

THE GREAT TRANSFORMATION: THE POLITICAL AND ECONOMIC ORIGINS OF OUR TIME

(KARL POLANYI)

December 26, 2019

The Great Transformation, published in 1944, is an ambitious book. It attempts two huge tasks. First, to refute the free market ideology, sometimes called market fundamentalism, represented at that time by men such as Ludwig von Mises, and now by the entirety of globalized neoliberal capitalism. Second, to explain the history of the nineteenth century through an economic lens that also purports to explain both World War I and World War II. Mostly, the book is a failure. It overshoots in its criticism of the free market, and falls short on its claims of historical explanation. Karl Polyani's prescriptions are, moreover, vague and worthless. There is some truth in this book, but it is buried beneath too much dross.

Polanyi managed to synthesize a very broad set of knowledge, not only economics, but also history and anthropology, into a coherent theory. He claimed to be a socialist, but what he meant by that was not any form of ideological socialism, but simply that society should subordinate the market to larger shared goals. His theory was offered to show the path to the optimal society, especially in times of rapid change. Quite a few of Polyani's specific historical and anthropological claims have, it appears, been disproved—that's the flaw in tying your theory to objective past facts, rather than, like most economic theories, to abstractions. That does not obviate, however, his basic philosophical claims, with which I generally agree—but which are only a small part of his book.

Polanyi plays in roughly the same space as Wilhelm Röpke did in *A Humane Economy*, but Röpke, with his "economic humanism," had a far more subtle understanding of human nature and how it relates to economic matters. Unlike Röpke, who called for balance with a default toward free human action, Polanyi ultimately falls into the morass of utopian, government-mandated social planning that has always proved to be a cure worse than the disease. Social planning that hobbles the unfettered free market is both possible and desirable, but to achieve real human flourishing, it has to be done with far finer tools, and with

a far more virtuous ruling class and compliant ruled class, than Polanyi and other left-leaning social thinkers suggest.

He begins by outlining the “Hundred Years’ Peace,” from the Congress of Vienna to World War I. Polanyi ascribes the peace to four interlocking mechanisms creating “a new organization of economic life”: the balance-of-power system; the gold standard; the self-regulating market; and the liberal state. Collectively, these created the “market society”; and of these, the most important was the gold standard. It, as implemented by those who controlled “high finance” and benefitted from the peace and from the market, is what made the others possible, and when it shuddered, then died, so did the peace. Not that Polanyi likes the gold standard; quite the contrary. It was slavish adherence to the gold standard in the service of gain by men of power that, for a time, allowed the other three to flourish—at the same time, suppressing normal social pushback to limit the reach of the market into society. It was the breakdown in the gold standard that revealed the rot that had grown underneath, and what we got was chaos, then fascism.

Much of the book is a detailed exploration based in history and anthropology. For example, Polanyi steps backward in time to discuss enclosures of the commons in England, to make the point that enclosure was necessary, but the rate of change was just as important as the change itself, making the ultimate change “regenerative” rather than “degenerative” (even though it still had high costs). Slowing change down was what the Crown did under the Tudors and Stuarts, without getting due recognition from later historians and economists. Only from the Industrial Revolution onwards did the ideology of the self-regulating market, “an economy directed by market prices and nothing but market prices,” reject governmental regulation of the speed and substance of such major economic changes, which had always been the norm.

Polanyi argues that this self-regulating market was an entirely new thing in human history, the “Great Transformation” of the title, and that market prices around the globe until that time played a clearly subordinate role in transactions between people. Adam Smith lied to us when he said that man interacted through a “propensity to barter, truck and exchange one thing for another.” Rather, in the past, “man’s economy, as a rule, [was] submerged in his social relationships. He does not act so as to safeguard his individual interest in the possession of material

goods; he acts so as to safeguard his social standing, his social claims, his social assets. He values material goods only in so far as they serve this end." His aims were "reciprocity," "redistribution," or "householding," and Polanyi uses anthropology to argue that societies, until the modern era, revolved their economies around those principles. (This is "substantivism," contrasted with the "formalism" of neoclassical price-based profit maximizing.) Now, however, society is embedded in the economy, rather than the reverse, and we are not the better for the switch.

