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Between Humanism and Market Naturalism: Adam Smith in Karl Polanyi's *The Great Transformation*

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Abstract: On the 250th anniversary of *The Wealth of Nations*, this article revisits Adam Smith's legacy by examining his reception in Karl Polanyi's *The Great Transformation*. While Polanyi sharply criticises Smith for contributing to the naturalisation of market exchange, he simultaneously presents Smith as a thinker whose political economy rests on humanistic foundations. The article reconstructs this apparent tension by critically examining Polanyi's reception of Smith's anthropology, theory of the division of labour, and conception of wealth. It argues that Polanyi offers a largely convincing account of Smith's rejection of economic naturalism, while misreading Smith's account of human motivation. The paper concludes that Smith is understood as a transitional figure: the founder of political economy whose thought remains subordinate to social purposes and therefore cannot alone ground the idea of a fully self-regulating market. This interpretation contributes to contemporary philosophical debates on market society and economic embeddedness.

Keywords: Adam Smith; Karl Polanyi; Political economy; Self-regulating market; Economic embeddedness; Market naturalism

JEL Codes: B12, B31, B25

I. INTRODUCTION

This study aims to contribute to the literature on Smith from a Polanyian perspective. In this regard, it is useful to keep in mind at least two features of the current renaissance with which the paper engages directly

(Liu 2023, 12).[1] The first is the reassessment of the economistic interpretation that dominated the nineteenth and twentieth centuries. The second is the redefinition of Smith's place in the history of liberalism.

The analysis begins with a reading of *The Great Transformation* (hereafter *GT*). Polanyi makes forty-one references to Smith and to *The Wealth of Nations* (hereafter *WN*). These are concentrated mainly in the first section, *Satanic Mill*, of the second part of the book, *The Rise and Fall of Market Economy*. Here Polanyi analyses, from an interdisciplinary perspective, the genesis of the self-regulating market. In this context, the chapters in which Smith's ideas receive the most sustained attention are chapter four, *Societies and Economic Systems*, and chapter ten, *Political Economy and the Discovery of Society*. At first sight, the evaluation of Smith's theses offered in these chapters appears contradictory: in chapter four Smith is criticised as the theorist of naturalised exchange who underwrites the self-regulating market, whereas in chapter ten he is credited with humanistic foundations that resist it. I analyse Polanyi's reception of Smith in these two chapters in the second and third sections of the article. Since the argumentation is often general and imprecise, I identify, for reasons of analytical and expository clarity, five principal theses that Polanyi advances concerning Smith—two in chapter four (that Smith connects the division of labour to the market, and that he attributes economic motives to primitive man) and three in chapter ten (that Smith makes the state necessary, that his thought is optimistic, and that he excludes physical nature from the calculation of wealth). In the fourth section, I critically examine these theses in order to clarify Polanyi's understanding of Smith, arguing that it is largely accurate apart from the reduction of Smith's account of human motivation to material motives alone. On this basis, the conclusion sets out Polanyi's resolution of the apparent contradiction: Smith as a transitional figure, founder of economics whose thought nonetheless remains subordinate to social purposes and so cannot by itself ground the self-regulating market.

[1] Liu in her study identifies another three features: 1. The attempt to recover the 'original' Smith, as opposed to interpretations that rely more on his authority than on his arguments. 2. The renewed attention to Smith from a philosophical perspective. 3. The reformulation of longstanding problems and analytical categories.

II. *SOCIETIES AND ECONOMIC SYSTEMS*: ADAM SMITH AND THE BIRTH OF THE SELF-REGULATING MARKET

To analyse the reception of Smith in chapter four, it is necessary to consider it within the architecture of the whole work. The chapter aims to debunk one of the fundamental assumptions underlying the idea of the self-regulating market: the naturalisation of economic exchange. This operation contributes to arguing the historical singularity of the contemporary economic system, that will fully emerge through the theory of fictitious commodities (Dale 2010, 49).

From a general perspective, one of the main aims of *GT* is to show the connection between the imposition of the self-regulating market and the economic and political crisis of the 1930s (Block and Somers 2014, 71; Dale 2010, 15). In this light, chapter four is particularly important, since debunking the naturalness of the assumptions of the self-regulating market shows its historical contingency. The naturalisation of economic exchange resulted in the naturalisation of market self-regulation. In other words, if exchange is taken to be the original form of human interaction, then the self-regulating market follows as a necessary consequence. It is therefore necessary to falsify the antecedent to invalidate the necessity of the consequent. Polanyi must show that exchange is not the natural form of human relations to conclude that the self-regulating market is not their natural form of organisation. So, Adam Smith's reflections are used by Polanyi to deepen his critique of the self-regulating market, later called the 'liberal creed', whose true exponents, Spencer, von Mises, and Lippmann: "had followed in Smith's wake and established his paradigm of the bartering savage as an axiom of their respective sciences" (Polanyi 2001, 46).

