

## ROSA LUXEMBOURG FOUNDATION LECTURE

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Berlin, May 2014

I am delighted to be here at the invitation of the Rosa Luxembourg Foundation on this very special day. There are probably very few of you for whom the date of May 8 has any significance, but anyone who is vaguely as old as I am will remember it as the day the war ended.

It was VE Day in London, Victory in Europe Day. It was the definitive and final end of the Nazi regime. For those of us living in London throughout the war, it was a day of enormous, unbelievable celebration. When we set out from Kentish Town towards Trafalgar Square, we were swept up in rivers of people from the four corners of London. The final destination was Buckingham Palace. Around every other corner were bonfires made from the debris of the bombing. There was dancing in the streets, and many elderly joined the celebration after not having been out at night for years, and of course, for the first time there was light after four years of blackout. In the introduction to my talk, it was mentioned that I participated in the famous study on the effects of allied strategic bombing on the German war effort. Contrary to the intention, German war production increased with the bombing. The German bombing of Britain had a similar effect. People worked longer hours and did what the country required of them: a seventy-two hour week was not uncommon.

This is also a year of many other anniversaries: 70 years since the publication of *The Great Transformation* in 1944, Karl Polanyi's best known work; and 50 years since his death in 1964. But then, there is the historic anniversary, which marks a hundred years – a century – since the outbreak of the First World War in August 1914. I am very old, born in 1923 as was explained, but the Great War is not within my memories. It was, however, the most important event in the lives of both of my parents.

Let me begin with my mother, Ilona Duczynska: if I were a believer, I would know that my mother was smiling down upon me here at the podium of the Rosa Luxembourg Foundation. My mother was a student of engineering in Zurich in 1915, when she was befriended by a community of representatives of the Russian Social Democratic Party opposed to the war, including Lenin, his wife Krupskaya and Angelica Balabanoff. Together with delegations from Germany, France, and Britain, as well as other European Labour and Socialist parties, they met to draft a program of action against the war, known as the Zimmerwald Declaration.

As an 18-year-old Hungarian-speaking student unknown to any informant, Ilona was entrusted with delivering this call to action to the leaders of the Social Democratic Party in Vienna. When she presented herself to these gentlemen, they took one look at her and told her to go home, child, just go home. Having failed in this mission, she proceeded to Budapest where she received a warmer welcome from Ervin Szabo - a leading anarchist and head of the public library. With his counsel and advice, she found other

young people to participate in a plan to distribute anti-war literature. She wrote the texts, found the printer and together with her comrade Tibor Sugar, they organized the distribution of leaflets in the great Weiss Manfred war factory and the army barracks.

Eventually they were caught, imprisoned and charged with treason – it was not a small matter. The trial of Duczynska, a beautiful young woman from a very good family, and Tibor Sugar, who was briefly her partner in marriage before she met my father, aroused considerable public interest. They were liberated from prison by the 1918 revolution which terminated the war and established the first Hungarian Republic. Ilona was a founding member of the Hungarian Communist party, at that time largely composed of young people. With an excellent education and knowledge of several languages, she was called to Moscow to serve as translator to Karl Radek in the preparations for the historic Second International Congress of Communist Parties. Ilona returned to Vienna in 1920, and subsequently was expelled from the party for “Luxembourgist deviations” and a publication in a journal edited by Paul Levi, who also fell into disfavor with the party. As a young woman in her early twenties, she must have admired Rosa Luxembourg, who was a generation older, as a very important and senior figure in the movement.

Many years later, following the destruction of the Austrian working class movement in February 1934, my mother rejoined the Communist Party in order to continue the struggle of the now-illegal Schutzbund, the military arm of the Austrian Social Democratic Party, until 1936 when she joined my father and myself in London. Subsequently, she was expelled from the Austrian Communist Party in London on orders from Moscow. No reasons were given.

My mother was a very independent person and my father adored her. Karl and Ilona first met in 1920, at the Helmstreits Muhle, a villa provided as a refuge for political exiles from Hungary, by a Viennese well-wisher. My father left Budapest in 1919, and was soon joined by a larger exodus of communists, socialists, radicals and liberals following the accession of the reactionary regime of Admiral Horthy. The comrades in the villa were of my mother’s generation, and my father, who was 10 years older, would sit by himself, quietly writing. In a letter he wrote much later in life about meeting my mother, he said that she was a revolutionary and her name was Polish, and that was close enough to his ideal of the Russian revolutionary young woman. Ilona recalled that he seemed like a person whose life was behind him.

For the generation of my father, who was then 34, the Great War was a traumatic experience which shattered the apparent certainties of the era that finished in 1914. This was particularly true in the defeated countries of Germany and Austro-Hungary. In a speech delivered in Budapest on “The Calling of our Generation,” Polanyi expressed the total disillusionment of a generation.