For Polanyi, any economy is not a freestanding framework within which we operate. Rather, the economy is a manifestation of, and should serve, social relations. This is true in the narrow sense, that a friction-filled or low-trust society results in a poorly functioning economy. But that is far less important than the broader sense, that social goals, in short, human flourishing, are the proper object of the economy. Other goals, such as maximizing GDP, or obtaining low transactions costs, or honoring an abstract freedom to enter into contracts, should be subordinate or oppositional.

I think that Polanyi understates the degree to which simple desire for getting more material things, as cheaply as possible, drives and has always driven human beings. It is not for nothing that the Tenth Commandment says "Thou shalt not covet," among other things, goods and houses. He also ignores the argument that "social standing, social claims, social assets" can be fit into a framework of individual utility maximization tied to a free market. Still, he goes into great detail, bouncing from Aristotle to the Trobriand Islanders to the claim that medieval local markets were "not the starting points of internal or national trade," which was purely the top-down creation of the modern state.

Then he turns to his biggest objection to the self-regulating market, that in it everything must be treated as a commodity. Everything must have a market price. Polanyi rejects treating everything as commodity—and he frames much of his book around the commodification, in the Industrial Revolution and after, of land, labor, and money, which for him are not real commodities, because they were not produced for market use, but factors that pre-exist market commodities, and they are therefore not subject to the same rules as market commodities. Only the ongoing action of the state makes possible their treatment as market commodities, which is what Polanyi means when he

claims that “laissez-faire was created and enforced by the state.” But, like enclosure, in the modern economy, such commodification is probably inevitable. Therefore, the state should manage these three items for the benefit of society, not with an eye to perpetuating a fiction of a spontaneously-arising market in them. For Polanyi, unfettered commodification demolishes society, as well as the natural world, and the solution is government intervention, which, in a democratic society, is demanded by those adversely affected by unfettered commodification.

Polanyi famously described this process as “double movement.” Those insisting on commodification move toward markets in everything; the move toward ever more smoothly functioning price markets is deliberate, not some natural process, as men like Mises would have it. Because of the pernicious resulting effects, social movements spontaneously arise to address those effects, and part of their response is to limit the commodification. In Polanyi’s telling, the entire history of nineteenth-century British politics is of pushback against the grinding of the commodified market. Without the double movement, a totally unfettered market would result, and it would not be a libertarian paradise, but a disaster, with social alienation, poverty, political unrest, and environmental catastrophe. When the double movement fails, as shown historically in slavish adherence to the gold standard, which overrode democratic concerns about social harms, we got fascism. The gold standard, though, was merely an earlier manifestation of what we today call globalization, or the “Washington consensus,” or “Thomas Friedman’s fever dreams,” and in practice Polanyi’s arguments apply to today’s variations just as much as they do to British monetary orthodoxy of the 1920s. This is where Polanyi’s prophecies have relevance today—not in that fascism is coming, but in that the double movement is a natural and desirable reaction to what we see today as neoliberal capitalism. No doubt Polanyi would see a lot of value in Bernie Sanders.

Polanyi’s writing is difficult, requiring much prior knowledge of obscure nineteenth-century British politics, and too often offers sonorous statements with little practical application. “It should need no elaboration that a process of undirected change, the pace of which is deemed too fast, should be slowed down, if possible, so as to safeguard the welfare of the community. Such household truths of traditional statesmanship, often merely reflecting the teachings of a social philosophy

inherited from the ancients, were in the nineteenth century erased from the thoughts of the educated by the corrosive of a crude utilitarianism combined with an uncritical reliance on the alleged self-healing virtues of unconscious growth." Sure. I agree. Most people probably do, except for ideologues. But what are the practical applications?