The structure through which this textual function is carried out is bipartite. First, the naturalisation of economic exchange is presented; second, its falsity is demonstrated. Adam Smith is the principal interlocutor of the first part. For reasons of analytical clarity, I identify two main theses, even though they are not explicitly distinguished in the text. From Polanyi's perspective, Smith: (1) establishes a connection between the division of labour and the market; (2) maintains that primitive man is guided by material motives. I now present these theses in greater detail.

With regard to the first, the starting point is the inclination to truck, barter, and exchange one thing for another. This inclination constitutes a fundamental presupposition of Smith's anthropology. Economic

exchange is therefore understood as the original way in which human beings enter relations with one another (Polanyi 2001, 46). This originary status guarantees the development of the division of labour. For Smith, specialisation not only arises from the inclination to exchange but can display its positive externalities only through it. Without the possibility of exchanging the surplus of labour, no one would have an incentive to specialise. This possibility exists only in markets, where everyone can exchange the products of their labour for the labour of others. If markets guarantee the possibility of exchange, and this possibility in turn guarantees specialisation, then the expansion of markets corresponds to an increase in the degree of specialisation within society. This connection is deeply problematic for Polanyi (Dale 2010, 89–90), because it removes any theoretical limits on the expansion of markets, limits that Polanyi will later attempt to re-establish through the theory of fictitious commodities.

About the second thesis, Polanyi claims that, according to Smith, primitive people possessed economic psychology (Polanyi 2001, 46). This means that human beings are motivated by their material interests and that their choices are oriented towards economic objectives. Polanyi, by contrast, holds that human beings are predominantly motivated by social dynamics. From this perspective, Smith's anthropology, whether philosophical, conjectural, or empirical, is reductionist. It reduces human motives by distancing human beings, in the name of a natural inclination to truck and barter, from their social nature.[2] In support of this claim, Polanyi does not provide direct quotations from *WN*; as will be shown later, such quotations would in fact be impossible, since Smith does not actually perform this reduction. Instead, Polanyi relies on an indirect reference, the claim that Smith attributed to primitive man: an "alleged predilection for gainful occupation" (Polanyi 2001, 46). Primitive men, when faced with a choice among different occupations, choose the one that best satisfies their material interests.

Even before arguing for the falsity of these theses, their negative evaluation is already clear. The naturalisation of exchange, the common background of both theses, is described as a self-fulfilling prophecy.[3] This means that prior to 1776 Economic Man did not exist; the motives guiding human action were primarily different. The use of this argumentative

[2] The problem of the reduction of human motives to purely material ones will become central in Polanyi's later work (Polanyi 1977; 2018).

[3] The possibility that theories of political economy might become self-fulfilling prophecies is also left open by Smith himself in the *WN* (Schliesser 2005, 34).

device highlights the power of ideas in Polanyi's perspective. Ideas can act upon empirical reality, and ideological changes contribute to the material transformation of social organisation (Block and Somers 2014, 19). Given this mechanism, Smith appears to play a fundamental role in the ideological, and therefore material, institution of the self-regulating market.

The notion of the self-fulfilling prophecy also helps to clarify the conceptual structure of Polanyi's reception of Smith. It opens the way to falsifying Smith's theses without undermining empirical reality. On the one hand, it acknowledges the actual diffusion and influence of Smith's ideas. On the other hand, it leaves open the possibility of understanding social organisation prior to the emergence of those ideas. The ground is thus prepared for the second part of the chapter: the falsification of Smith's theses.

To demonstrate the falsity of the natural inclination to truck and barter, Polanyi uses ethnography and social anthropology. His main interlocutors are Richard Thurnwald and Bronisław Malinowski. He opposes theoretical speculation with the findings of field research. In this sense, social anthropology plays the role of a counterfactual, confronting Smith's theoretical claims with empirical reality. The point on which all these studies converge is: "the changelessness of man as a social being" (Polanyi 2001, 48). To support this claim, Polanyi introduces for the first time a core concept: embeddedness. Economic relations never exist in isolation; they are always embedded in social relations. Human beings do not act primarily to secure their material advantages; they act, naturally and originally, to secure their social interests. Once this point is established, a further question arises. If the original inclination to exchange was meant to organise production and distribution through the market, how can the organisation empirically observed now be justified?

Polanyi responds by developing, with the help of ethnography and Aristotle's political philosophy, a tripartite model. Three principles, reciprocity, redistribution, and householding, correspond to three institutional patterns, symmetry, centricity, and the closed group, that ensure the allocation of resources (North 1977). Through this model, the functioning of societies prior to Smith's false re-start is explained. The development of the division of labour is not guaranteed by the market but by other institutional patterns. The positive externalities of specialisation manifest themselves even in societies governed by social rather than economic interests. In the human world, where economic

relations are always embedded in social ones, there is no room for the reduction allegedly carried out in *WN*.