During the First World War, my father was a cavalry officer in the Austro-Hungarian army on the Russian front. The conditions were appalling, and he fell ill with typhus. On a bitterly cold night, his horse fell and he found himself underneath it. He was certain he would die, but when he regained consciousness he was in a Budapest military

hospital. He was tormented by a sense of personal responsibility for the disasters, the killings, the war, and what he later described as the collapse of our civilization. While he was at the front he took with him one book, the collected works of Shakespeare in English. Later, he wrote a semi-autobiographical essay on Hamlet, and Hamlet's indecision, indeed reluctance, to assume his responsibility as King of Denmark. The Great War was, I believe, the defining event in the life of my father, which motivated him to engage in the search for the ultimate origins of the collapse of the world before 1914 and all the disasters which followed.

The spirit of the Russian revolutionaries of the late nineteenth and early twentieth centuries came into the lives Karl, his elder siblings, and their cousin Ervin Szabo, earlier mentioned above, through the close family friendship of the Pollaceks with the Klatchkos in Vienna. Karl's mother, Cecile Wohl, had been sent from Vilna to Vienna by her father when she was seventeen, accompanied by another young girl, Nyunia, from Simferopol, to stay with the Klatchkos, family friends from Vilna. Russian was Cecile's first language, German her second and, while she learned to speak Hungarian, it seems she was not able to write it. Nyunia married Samuel Klatchko and Cecile met and married Mihaly Pollacsek. In the early 1890s, my grandfather moved the family from Vienna to Budapest, but they retained close relations with their friends the Klatchkos in Vienna.

Klatchko was the non-party envoy of all the illegal parties and movements then existing in Czarist Russia. He met many of the great early Russian revolutionaries—Plekhanov and Axelrod included—and Leon Trotsky was a daily visitor to his bookshop on the Karlplatz. The Russian revolutionary environment which centered around the Klatchko family made a huge impression on the young Karl and his cousin Ervin Szabo. I recall my father's accounts of his early childhood memories of men arriving cold and hungry, feet wrapped in newspapers, to stay for a while before moving on to their next revolutionary assignment.

My grandfather, Mihaly Pollacsek, came from a well-to-do Jewish family in the Hungarian town of Ungvar, now Uzhhorod, Ukraine. He was a successful railway engineer, contractor, and entrepreneur, and a Hungarian Anglophile who believed, above all, in the importance of education. Mihaly spent the family's economic resources on providing a superb classical home education for all six children including Latin, Greek, English and French, and fencing for the boys, until they were of age to enter the Gymnasium. Karl spoke of his father as being unadulterated by the commercial values of the ascending bourgeoisie of Budapest.

In Hungary, Karl Polanyi is remembered as the founder and first president of the Hungarian student movement, named for Galileo. It challenged the old order of monarchy, aristocracy, gentry, and the Church, and engaged in popular education, including thousands of literacy classes for young workers and peasants. It received moral support from the poet Endre Ady and logistic assistance from the free-masons. Polanyi many times stated that his model was the Russian student movement of late 19<sup>th</sup> and early 20<sup>th</sup> centuries. He admired the Russian revolutionaries who challenged the authorities of

the repressive Tsarist Russia by direct action, including assassinations of tsarist officials. They would certainly be called terrorists today.

I think that throughout history, students have played an important role in revolutions, and more generally in signaling the discontent of a society. During the student strike that I witnessed in Montreal in 2012, there was a remarkable level of democratic organization. The students wished to avoid having prominent leaders and instead organized horizontally with spokesmen rather than identifiable leaders.

Polanyi supported the Hungarian revolution which ended the First World War and the monarchy, in 1918, but opposed the short-lived communist regime that followed. In 1919 he left for Vienna, soon followed by a large exodus of all sections of the political left.

In the 100 years which have passed since 1914, the First World War and the Russian Revolution stand out as watershed events which transformed the landscape of Europe. Kaisers, Tsars and Kings all bit the dust. There were wonderful posters of caricatures of the mighty being chased off the throne and literally falling into the dustbin of history. The Austro-Hungarian Empire splintered into the succession states of Czechoslovakia and Yugoslavia, while the kingdom of Hungary was reduced to one third of its previous population. Vienna, the glittering capital of the former Hapsburg Empire of 50 million, was now the capital of the Republic of Austria, with only 6 million, considered to be too small to be politically viable.

In the province and municipality of Vienna, the Socialists were continuously elected from 1918 to 1934. Polanyi admired the achievements of the Vienna Socialist municipal administration, including the creation of social housing that was bright and modern and designed by some of the leading architects. More than that, he valued the importance placed on the organization of a variety of cultural, educational and recreational activities.

The bourgeoisie of Vienna, by contrast, was hostile. The financing of these social programs was raised by taxes imposed on privately owned real estate. Friedrich Hayek, eminent Austrian economist and protégée of Ludwig von Mises, wrote that the high taxes would result in a deterioration of the stock of privately supplied accommodation. They were unsympathetic to the socialist administration and frightened by language like “dictatorship of the proletariat”. Mises, in his memoir, recalled a demonstration which took place before the war, of more than 200,000 workers marching in military fashion on the Ringstrasse. Under the banner of the Social Democratic Party, they demanded the right to vote. Mises described it as utterly terrifying to see that these unwashed masses should actually get the right elect their representatives to parliament.