The last part of the book, in which Polanyi tries to tie his general principles to the first half of the twentieth century, is not successful. I frankly had great trouble understanding his arguments, but they appear to revolve around the idea that World War I resulted from the pressures arising from maintaining a global self-regulating market, and fascism resulted from economic chaos, that itself resulted less from World War I and more from public dissatisfaction resulting from suffering caused by attempts to remain on the gold standard (which were made in a desperate attempt to retain the wholly self-regulating market in all its nineteenth-century glory). Also in there is the idea that the freezing of the market economy arising from and after World War I created fear among all sectors of society, who collectively realized that complete paralysis would be fatal, and so therefore turned to fascist leaders making promises, although Polanyi does not tell us what, in this context, those promises were (perhaps because he was writing so close in time to the events he describes). He does say that the "fascist solution of the impasses reached by liberal capitalism can be described as a reform of market economy achieved at the price of the extirpation of all democratic institutions, both in the industrial and in the political realm."

Polanyi, a man of the Left married to a Communist, fails to distinguish between very different "fascist" systems. (No surprise, although it is only mentioned in passing, Polanyi thinks that the Soviet Union's replacement of the market economy was "an amazing success." He does not seem to realize that the Soviet Union precisely fits within his own definition of fascist.) Polanyi seems to use fascism as an all-purpose term for non-democratic regimes that are not liberal in nature, that is, are not devoted to maximizing individual autonomy, neither in market transactions nor elsewhere. Which is not a bad definition, if over-general, but it is an error to say that such a regime is inherently undesirable (and even he notes that the Allies' ideological adherence to the unfettered free market made them assume falsely that their enemies could not have a well-functioning economy). If Polanyi followed the

courage of his convictions, he would admit that many such a regime could fit precisely within what he claims to desire, since democracy is only one means to the double movement. But he never admits that, and, I suppose, the noisomeness of the most prominent so-called fascist regimes in his own time probably masked this obvious conclusion. He imported as an unstated premise his own bias that the double movement must be left-democratic, but the reality is that every place Polanyi uses the word “democratic” it could be deleted without changing his arguments in the least.

Nor was Polanyi good at prognostication. Polanyi thought the self-regulating market was over; he even seems self-congratulatory. He uses phrases like “Looking back from the rapidly declining heights of a worldwide market economy. . . .” and “Undoubtedly, our age will be credited with having seen the end of the self-regulating market.” Nope. Quite the contrary, as books from Andrew Yang’s *The War on Normal People* to James Bloodworth’s *Hired* have recently discussed. He was just wrong, and simply because the double movement seems to be on the rise, as shown by some ferment in the United States, and even more by European events such as Brexit and the rise of Viktor Orbán, does not mean that the self-regulating market is not going to come out on top again.

Polanyi thought, and desired, that the self-regulating market would be replaced by massive government diktats. He doesn’t say that exactly, but it’s the tenor of what little he does specifically say. Labor would be removed from commodification by the government directly or by unions empowered by the government. “Not only conditions in the factory, hours of work, and modalities of contract, but the basic wage itself, [will be] determined outside the market.” It is not clear to me how union negotiation is supposed to be “outside the market”; what Polanyi seems to be saying is that unions will demand non-market compensation of some type, but in practice this is merely a call for total government price-setting in the labor market, something you don’t have to be an Austrian School economist to see how silly it is. Land would be removed from commodification in some totally vague way, “the incorporation of land with definite institutions such as the homestead, the cooperative, the factory, the township, the school, the church, parks, wild life preserves and so on.” Private farms would be

allowed to exist, but the implication is that most land will no longer be alienable, or fully alienable, again by in practice transferring most land to some level of government. And many core prices, “staple foods and organic raw materials” (the latter presumably meaning commodities such as oil and coal) would be entirely removed from the market and prices fixed by the government. In Polanyi’s view, modern central banking has already removed money as commodity from the scene; there is some truth to this, but he did not foresee the explosion in monetary instruments and trading today.

