1990s: A reform of the state sector that had as its centrepiece a programme of mass redundancies which was intended to eliminate or reduce surplus labour in the state sector. This policy was forced on the government by the falling profits and rising losses of the state-owned enterprises (SOEs), which threatened to curb economic growth and government revenues. The 1999 urban survey, analysed in Chapter 6, showed that the incidence of job loss was widespread: 19 per cent of households and 11 per cent of workers had experienced a retrenchment. This remarkable shake-up meant that suddenly there were millions of unemployed urban-hukou workers searching for jobs in competitive conditions. As though in a deliberate experiment, a labour market had been created by decree!

In a book entitled "Towards a Labour Market in China" two academics announce their astonishment that labour markets were created, rather natural. I hope you now realise that this is very silly. The problem with economists is they expect man's propensity to "truck, barter and exchange" to do a lot of leg work. Polanyi's point, in its most sanitised form, is that this isn't true. All economics needs supporting by institutions which have nothing to do with truck, barter or exchange.

Polanyi's point is more complex than that. I want to discuss his thought first as *The Great Transformation* is a rich book which deserves discussion. He argued that redistribution and reciprocity were just as important to economics as exchange. I think modern literature has borne him out.

Adherents of New Institutional Economics, of which both David Cameron and I are fans, have criticised Polanyi. The argument is that he over diagnoses. What he sees as reciprocal or redistributive relationships, they claim are actually coasian "side deals." I think this is economic imperialism. You can think of them as side deals but nobody receiving unemployment payments thinks of it as a side deal to stop them rioting and nobody who gets disability support thinks they're getting a bung to keep them off the conscience of hand-wringing liberals. Or perhaps they do. But what they hope they're receiving is something which attests to

their worth as a human being.

A man is lost after visiting a new town. He walks up to a stranger and asks him the way to the station. "Right that way" says the man pointing towards the post office, "would you post this for me on the way?" He asks handing over a letter with a smile. "Of course!" says the man, as he walks away, opens the letter and pockets the £20 inside.

A useful concept is that of a low trust society, [Francis Fukuyama](#) has written that a lack of trust acts as a tax on all economic activity, it's a deadweight loss that makes every transaction more difficult. The self-regulating market has few processes for creating high trust societies. Societies dominated by large intrusive states are similarly burdened. [Alex](#) has written lots about the UK's transition to a low trust society and its economic damage. [Jamie](#) has written about the idea of China as a low trust society. Here three decades of communist rule (an over emphasis on redistribution) has been followed by the destruction of those institutions and the elevation of exchange. It's resulted in situations like this:

[On](#) the morning of Sept. 4, in the riverside boomtown of Wuhan, Mr. Li, an 88-year-old man, fell in the street and injured his nose. People passed him by, but no one raised a hand to help as he lay on the ground, suffocating on his own blood.

This week, China's netizens have expressed an outpouring of sympathy – for the bystanders. This is nothing new here. In recent years, there have been several high-profile cases of elderly men and women who have collapsed or suffered accidents in public spaces who then sue the good Samaritans who have tried to help them. These cases have created a genuine and widespread fear that helping a person in need will lead to personal financial loss.

Inequality of market outcomes can drive a decline in trust and make economies perform poorly. This effect isn't as big as Polanyi would have predicted because it's pretty hard to smash reciprocal relationships, but its there.

What I've documented is that there are lots of way to conduct economic activity and that there are a variety of capitalisms, sometimes all in the same country. More than that, I hope that thinking about Karl Polanyi can give you a deeper understanding of the necessary and inevitable institutions that surround society and the

economy.

Moving on to the specifics, Polanyi argued that a countermovement was inevitable, necessary and would be led by a class. I don't think this has been the case in China.

1) Polanyi placed class at the centre of his analysis. In China, class power has been weakened by the CCP. From the 1950s the state not only became the solitary organiser of production but it also chose to intervene into every aspect of its citizens lives. The brutality of the CCP in stepping away and demanding a market function has been stronger than Polanyi could imagine. For example, institutions which demand workers are paid on time have been slow to form because workers are weak.