Considering the foregoing, the negative evaluation of Smith's theses in this chapter is clear. The thesis of the originarity of economic exchange is, on the one hand, the premise for establishing the connection between the division of labour and the market. On the other, it is the foundation of Economic Man. From Polanyi's perspective, these theses are not only false but also dangerous. They constitute a necessary condition for the imposition of the self-regulating market, and thus for the 1930s crisis. Smith is therefore presented as the theorist of the assumptions of the self-regulating market, which is the principal polemical target of the text.

III. *POLITICAL ECONOMY AND THE DISCOVERY OF SOCIETY*: ADAM SMITH'S HUMANISTIC FOUNDATIONS

Polanyi's reception of Smith in chapter ten differs markedly from the one just examined. However, my analysis begins by situating the chapter within the overall structure. Chapter ten is the final chapter of the first section of the second part, and thus the last chapter devoted to the genesis of the self-regulating market. Its conclusion opens onto the second section of the second part, *Self-Protection of Society*, which examines the liberal creed and sets out the theory of the double movement (Dale 2010, 58–59). Although both chapters under consideration belong to the same section, the pages separating them contain at least two fundamental theoretical developments: the theory of fictitious commodities and the significance of the *Speenhamland Law*. These developments play a decisive role in shaping the different evaluations of Smith.

First, the theory of fictitious commodities establishes, at a theoretical level, the limits of the self-regulating market. Labour, land, and money cannot be treated as goods allocated through the mechanism of supply and demand unless one is willing to nihilistically renounce the survival of society itself (Polanyi 2001, 76). This is because beneath them lie the fundamental components of the substance of society: human beings, nature, and productive organisation.

Second, the *Speenhamland Law* is the system of subsidies gradually introduced in large parts of England from 1795 and abolished in 1834. Its abolition constitutes the final act of the empirical emergence of the self-regulating market (Polanyi 2001, 106). This is the moment at which even

the last fictitious commodity, labour, becomes a commodity.[4] In terms of the contemporary debate on the overall interpretation of Polanyi's work (Düzgün 2024), the commodification of the last fictitious commodity marks the moment of the disembedding of the economy from society. Moreover, the law of 1795 is significant because it contributes to the emergence of the problem of poverty, which is the focus of chapter ten. The institution of subsidies tied to the price of bread exerted strong downward pressure on real wages, thereby impoverishing the English working class. This occurred precisely at a time when trade and production were expanding. The puzzle, then, was how to explain the correlation between wealth and poverty.

Chapter ten addresses this puzzle from the perspective of political economy. Polanyi shows that the explanatory frameworks of this emerging discipline were constructed on fragile empirical foundations. Correlation is not causation: the error of contemporary theorists lay in causally linking poverty and wealth because of their simultaneous growth. According to Polanyi, wealth and poverty were not causally connected. The paradoxical situation was instead produced by the transitional phase through which the system was passing: a capitalism without a labour market (Polanyi 2001, 130). The result of this misinterpretation was the emergence of social naturalism (Block and Somers 2014, 102–103). This decisive step in the history of social thought was taken by the Reverend Joseph Townsend with the publication of *A Dissertation on the Poor Laws* in 1786 (Lepenies 2014).

Naturalisation proceeds theoretically by means of a secular parable: the theorem of goats and dogs. The British author uses the account of Juan Fernández, the discoverer of the islands that bear his name. The historical falsity of the narrated events, verified by Polanyi himself (Polanyi 2001, 118), does not weaken the argument from the standpoint of the theoretical aims of the analysis. After discovering the archipelago in 1572, the Spanish navigator left goats on the islands upon his departure to ensure future supplies. In the absence of predators, the goats multiplied considerably. The islands subsequently became a provisioning stop for English privateers harassing Spanish trade. The Spanish authorities then introduced a pair of dogs so that they could multiply by feeding on goats. In this way, population regulates

[4] The actual historical significance of the *Speenhamland Law* appears to be less than that attributed to it by Polanyi (Block and Somers 2014, 117).

spontaneously: weaker specimens were preyed upon by the dogs, thereby sustaining their growth.

The naturalistic turn in the social sciences consists, according to Polanyi, in the illegitimate transposition of the anagogical meaning of the theorem of goats and dogs to humanity. Humanity, too, was now understood as being ultimately regulated by the quantity of food. This new paradigm is criticised because it definitively separates economy and society. Townsend's error theoretically generates what the abolition of the *Speenhamland Law* would later produce empirically: the disembedding of the economy from society. A naturalised economy can no longer embody human needs. Society becomes subject to the same laws of nature that govern the functioning of the animal world. Hunger takes on the role of the impartial judge that was missing in the state of nature of natural law theorists. There is no longer any need for a higher dimension of social aggregation, because there is no longer any original condition from which humanity must distance itself to develop.

It is in contrast to this new attitude that Smith is invoked. The thesis advanced is that the foundations of Smith's political economy remain humanistic. To clarify the argument, I maintain that this main thesis is supported by three subsidiary theses: (1) the role of the state is necessary; (2) Smith's thought is optimistic; (3) physical nature does not enter into the calculation of wealth. Although these theses are not explicitly distinguished in the text, they constitute the three fundamental conceptual nuclei of Polanyi's reception in chapter ten.