Nor, anywhere, does Polanyi advert to his earlier point that inevitable changes need to be slowed and alleviated, not stopped—all of these “solutions” appear to involve permanent reversal by the government of the commodification of land, labor, and money. It’s fairly obvious this is just a Hayekian nightmare, and not much different than the Soviet Union without the terror and killing. Polanyi offers, even if he does not intend to, statism and collectivism, where man will soon come to serve the state that claims to be serving him. So, for example, Polanyi loved the New Deal, which was mostly an exercise in graft and massively increasing government power, which was itself largely fascist, and which did nothing to relieve the Depression and almost nothing to relieve the estate of the forgotten man, despite the claims of those pushing it. Nonetheless, Polanyi believed that international cooperation in further, new massive government regulation was the future. He entirely failed to see that, with some possible exceptions, more government planning meant less freedom (and, despite his talk of reciprocity and redistribution in pre-modern societies, he completely ignores the critical role of intermediary institutions in mediating economic life). In fact, he is explicitly the anti-Hayek—he directly claims that more regulation, more government “planning and control,” will make us more free, in a way vaguely promised but never explained. Given seventy-five years, we can now see that international regulatory cooperation is, aside from its other problems, merely an attempt to clamp down on the double movement, in exactly the same way Polanyi complained happened a hundred years ago, and that more freedom, even the good type of freedom, ordered freedom, isn’t what we’ve gotten in exchange.

Perhaps seeing that his vision isn’t very attractive, markets will continue, Polanyi assures us, but he only mentions this in passing, and

seems to regard this as relatively unimportant. Markets continue, “in various fashions, to ensure the freedom of the consumer, to indicate the shifting of demand, to influence the producers’ income, and to serve as an instrument of accountancy, while ceasing altogether to be an organ of economic self-regulation.” He does not explain what this means. At all. And I have no idea what it could mean. As I said earlier, far more interesting and compelling is Röpke’s economic humanism—and Röpke, unlike Polanyi and his quasi-Marxist semi-determinism, correctly sees the many other flaws in modernity that have little or nothing to do with economic matters.

Now, there is no doubt that Polanyi’s core premise, that the unfettered free market is a social disaster, is wholly accurate. It is not to the contrary that governments indulge and have long indulged in actions such as industrial policy or correcting market failures such as monopoly, or more recently various forms of highly aggressive regulation; the point here is the struggle for flourishing that the unfettered market imposes on the common people. The struggle results not only from needing to earn bread, but from the variability of real income that comes from the commodification of labor, land, and money. Normal people hate variability. They want certainty—of employment, of wages, of ownership of land or tangible goods. What they get instead is the heinous modern system where service workers are on-call and summoned by iPhone app when they are to work, for as many hours as they are told to work, a few minutes before they need to be behind the counter. And what they don’t get is a share in the benefits of an ever-growing economy, which as is well-known have accrued over past decades to a tiny slice of our society. These things are real problems, getting worse as our neoliberal overlords tighten their nasty grip.

So yes, I agree the government should aggressively intervene to accomplish social goals. My Foundationalist government, of limited ends and unlimited means, will certainly do so. I think that in general government should seek Röpke’s goals: “wealth would be widely dispersed; people’s lives would have solid foundations; genuine communities, from the family upward, would form a background of moral support for the individual; there would be counterweights to competition and the mechanical operation of prices; people would have roots and would not be adrift in life without anchor; there would be a broad belt of an

independent middle class, a healthy balance between town and country, industry and agriculture.”

The problem for today is that our present government does already intervene to accomplish social goals. It's just those social goals are terrible—the classic example being the 2008 bailouts of our neoliberal masters. And let's not mention the government's complicity in creating destructive monopolies, expertly covered in Tim Wu's *The Curse of Bigness*. Plus, I don't think encouraging our current government, which works hand in glove with the totalitarians of woke capitalism, to try to achieve other social goals is a good idea—it's just an excuse to impose their anti-reality, toxic leftism on everyone. We need a remade, virtuous ruling class and government for seeking social goals to make any sense (and there is a recursive element, too—while democracy has no relevance to any of these goals, whatever Polanyi says, the common people have to buy into this too). Modifying economic behavior to achieve those goals is only part of the plan, of course, but an important part of the plan.

So, at the end, I think Polanyi is right in his basic premise, but he is mostly wrong about everything else. Read Röpke instead; you will not be missing anything by skipping this book.