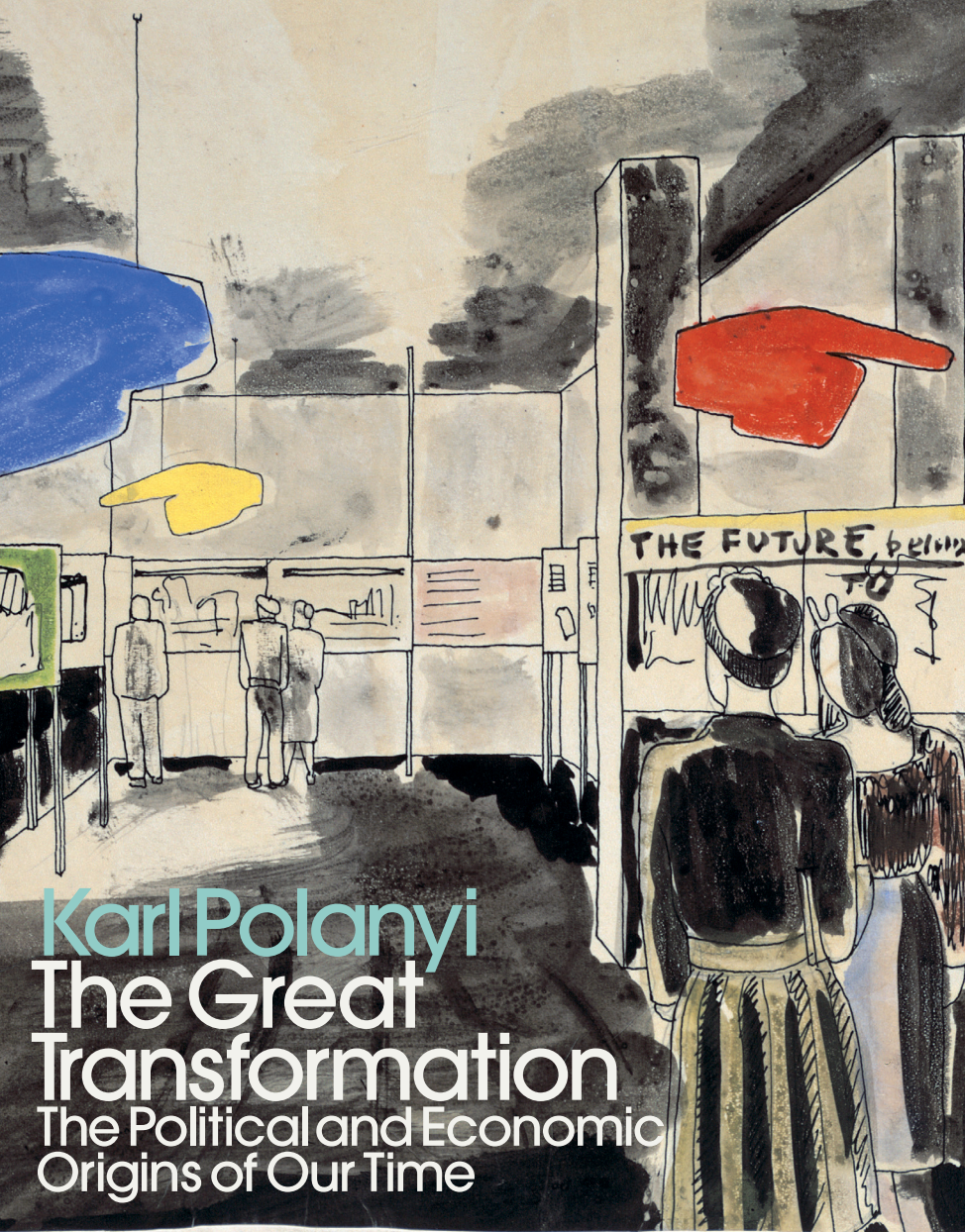




MODERN
CLASSICS



Karl Polanyi
The Great
Transformation
The Political and Economic
Origins of Our Time