First, Smith is presented as the last representative of a long tradition of thinkers concerned with the role of the state. It is in this respect that his political economy comes into tension with Townsend's social naturalism. The theorem of goats and dogs leaves no space for the existence of the state. In Smith, by contrast, the state and its laws are a fundamental element of social organisation. The thesis concerning the necessity of the state is supported by three sets of conditions for the development of wealth (Polanyi 2001, 116): (1) the overall condition of the country, whether advancing or declining; (2) the maintenance of security and the balance of power; (3) the political choice to favour countryside or town, agriculture or industry. These considerations show that, in Polanyi's reception of Smith, the problem of wealth arises only within the state and therefore presupposes its necessity.

Second, Smith's thought is, according to Polanyi, pervaded by strong optimism.[5] This optimism is grounded in the idea of a consonance between internal and external laws: the laws governing the economy are in harmony with those governing human development. Although Polanyi does not elaborate this point in detail, he appears to suggest that confidence in development ensures the limitation of the negative externalities of self-interest. In this sense, the attention that the butcher and the brewer devote to their self-interest may benefit all without worsening anyone's condition. Within a paradigm in which economic development proceeds in accordance with human development, the interests of each can be harmonised with the interests of all.

Third, Polanyi's Smith explicitly excludes physical nature from the calculation of wealth. He is not concerned with the fertility of the soil or with the abundance of natural resources. What matters instead is how human labour is exercised upon a given natural basis. In this respect, according to Polanyi, Smith follows Locke's false path in tracing the origin of value to labour (Polanyi 2001, 129).[6] Wealth depends on human factors, in particular on two elements: skill in the performance of labour and the ratio between productive and unproductive labour. Skill in labour is determined by the extent of the division of labour and, consequently, by the extent of the market. The ratio between productive and unproductive labour affects the actual quantity of goods produced. Smith consistently focuses on the material side of wealth. Accordingly, a nation in which most of the workers produce material goods must be wealthier than one in which most workers are engaged in activities that do not produce such goods. This emphasis on the human role in the creation of wealth constitutes a response to the erroneous theses of physiocracy, with which Smith had come into contact during his journey in France. Smith maintains that creative value lies in human beings, in opposition to the claim that land is the only truly productive factor.

These three specific theses support Polanyi's reception of Smith in chapter ten. The evaluation of Smith that emerges from this discussion is positive. The centrality of the state, the general optimism, and the exclusion of physical nature all contribute to the idea that the foundations of Smith's political economy are humanistic. For Smith,

[5] A similar interpretation of Smith's optimism can be found in *The Growth of Philosophic Radicalism* (Halévy 1955, 120), of whom Polanyi was aware, since he cites him in *GT* (Polanyi 2001, 286).

[6] With regard to the connection to Locke's labour theory of value, Polanyi's interpretation appears to be influenced by Halévy (1955, 44).

wealth is produced by human beings, not by nature. This is true, but it is not enough: wealth is produced by human beings and, above all, for human beings. For this reason, Smith's framework leaves open the possibility of understanding the problem of poverty. If wealth is produced for human beings, it makes no sense to causally connect poverty and wealth. Hence: "Smith's own view was that universal plenty could not help percolating down to the people; it was impossible that society should get wealthier and wealthier and the people poorer and poorer" (Polanyi 2001, 129).

IV. POLANYI'S UNDERSTANDING OF SMITH: A CRITICAL DISCUSSION

From the preceding sections, two different evaluations of Smith emerge. In chapter four, Smith is subjected to a severe critique, whereas in chapter ten he is assessed positively. I now investigate this apparent contradiction by seeking to clarify the issue at the level of understanding. To this end, I critically discuss the theses identified in the previous sections. The breadth and richness of *WN* make any claim to exhaustiveness impossible. This limitation, however, does not undermine the purpose of the present analysis, which is an invitation to pursue a still largely unexplored line of inquiry.

In chapter four, the point of departure is the well-known inclination to truck, barter, and exchange (Smith 2003, 22). On this basis, I have identified two fundamental theses that Polanyi attributes to Smith: (1) the connection between the division of labour and the market; (2) the reduction of the motives of primitive man.

Regarding the first thesis, it is difficult to deny that Polanyi's understanding is correct. In chapter three of book one of *WN*, Smith explicitly states: "As it is the power of exchanging that gives occasion to the division of labour, so the extent of this division must always be limited by the extent of that power, or, in other words, by the extent of the market" (Smith 2003, 28). The development of the division of labour is thus naturally connected to the development of the market. The market is the only space in which its advantages can fully manifest themselves. It is in the market that the surplus of labour is exchanged, thereby enabling individuals to satisfy their needs. If the market is limited, the possibility of exchanging diminishes, and with it the incentive to specialise. The converse is also true: as the size of the market increases, opportunities for exchange expand, and so do incentives to specialisation (Kennedy 2008, 118; Swanson 1999). The fact that the division of labour

is directly linked to the extent of the market is central to Smith's thought. The division of labour, whether social or technical,[7] is the primary cause of the wealth of nations.

