

Re-reading Karl Polanyi's *The Great Transformation*

K. Polanyi, *The Great Transformation: The Political and Economic Origins of Our Time*, Beacon Press, Boston, 2001, pp. 360.

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In 1886, Karl Polanyi was born into a world that was changing in ways that resonate today. The first decades of the twenty-first century have witnessed a polycrisis that brings together a multitude of strains: staggering levels of inequality, sluggish GDP growth, catastrophic harms to the natural world, and intensifying volatility as world order lurches from US domination toward multipolarity. Economic nationalism has reappeared in the form of protectionism and trade wars. Political nationalism is resurgent too, often wearing authoritarian populist clothes. Conspiracy theories proliferate, linking vaccination paranoia to anti-semitism to a nefarious globalist elite.

In these ways our world is reminiscent of Polanyi's, and contrasts with that of his parents. In their youth, globalisation, domestic agricultural prosperity and British hegemony were underwriting a liberal shift

in economic policy and ideology. In their empire – Austria-Hungary – freedoms of speech and assembly were granted, and some antisemitic legislation was dismantled. Progress appeared to be propelled by a liberal wind, and headed toward free trade, religious tolerance, and cosmopolitanism. For bourgeois Jews of their generation, full legal equality was not yet in view, but life was becoming more tolerable. As Polanyi grew up, these coordinates were shifting. During his childhood, the world economy was mired in the Long Depression of 1873-96, with its subdued profitability, protectionism and trade wars. Market liberalism, then as now, remained the prevailing paradigm but its demons were coming to life in the shape of extreme wealth polarisation, blood-and-soil nationalism, and war. Social anxieties were channelled xenophobically, against immigrants and ‘rootless cosmopolitans.’ Thinkers such as Friedrich Nietzsche and Oswald Spengler railed against the economic rationalism and scientific certainties of the liberal mainstream. The *Protocols of the Elders of Zion* launched a wave of conspiratorial antisemitism.

The economic turbulence and political violence did not leave Polanyi unscathed. Shortly after his father’s firm went bankrupt, he was expelled from Budapest University for the crime of self-defence against physical attack by anti-semites. A few years later, the first world war broke out. In probably the greatest mistake of his life, he volunteered as an officer in an engineering brigade, and even looked forward to joining the fray. Such *naiïveté* soon gave way to bleaker moods of boredom and depression before, injured and sick, he was forced to return home. The war was the first of the sequence of catastrophes to which *The Great Transformation* (originally titled *The Origins of Our Time*) was to offer a theorised account. Hard on its heels came fascism, the 1930s Great Depression, and then another world war and the Holocaust. These all directly and injuriously affected our author. He was unable to return to Hungary when its fascist ruler Miklós Horthy unleashed a White Terror following the short-lived Soviet republic of 1919. The ascent of fascists to power in Austria forced him to flee to Britain where, in the 1930s, he eked out a living with part-time teaching for the Workers’ Educational Association.

The collapse of liberal institutions and utopias in the early twentieth century raised profound questions that Polanyi pursued throughout the interwar period. How extensive a rupture with liberal civilization was taking place, and was liberal political economy entering a terminal decline? Was a fundamental shift toward autarky, corporatism and planning underway? In what ways were the Great Depression and the rise of fascism related? And above all, why had the global expansion of commerce and market society led not to peace and prosperity, as liberal theory had predicted, but to war, economic collapse, fascism, and more war? It was in grappling with these puzzles that *The Great Transformation* began to gain shape. Its central thesis is that the events through which its author was living – two world wars, fascism and the Great Depression – formed an interconnected cataclysm the origins of which lay “in the utopian endeavour of economic liberalism to set up a self-regulating market system” (p. 17).

What was it about the market system, Polanyi asked, that had brought the world to the brink? At bottom, Polanyi insisted, it was the fact that the self-regulating market treats land, labour, and money as commodities. In subsuming these vital elements of human life, the market subjects society to its anarchic and perverse laws. When land, labour and money are treated as commodities, society as a whole becomes subjected to the laws of the market, while simultaneously, at the institutional level, economy becomes separated from politics. This marked a novel departure from all previous social formations. However, the very extremism of the self-regulating market ensures that it can never reign unchallenged. This was Polanyi’s second thesis, positing that the subordination of life and nature to a calculus of purchase and sale will give rise to such severe consequences that a clamour for social protection becomes inevitable. “Counter-movement” was the term he coined to describe this pressure. The counter-movements of the nineteenth century provided support for market expansion by checking its destructive tendencies, but in the twentieth they conflicted with market principles, giving rise to ‘disruptive strains’ that brought the market system to collapse. On one hand, protective measures such as trade union practices and economic nationalism

(Dale 2016) were needed to prevent society from self-destruction; on the other, these same measures exacerbated slumps and protectionism (Polanyi subscribed to the pre-Keynesian tenet that interference with markets causes them to malfunction).