2) Polanyi relied too heavily on formal institutions. The system of guanxi instituted by working people has created an odd, but powerful, informal countermovement and illustrates that, when possible, society will always attempt to insulate itself from the market. This is different to the process Polanyi describes, but not too radically so to invalidate his work. Similarly, capitalists rebelled against the market in the UK and demanded cosy cartels and regulation to keep out competitors. In China tight but more informal state-society institutions are more the norm. Again, probably because of the historic role of the Party in the state and production.

3) Polanyi has also been proven half-right concerning land. He insisted that a countermovement was inevitable; however, this essay has shown that if class interests prove too weak this may not, in fact, be true. Although the tide [may finally be turning](#). He was ultimately correct when he argued that commodifying land would lead to "annihilating the... natural substance of society." [Pigou taxes](#) are one way you can embed the economy in society, but without the necessary institutions or a class to push for them they won't happen. This is a problem for mainstream economics, just because a solution exists economically doesn't mean it will be implemented politically.

I'm still concerned that China will implode but I'm more confident that it could muddle through. It seems that unembedded markets work much better than Polanyi thought. Before I concede that the big man was wrong, I want to propose a theory. Unembedded relations work quite well for manufacturing, but not services. [Manufacturing exhibits](#) unconditional convergence in productivity. This means that even in basketcase countries the manufacturing sector's productivity will converge on the production possibility

frontier.

When Polanyi wrote *The Great Transformation*, England was a dozen times richer than the poorest countries, today the richest countries are 100 times wealthier. Now it is possible to trash your environment and annihilate the human and natural substance of society and get 10 times the return you used to. So long as China could find replacements for the broken men and shattered earth to pour in as commodities to its satanic mills it would get a good return and the unembedded economy would hum along nicely. Well, nicely according to the headline figures. That trend isn't sustainable, but as we'll see in a second it looks like it won't be sustained thanks to The Third Plenum. Food for thought. But it's only a theory for now.

I'll repeat that the one thing Polanyi isn't is an advocate of state planning. *The Great Transformation* offers, an account of the deleterious effects of statist intervention, as well as an attack on market liberalism. He saw the state as necessary to guarantee justice, regulation and recognition and the market as an important sphere of exchange. But neither state nor market can be relied upon to be the sole method of ordering the economic life of society. In lots of ways China has attempted to swing from one to the other extreme and getting a bit of the worst of both. It's clear that a market society is superior to a state society, but there are lots of ways to get the balance wrong.

Polanyi was not a pessimist. He argued that there has never been a stark choice between capitalism and communism — between the callousness of the market and the clumsiness of the plan — he demonstrates that, in fact, many different worlds are possible. Amid a vast, growing, and contradictory literature on China's rise, there have been both fears of its ascendant power, and assurances of its imminent collapse. Neither account truly satisfies; this is because China is an economy in flux. Chinese society is faced with a balancing act, it obviously still desires economic growth, but it must weigh this interest against what it has witnessed in the last thirty years. Its productive organisation has achieved

[The Third Plenum](#) made its announcements last month to much head scratching. But there's some meat to the proposals, even if nobody's sure whether the market's move from "fundamental" to "decisive" is good news or not. A clear pattern emerges. There are institutional solutions to market problems, a double movement is evident.

Farmers will be granted more property rights and it will be more likely they'll be enforced. A real-estate

property tax will be introduced to create a formal system of managing land use in urban areas. The government will accelerate the reform of the household registration system which will facilitate urbanisation and bring more of China's migrant workers back within the formal institutions of the state. Together these reforms create institutions to support land and labour. Perhaps more importantly the Chinese state is giving the judiciary more independence from local government. [Jamie](#) has pointed out this might just mean more centralcontrol, but its through this process of institutional evolution and bargaining that we get anywhere. The developments all make sense in Polanyian terms and all focus on creating rules and institutions which better manage the market and state.

The Chinese are often characterised as passive and obedient, but they have a long history of [rebellion](#). [1989](#) saw the outbreak of a movement which actively tried to challenge the ruling class.

The [militant strike waves](#) seen in [China](#) illustrate that internal stability is [not guaranteed](#). In China the market has been planned, and it has been startlingly successful, but the reactions have been spontaneous and they aren't happy with the status quo.

Coda: This essay have been a collaboration. The other author is me, but me aged 21, the same age I was when I started this blog. If any of you remember him then four and a half years and several hundreds of thousands of words later he and I would like to say "thanks for reading."