About the second thesis, it does not seem possible to offer an equally clear and positive judgement of Polanyi's understanding of Smith. To analyse it properly, it is useful to split it into two claims that Polanyi imprudently conflates: (1) human beings are guided solely by material motives; (2) primitive man has an "alleged predilection for gainful occupation". As far as the first claim is concerned, the misunderstanding lies in an incorrect interpretation of the self-betterment desire. It is true that, for Smith, human beings are motivated by material considerations, but it is false that they are motivated only by these. Polanyi interprets the idea that human beings may be driven either by material motives or by social motives as an exclusive disjunction. To account for Smith's position, however, the same logical connective must be employed in an inclusive sense: a disjunction that remains true also when both disjuncts are true. For Smith, human beings are motivated by both material and social motives (Fleischacker 2009, 69). Human beings' self-betterment desire is a fundamental feature of Smith's anthropology, but it tells us nothing about the specific motives underlying this pursuit. There is no need for these motives to be purely material.

About the second claim, the misunderstanding is more subtle. What we have described as an indirect quotation in the second section (Polanyi 2001, 46) appears to be a misinterpretation of the text. The passage to which it seems to refer occurs at the beginning of chapter ten of book one:

> This, at least, would be the case in a society where things were left to follow their natural course, where there was perfect liberty, and where every man was perfectly free both to choose what occupation he thought proper, and to change it as often as he thought proper. Every man's interest would prompt him to seek the advantageous, and to shun the disadvantageous employment (Smith 2003, 138).

In interpreting this passage, Polanyi performs two operations, one which can be justified, while the other is more problematic. First, he

[7] Smith never explicitly distinguishes between these two aspects of the division of labour, even though the former appears to be the one most consistently employed throughout the text (Erkul 2022, 44).

establishes a direct connection between the natural course of things and primitive man. Primitive man is thus identified with the individual who follows the natural course of things. This move can be justified by a particular interpretation of Smith's stadial development theory, according to which there is a correspondence between natural man and man at the first stage of development. This operation is certainly not free from difficulties (Marchionatti 2023), but the second move appears even more questionable.

The issue turns on the difference between 'gainful' and 'advantageous'. If the two terms are interchangeable, Polanyi's interpretation is justified. If, as it seems, they are non-interchangeable, the interpretation is incorrect. The term 'gainful', besides being absent from *WN*, refers to the sphere of material gain: a motive that, as shown above, is not exclusive in Smith. By contrast, 'advantageous' points to potential benefits obtainable from an action, in this case labour. There is no necessary connection between the attainment of potential benefits and their material nature. In this sense, Polanyi's interpretation does not appear sufficiently cautious.[8] In this second respect, Polanyi thus appears to fall clearly into the effects of the self-fulfilling prophecy argued in chapter four.

Based on this critical analysis of Polanyi's understanding of Smith in chapter four, we can conclude that Polanyi's negative judgement rests on a questionable reading of *WN*. Although the necessity of the connection between the extent of the market and the development of the division of labour appears to be correctly understood, the same cannot be said of the reduction of motives in a purely material sense. This constitutes the first step in the critical analysis of Polanyi's understanding of Smith. The second step consists in the analysis of the theses advanced in chapter ten.

The general thesis advanced here is that the foundations of Smith's political economy remain humanistic. Within this argument, I have identified three subsidiary theses: (1) the necessity of the state; (2) the optimistic character of Smith's thought; (3) the exclusion of physical nature from the calculation of wealth.

[8] Polanyi's emphasis on the material dimension of self-interest may owe something to the proto-utilitarian reading of Smith advanced by Halévy (1955, 90), who describes Smith as considering man, in economic matters, "exclusively, or at least fundamentally, egoistic". Since utilitarian thought characteristically privileges material satisfaction as the measure of interest, such a reading could plausibly lead Polanyi to conflate a broader notion like 'advantageous' into the narrower 'gainful'.

Regarding the first thesis, it belongs to the long history of misinterpretations of Smith. Smith is neither an anarcho-capitalist nor an advocate of non-intervention (Paganelli 2020, 189). Polanyi clearly recognises the importance of the state in *WN*. In support of this view, he offers three reasons. The state is necessary because wealth depends on: (1) the overall condition of the country, whether advancing or declining; (2) the maintenance of security and the balance of power; (3) the political choice to favour countryside or town, agriculture or industry.

As regards the first of these reasons, the reference appears to be to chapter eight of book one. Smith addresses wages derived from labour. The condition in which the worker enjoyed the entire product of his labour has long since passed. Once the processes of land appropriation and the accumulation of stock are under way, wages depend on the stipulation of a contract. A rigorous line of argument leads from these premises to the connection between contractual conditions and the demand for labour. Through a series of historical examples, North America, China, and England, Smith shows how the demand for labour, and thus contractual conditions, are linked to the overall condition of the nation.