Mises was the most famous of the Austrian economists, but he had no university position. He was employed by the Chamber of Commerce, with his junior colleague Hayek. He published an article in 1922 in the *Archiv für Sozialwissenschaft und Sozialpolitik* which aimed to prove the impossibility of the construction of a socialist economy in the absence of price signals established by supply and demand in markets for commodity, labour and capital. There then followed a debate in the pages of this

prestigious journal with several participants, including Karl Polanyi. At that time, there was not yet any country that had a socialist economy. The early Soviet Union was engaged in a civil war of survival.

Traditional European social democratic parties, armed with the Marxist faith in the historic inevitability of socialism, believed that the growing ranks of the industrial proletariat would eventually gain a parliamentary majority and introduce socialism. My father rejected the existence of historic laws that could determine the future. In his view, progress towards socialism must be grounded in existing institutions such as trade unions, cooperatives, and other civil societies, associations or organizations. He rejected the imposition of administrative, bureaucratic structures by advocates of Soviet style centralized command economies.

Karl Polanyi's vision was a socialist economy that would be efficient in terms of the allocation of resources, socially just in terms of the distribution of income and participatory in terms of a democratic representation of the interests of workers, enterprises, consumers, and citizens. In his view, an individual is at one and the same time a worker, a consumer, and a citizen. This is not the model of atomistic individuals participating in the market for goods or labor services as consumers, workers or employers, but rather a model of mutual negotiation associations and organizations.

I'm approaching the limit of my time, and we have hardly addressed the title of this talk, From the Great Transformation to the Great Financialization, which precipitated the financial crisis of 2008. I believe that the financial crisis of 2008 was more than a gigantic debt induced financial bubble, which temporarily raised GDP per capita in Ireland and Spain above that of Britain. It was the result of the multi-trillion financialization of the capitalist economies of Europe and North America. It has created a crisis more intractable than that of the 1930s, because governments are now captive to financial interests of international creditors. They respond more rapidly to the bond markets than to opinion polls or elections. Political parties contesting for electoral support are increasingly similar in their policies. These policies represent the interests of the corporate world: economic growth over environmental protection; rescue of banks over rescue of home owners; favorable investment climates over concerned social programs; austerity over increased government expenditures, and the reduction of public sector deficit.

I believe that the continuing and unresolved financial and economic crisis reveals the relative decline of the advanced capitalist heartlands of the West, and a shift in international economic relations of power from the West to the East, from the North to the South. The impact of the financial crisis was most severe in Europe and North America, while regions of Asia, Latin America and even Africa recovered rapidly and resumed strong economic growth. "Developing Asia", comprising more than half the population of the world, achieved economic growth rates of 8 – 9% per annum in the first decade of the 21<sup>st</sup> century, whereas IMF assistance was required to shore up faltering economic growth in Europe. I have no illusions about economic growth as measured by

GDP, but there is no doubt that we are witnessing a historic shift in global power relations.

The continuing crisis has four dimensions: financial, social, political, and environmental. Since the 1980s, an economic counter-revolution of deregulation, privatization and the liberalization of trade and finance has created unprecedented inequalities of income and wealth on a global scale. Debt creation by financialization; displacement of labor in the production of goods and services by automation; the degeneration of democracy by the capture of governments, and a reluctance to face our ecological problems. The situation is financially, socially, politically and environmentally unsustainable.

Financial instability continues, and fear of the next financial crisis looms. The banks are more powerful and profitable than ever. There is agreement that the world needs a new financial architecture, but no effective action has been taken. In the past 60 years, large banks have not been allowed to fail. By contrast, in the Great Depression, 10,000 American banks were permitted to fail within a week.

Employment in the United States has hardly been restored to pre-2008 levels and in some countries of Europe youth unemployment is 30-50%. As the proceeds of growth accrue to the top 10%, the lack of employment has diminished economic opportunity and social mobility for the 90%.

While automation is reducing the demand for labor, many people are working harder and longer hours sometimes two or three jobs at once and employment is increasingly precarious. The economist reported a study which found that 47% of the world's jobs will disappear in the next twenty years. Information technology has extended the working day beyond conventional office hours for white collar workers, who are now expected to respond to electronic communications 24/7. Logically, automation should bring benefits of less work and more leisure, but the capitalist system is organized in such a way that for the great majority a job is necessary to access economic livelihood.

Financialization has created a new form of debt bondage and democratic deficit for individuals and nations. In Europe, the weaker economies have no effective economic sovereignty. There are elections, but the options are restricted to choosing which set of politicians will implement the orders and conditions that accompany the debt relief coming from Brussels. Furthermore, the assistance accrues principally to external financial creditors.

Lastly, we are faced with the undeniable evidence of the ongoing destruction of the natural environment and the biosphere, including the effects of climate change. Regrettably, the power of corporate interests continues to frustrate efforts to address the problem.

We must ask: why is it that the Great Transformation, written 70 years ago by an author who was virtually unknown and did not have a university position until he was 61 years old, has not only survived, but gained increasing authority? The appeal of the book

is the author's rejection of a system which subordinates society to the requirements of a capitalist economy. But according to Polanyi, the economy is a social and political construct; if it does not serve society, it must and will be reconstructed by the conscious will of people to live in harmony with nature and each other.