We may also read *The Great Transformation* as a theorisation of Europe's fascist irruption of the interwar period. For what, in its author's view, was fascism? It was the last throw of the dice by embattled capitalist elites, as they confronted working-class revolt and a series of crises culminating in the Great Depression. And what was the Great Depression? It was the outcome of the aforementioned 'disruptive strains' – notably the social fall-out from the operation of the gold standard. And what was the gold standard? It was the global institutional embodiment of free-market economics. Hence Polanyi's famous phrase: "In order to comprehend German fascism, we must revert to Ricardian England" (p. 32) – the setting of the book's central chapters. It is in these chapters, too, that a further major thesis is proposed. Contra explanations that posit the industrial revolution as a purely private process supervised by a minimal state, Polanyi shows that behind the construction of the market system lay a programme of social engineering steered by states that were far more intrusive than their pre-modern predecessors. In this thesis, he inverts the Hayekian indictment against socialism – that it represents an artificial experiment in social engineering, anti-human in its suppression of catalytic spontaneity. In *The Great Transformation* the tables are turned: economic liberals are the utopian extremists, their opponents are the bearers of a spontaneous reaction demanding social protection.

As the liberal institutional order collapsed around his ears, Polanyi believed, the split that had yawned open between politics and economics would be sutured in one way or other. States were developing into "more complete and coherent" national units, in either fascist or progressive forms; the latter were exemplified by the Roosevelt and Stalin regimes in Washington and Moscow respectively. This transformation is the subject of Chapter Two, *Conservative Twenties, Revolutionary Thirties*. To many, the title appears odd, perhaps an editorial error. Surely he meant the

revolutionary twenties? Had that decade not commenced with a series of upheavals that overturned old regimes, from Russia to the Rhineland, followed by risings in Italy, Spain, and Cuba, and radical student struggles across China and Latin America? Did the 1930s not see the extinguishing of those movements in the torture chambers of Berlin and Moscow, and on the streets of Vienna, Barcelona, Beijing, and beyond? Yet this was no slip. Polanyi's dichotomy between conservation and revolution referred not to collective action or labour movements but to liberal institutions. Were they being restored, as in the 1920s, or giving way to statist alternatives? In his reading, the 1930s was the decisive decade, with Stalin's regime acting as a forerunner of the "great transformation" and Hitler's "hitchhiking" upon it.

The meaning and objectives of *The Great Transformation* have been the subject of some debate, which Iván Szelényi (1991) usefully summarised as the 'hard' and the 'soft' Polanyi. The former advocated a socialist mixed economy dominated by redistributive mechanisms; the latter believed the market should remain the dominant coordinating mechanism within a capitalist mixed economy. Other interpretative arguments have arisen over the meaning of the 'countermovement,' his analysis of the gold standard (Knafo 2020), questions of neoclassical economics, functionalism and determinism in Polanyi's method (Bockman 2011; Dale 2014; Gemici 2015), and the ambiguity of his concept of 'protection' (is Polanyi referring to the protection of labour from the volatility of market economy, or of the rural community – including employers' interests?).

Another issue that requires clarification concerns the concept of capitalism. Polanyi used the term frequently when drafting *The Great Transformation*, yet it rarely appears in the final version, where the floor is held by "market economy" and "market society." Polanyi distinguishes these terms from "markets" because local markets, subservient to other institutions, are utterly unlike the market economy that emerges when land and labour are commodified, which comes to dominate society as a whole. But the terms "market economy" and "market system," as the economist J. K. Galbraith (2004) observed, are "bland, benign,"