In support of this point, it is useful to recall the consideration made at the end of the third section. For Smith, there can be no wealthy society in which most of the population is poor (Polanyi 2001, 129). The corresponding passage in *WN* is clear: "But what improves the circumstances of the greater part, can never be regarded as any inconveniency to the whole. No society can surely be flourishing and happy, of which the far greater part of the members are poor and miserable" (Smith 2003, 110–111). This connection allows us to clarify the relationship between the condition of workers and the overall condition of the nation:

> It deserves to be remarked, perhaps, that it is in the progressive state, while the society is advancing to the further acquisition, rather than when it has acquired its full complement of riches, that the condition of the labouring poor, of the great body of the people, seems to be the happiest and the most comfortable. It is hard in the stationary, and miserable in the declining state. The progressive state is, in reality, the cheerful and the hearty state to all the different orders of the society; the stationary is dull; the declining melancholy (Smith 2003, 114).

Three conditions in which a nation may find itself are thus identified: progressive, stationary, and declining. This passage could be the one to which Polanyi refers in support of the dependence of wealth on the general condition of the country. A causal relation does indeed emerge from the passage, but it is the inverse one: the labouring poor are described as happiest precisely "while the society is advancing to the further acquisition", that is, while accumulation, driven by more fundamental causes, is already under way. Polanyi, however, holds that it is the condition of the state that determines wealth (Polanyi 2001, 116), thereby mistaking the effect for the cause. In this respect Polanyi correctly identifies the existence of a connection between the condition of the state and wealth, but inverts Smith's causal construction.

In analysing the second reason, I focus first on the maintenance of security and then on the issue of the balance of power. The discussion shifts to book five, which deals with the expenses of the sovereign or of the commonwealth. In the first part of the first chapter, *Of the Expense of Defence*, Smith addresses the expenditure required for defence, borne by the state. This expenditure is necessary for the survival of the nation (Smith 2020, 140). Smith thus assigns to the state an essential function: guaranteeing the security of its citizens. His analysis makes extensive use of stadial theory to illustrate changes in military expenditure.

In the first two stages, the sovereign, if one exists, does not need to spend anything on maintaining soldiers, since they carry with them their own means of subsistence. Hunters and shepherds are also warriors and practice their activities wherever they go. This changes with the advent of agriculture and the end of nomadism, as husbandmen can no longer carry their source of subsistence into war. The decisive transformation occurs with the spread of manufacture. The absence of husbandmen from the fields does not totally destroy agricultural output, because while they are away nature continues to work on their behalf. This is not the case for artificers and manufacturers, whose subsistence depends entirely on their labour. These changes impose new requirements in terms of military organisation. Smith identifies two options: a militia or a standing army. He favours the latter. Military security thus emerges as an essential component of the development of wealth and, consequently, as a further reason for the necessity of the state. This concern reflects a broader eighteenth-century intellectual climate in which commercial success and

the military and political survival of nations were closely intertwined, a dynamic studied in depth by Hont (2005).

Moving on to the issue of the balance of power, it is difficult to argue that Polanyi is here a careful reader of Smith. Rather, this claim reflects an element of Polanyi's own analytical framework. The expression does not occur in *WN* but has a role in the opening chapter of *GT*. For Polanyi, the balance of power is one of the four institutions underpinning nineteenth-century civilisation, functioning as a security mechanism that prevents large-scale conflict in Europe. Its collapse marks the beginning of the breakdown of liberal society. The institution requires the existence of three or more powers, so that the rise of one nation can be counterbalanced by coalitions among the others. When Polanyi refers to the "needs of the balance of power" (Polanyi 2001, 116), he therefore appears to be invoking his own conceptual framework rather than Smith's. It is possible that this framework is also filtered through a broadly Humean lens: unlike Smith, Hume does explicitly defend the balance of power (Hont 2005, 329–330).

The analysis of the third reason is related to book three of *WN*. Here Smith investigates, from a historical perspective, the relationship between town and countryside. This geographical relationship is mirrored, from the standpoint of production, in the relationship between agriculture and manufacture. Town and countryside are interdependent: each provides the other with what it needs (Smith 2003, 481). Given this interdependence, Polanyi argues that state choices are decisive in favouring the development of wealth on each side. As far as I have been able to ascertain, there is no passage in which Smith explicitly establishes this claim. The absence of explicit references, however, does not undermine the grounds of this interpretation because Smith's historical account of the third book is, in effect, a history of state preference.

In Smith's account of the natural progress of opulence and its historical reversal in Europe, the state plays an indirect, yet nonetheless significant, role. Throughout the argument, the consequences of taxation and other legal constraints are frequently analysed. Among these, the role of English law is explicitly addressed:

> The law of England, however, favours agriculture, not only indirectly, by the protection of commerce, but by several direct encouragements. Except in times of scarcity, the exportation of corn is not only free, but encouraged by a bounty. In times of moderate plenty, the

> importation of foreign corn is loaded with duties that amount to a prohibition (Smith 2003, 532).

From Elizabeth I onwards, England adopted legislation that facilitated the development of commerce and manufacture. This legislation represents one of the state choices that influence the development of town relative to countryside. This passage thus provides a clear example of how state intervention can modify the historical development of wealth.

Having analysed the three reasons supporting the first subsidiary thesis, I conclude that Polanyi's understanding is largely accurate, though with respect to the first reason he appears to invert Smith's causal order. The reassessment of the role of the state challenges the economistic interpretation of Smith. This move aligns with the third characteristic of the contemporary renascence of Smithian studies (Liu 2023, 14).

We now turn to the analysis of the second subsidiary thesis: Smith's thought is considered to be optimistic. An analysis analogous to the previous ones is impossible here, due to the difficulty of identifying clear textual evidence of Smithian optimism (Paganelli 2015, 40). For this reason, I will limit myself to a more restrained conceptual consideration. The starting point is the invisible hand. Interpretations of this concept are as numerous as those of Smith's thought itself. Within this broad debate, it is possible to identify two main positions. There are those who consider the invisible hand a metaphor, useful for conveying the idea of the mutual benefit that may result from exchange. Others interpret it as a genuinely operative teleological concept, at times identified with the hand of God (Denis 2005). On this latter view, the invisible hand truly harmonises the outcomes of actions to create a good order independently from the intentions of social agents. It is from this perspective that Smith can be regarded as an optimist. Although this reading is no longer considered the most convincing today (Samuels 2011), without insisting on its truth value I will instead highlight a danger inherent in it, which is useful for clarifying Polanyi's understanding.

Interpreting the invisible hand as a genuinely functioning mechanism rather than as a metaphor obscures the importance of state interventions (Smith 2023, 14). If the invisible hand operates independently of political institutions, then such institutions become unnecessary for the achievement of order. Optimism, under this assumption, thus lies in independence. In other words, Smith is considered an optimist because order is thought to arise spontaneously, regardless of the existing state

organisation. This view clearly conflicts with what has just been argued concerning the importance of the state. Moreover, one of the principal aims of *GT* is the critique of the self-regulating market. This institution is an exclusive one: a form of resource allocation that excludes the intervention of other institutions, most of all the state. It therefore seems difficult for Polanyi to endorse a conception of Smithian optimism understood as independence. If we wish to preserve the principle of interpretive charity, we must show how the optimism attributed by Polanyi departs from the canonical debates.

The optimism attributed to Smith by Polanyi does not arise from a direct analysis of Smith's thought but rather from his historical positioning. Smith is described as an optimist because he believes that the market can serve as an appropriate instrument for fulfilling human needs. The market guarantees the possibility of spontaneous interaction among agents and thus provides them with structural protection. It therefore appears to be the best instrument for securing the conditions of subsistence and more. This view of the functioning of the market translates into optimism when observed from the tribunal of history. The historical conditions in which the two authors write are profoundly different. For Smith, writing on the eve of the Industrial Revolution, it was difficult to perceive clearly the dangers of the market. *WN* was published in 1776, less than sixty years before the abolition of the *Speenhamland Law*, the moment marking the empirical emergence of the self-regulating market. The dangers of which Smith was historically unaware were instead the reasons that led Polanyi to write. It is therefore due to this historical difference that Smith appears an optimist, since he operates under the illusion that the market can function effectively.[9] Optimism thus understood becomes a solid foundation of Smith's humanistic project, insofar as it testifies to the embeddedness of the economy in society. Unaware of the events history would later unfold, the Scottish thinker regards the market as the best institution for securing human needs.

The third and final subsidiary thesis identifiable in Polanyi's argument concerns the exclusion of physical nature from the problem of wealth.

[9] The idea of illusion is explicitly present in the final chapter of *GT*. There, the liberal creed, whose birth Polanyi dates to around the 1830s, explicitly associating it with Spencer, Sumner, Mises, and Lippmann (Polanyi 2001, 148), is described as an illusion because it fails to take into account the reality of society (Polanyi 2001, 266). The chapter in question was revised in the first reprint, but this does not significantly alter the use of the concept of illusion.

This thesis contributes to strengthening the humanistic foundations of political economy, insofar as it shifts attention toward human beings rather than nature. The emphasis on human factors is articulated in opposition to the naturalistic turn in political economy, which is the object of critique in chapter ten.

In this respect, Polanyi's understanding of Smith appears to be correct. The thesis advanced is not the risky claim that nature is entirely irrelevant to the calculation of wealth, but rather that human factors are more important than natural ones. There is no doubt that Smith places human labour at the centre of his vision (Paganelli 2020, 14). This, however, does not entail the complete exclusion of natural factors. In this sense, agriculture constitutes a privileged domain for observing the role of nature (Benton 1995, 158). Here, human labour interfaces with independent processes that, certainly in Smith's time, were unimaginable to standardise (Smith 2003, 82–83). Through agriculture, it becomes clear that labour is not the only source of value and that nature itself can also be productive (Smith 2003, 462–463).