even “meaningless.” Their focus on exchange transactions occludes the conflictual relations of power and class exploitation from which market relations arise – when workers are dispossessed and sell their labour-power for a wage, generalised commodification necessarily follows. That class relationship forms the motor of the system: the accumulation drive, with its ecocidal consequences, its tendencies to capital concentration and centralisation, to crisis, and to social and spatial polarisation. The conceptual framework in *The Great Transformation*, by contrast, is not well suited to exploring power dynamics. Polanyi tends to treat states as representatives of the nation, and not as capitalist entities. That he conceived of states as functional, integrative institutions explains his tendency to downplay coercion in statist – or in his lexicon, “redistributive” – societies such as the Soviet Union. He was perceptive in noting that the so-called free-market system relied, in the nineteenth century, on “continuous, centrally organized and controlled interventionism” by states. A truly free – or “self-regulating” – market system never existed. However, Polanyi’s belief that politics and economics had evolved into separate institutional assemblages – states on one hand, the “self-regulating market” on the other – made it hard to grasp that the “great transformation” that he was observing was essentially the restructuring of capitalism along bureaucratic-nationalist lines, which were variously labelled the war economy, Keynesian big government, and import-substitution industrialisation – and, I would argue, Soviet “communism” too (Dale, Unkovski-Korica 2023).

In failing to anticipate that state intervention would contribute to the long-term stabilisation of market societies, the conceptual framework of *The Great Transformation* was ill-equipped to deal with regulated capitalism as the durable phenomenon it turned out to be. Nor did his “capitalism versus democracy” thesis, at least in its strong version, hold up. Liberal democracy accommodated itself to capitalism. For all the reforms enacted by Franklin Roosevelt in Washington or Clement Attlee in London, their governments left the power of capitalist elites intact. And although, a year before his death in 1964, Polanyi could applaud the victory of Austria’s Social Democrats in presidential

elections with 55 percent of the vote, the party constructed corporatist institutions, with no hint of the socialist transition that Polanyi had anticipated. Nor did his other predictions fare well in the postwar decades. The Soviet Union did not democratise as he had expected and no phoenix arose from the ashes of liberal civilisation: there was no “great transformation” from market society toward corporatism or socialism. Regulated capitalism did not prove to be unstable; instead, it presided over an unprecedented system expansion, with the global capitalist class gaining control of ever-increasing swathes of the world.

Following its publication in 1944, *The Great Transformation* occupied a relatively marginal role for several decades. It gained a readership among anthropologists, but it made little headway in the fields of economics or political economy, or as a touchstone for socialists. But with the rise of neoliberalism in the 1980s, *The Great Transformation* struck a chord. It gained a much broader audience and its status as a classic was assured. More recently, neoliberal globalisation itself has stalled. In the wake of the 2008 ‘Great Recession,’ and again during the Covid-19 pandemic, protectionism, industrial policy, ‘big government’ and Keynesianism all made comebacks. The fallout from the 2008 crisis brought opportunities for a left social-democratic politics not unlike Polanyi’s – think for instance of the one-time leader of Britain’s Labour Party, Jeremy Corbyn – but also for Christian fundamentalism and Donald Trump in the USA, and his kindred ghouls in Brazil, the Philippines and elsewhere. “There are plausible scenarios,” suggests Christine Lagarde (2023), President of the European Central Bank, “where we could see a fundamental change in the nature of global economic interactions. We may be entering an age of shifts in economic relationships and breaks in established regularities”. As in Polanyi’s time, the prospect of dramatic changes in the global order no longer seems far-fetched.

For as long as neoliberalism staggers on, even if in ‘zombie’ form, we can predict that Polanyi’s excoriation of market fundamentalism will retain its freshness. Yet his other concerns, notably with fascism, war, and civilisational collapse may well be discovered anew. According to the world-systems theorists, a grouping profoundly influenced by

Polanyi's work, the early twenty-first century is an era defined by social and political polarisation, the erosion of US hegemony, and geopolitical fission and conflict. States from Brazil to India, and Israel to Italy, have seen fascists enter government (Dale 2023). The US and Britain launched assaults upon countries across the Middle East, Russia invaded Ukraine, and Israel conducted its merciless genocide against the Palestinian people. Above all, the threat posed by climate breakdown now dominates the horizon. Given that industrial capitalism has murdered the Holocene, the consequences of which are beyond imagination, Polanyi's writings will be mined increasingly for their critique of the treatment of the natural realm as a "fictitious commodity," and for his left-romantic apprehension at humanity's technological powers escaping moral and political control. This may not be on the scale of the 1940s when Polanyi investigated the origins of the "cataclysm," yet we may hear echoes of his era as we explore the origins of our contemporary cataclysms with the help of his book.

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