I support the preceding claim regarding the correctness of Polanyi's understanding through a philological observation. In order to show the exclusion of physical nature from the problem of wealth, Polanyi cites a sentence from the introduction to *WN*: "Whatever be the soil, climate, or extent of territory of any particular nation, the abundance or scantiness of its annual supply must, in that particular situation, depend upon those two circumstances" (Smith 2003, 2). When comparing the two texts, one difference stands out: the expression 'in that particular situation' is italicised by Polanyi. The intention thus appears to be to engage the reader's attention on the conditional nuance of the statement. Geographic and biological conditions constitute the basis upon which human labour can be exercised. Given these conditions, wealth depends on human factors already discussed in the third section. Polanyi's understanding of Smith thus appears correct, since by emphasising this aspect he avoids the claim that nature plays no role in the production of wealth.

This choice therefore shows that, for Polanyi, human labour lies at the core of Smith's framework, while at the same time this does not imply the outright exclusion of nature. Nature is instead the necessary physical basis for the exercise of labour. Adam Smith's work is too interested in empirical reality to overlook this fact. Indeed, only a few pages later Polanyi writes: "Although Adam Smith had followed Locke's false start on the labour origins of value, his sense of realism saved him from being

consistent" (Polanyi 2001, 129). This remark once again shows Polanyi's awareness of the complexity of *WN*, a text that resists overly rigid classifications, like the world it seeks to account for.

V. CONCLUSION: ADAM SMITH A TRANSITIONAL FIGURE

It emerges from the preceding section that Polanyi's understanding of Smith is, despite some misunderstandings, largely accurate. Polanyi captures several of the main theses of *WN* in their nuances, without falling into a simplistic or reductionist reading. The only point on which his understanding is not correct concerns the reduction of human motives to material motives alone. From this starting point, it becomes possible to explain the apparent contradiction that emerged at the level of judgement, a contradiction that Polanyi himself does not perceive:

> Adam Smith, it was true, treated material wealth as a separate field of study; to have done so with a great sense of realism made him the founder of a new science, economics. For all that, wealth was to him merely an aspect of the life of the community, to the purposes of which it remained subordinate; it was an appurtenance of the nations struggling for survival in history and could not be dissociated from them (Polanyi 2001, 116).

It is important to note that this Polanyian interpretation does not fully align with certain peculiarities of Smith's position. To begin with, the term 'community' is practically absent from *WN*. Moreover, the link this passage suggests between 'community', 'nation', and 'wealth' is not Smith's own, but a reading supplied by Polanyi. For Smith, as can be observed in the fifth book, capital is considerably more mobile than Polanyi's phrasing suggests: the proprietor of stock "is properly a citizen of the world, and is not necessarily attached to any particular country" (Smith 2003, 1074); he would carry his stock elsewhere whenever security or returns were better there.

Given this interpretive limitation, Polanyi holds that the two general theses, that Smith is the founder of economics and that his presuppositions remain humanistic, are compatible. This compatibility is justified from the peculiar position assigned to Smith within the history of the development of the self-regulating market. It is here that Polanyi's reception aligns with the second characteristic of contemporary Smith scholarship: the redefinition of Smith's place within the history of liberalism (Liu 2023, 15). Polanyi conceives of Smith as a transitional

figure, situated between two epochs (Dale 2010, 53). Smith writes in a historical moment in which what was about to come was not yet clear: "the generation of Speenhamland was unconscious of what was on its way. On the eve of the greatest industrial revolution in history, no signs and portents were forthcoming. Capitalism arrived unannounced" (Polanyi 2001, 93). This same positioning is made explicit in the *Appendix* to *The Place of Economies in Societies*, written in 1947 and published posthumously. There Polanyi explicitly traces the history of conceptions of the place of the economic system within society. Smith occupies a specific position: he is the last representative of the "Original societal approach" before the emergence of the "Original economistic approach" (Polanyi 1971, 123). This reference reminds us that *GT* is not the only text in which Polanyi engages with Smith and suggests the possibility of a more comprehensive study of the relationship between the two authors.

In conclusion, the apparent contradiction at the level of judgement dissolves upon closer examination. Smith is conceived as a transitional figure within a broader process. He is regarded as the founder of economics, but *WN* is not sufficient to give rise to the idea of self-regulation. Amartya Sen advances a similar position, identifying as a misinterpretation the attribution to Smith of the idea of self-regulation (Sen 2013, 582–583). The central role of the state, the attention to human needs, and the centrality of labour leave no room for the mechanical automatism of the supply-and-demand model. Polanyi thus receives *WN* in *GT* as a text whose theses constitute a necessary but not sufficient condition for the emergence of the self-regulating market.

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