The Great Transformation

'His masterpiece' *New Yorker*

'His magnum opus . . . a totem for social democracy' *Dissent*

'A vital counterpoint to the hegemony of political economics . . . one of the century's classics' *Boston Review*

'The twentieth century's most prophetic critic of capitalism . . . *The Great Transformation*, written for a broad audience, is witty and passionate as well as erudite' *Prospect*

'[*The Great Transformation*] did more than any work of that generation to broaden and deepen the critique of market societies' *Progressive*

'Polanyi's revolutionary work is a must-read for anyone interested in understanding the complexities of our economic systems and debunking the myths around the free market' Mariana Mazzucato

'As the Second World War was drawing to a close in 1944, two great works of political economy were published. One was Hayek's *The Road to Serfdom*, the driving force behind the free-market revolution in the final quarter of the twentieth century. The other was Karl Polanyi's *The Great Transformation* . . . [It] is well worth reading' *Guardian*

'Karl Polanyi's classic book describing the great transformation of European civilization from the preindustrial world to the era of industrialization, and the shifts in ideas, ideologies, and social and economic policies accompanying it . . . often seems as if [he] is speaking directly to present-day issues' Joseph E. Stiglitz

'One of the most powerful books in the social sciences ever written. Polanyi convincingly shows that market fundamentalism, the religion of competition and the commodification of social relations largely contributed to fragilize Western societies and to lead to the authoritarian and totalitarian nightmare of 1914–1945. The same risk applies today at the global scale. A must-read' Thomas Piketty

'*The Great Transformation* provides the most powerful critique yet produced of market liberalism . . . it is indispensable for understanding the dilemmas facing global society at the beginning of the twenty-first century' Fred Block

'With this book Karl Polanyi explained the rise of fascism in the 1920s and 30s. Today his great work sheds light on the worldwide rise of authoritarianism, and on our predicament. It is as essential and relevant as it was in 1944' Ann Pettifor

'In *The Great Transformation*, published in 1944, the same year as Friedrich Hayek's *The Road to Serfdom*, Karl Polanyi argued that human beings would not long tolerate living under a truly free-market system. Experience of the past four decades has vindicated this point of view' Martin Wolf

'Read *The Great Transformation* today. Karl Polanyi's striking insights into the free-market fantasies and failed financial foundations of 19th century civilization hit home hard, as our own global order totters and slouches toward Armageddon – and once again a new system struggles to be born. You will be astonished at the everlasting relevance of this extraordinary book' James K. Galbraith, The University of Texas at Austin

'We live in an age of backlash against neoliberalism and hyper-globalization, which shows that Polanyi's insights on the tension between markets, on the one hand, and social stability and protection, on the other, remain as relevant as ever. I hope this edition will make him better known to a new generation of readers, preventing future leaders from committing the errors of past generations' Dani Rodrik, Harvard University

'A seminal book . . . Polanyi's ideas are now more relevant than ever in our times of overlapping economic and political crises, where pressing questions are being raised about the future of the international economy and global politics' Ayşe Buğra, Boğaziçi University

'Karl Polanyi's most fundamental contribution was questioning putting the economy at the centre of civilization, and insisting that the economy is a social construct. This idea was as relevant in 1944 when *The Great Transformation* was first published, as it is today . . . It is my hope that with this new edition, this important book will reach a new generation of readers and inspire continued critical discourse on the political and economic challenges facing humanity' Kari Polanyi Levitt, McGill University

ABOUT THE AUTHOR

Karl Polanyi (1886–1964) is considered one of the twentieth century's most prophetic and perceptive economic historians and social theorists. After fleeing his native Hungary and Austria with the rise of fascism, he became a British citizen. During his academic career he taught for the Workers' Educational Association and at Bennington College and Columbia University. He wrote 'The Essence of Fascism', *The Great Transformation* and (with Abraham Rotstein) *Dahomey and the Slave Trade*.

Gareth Dale teaches politics at Brunel University. His books include five on Karl Polanyi (including an intellectual biography with Columbia University Press), several on the GDR and Eastern Europe, and edited volumes on migration, green growth and revolutionary uprisings in the neoliberal era. His essays have appeared in *The Conversation*, *The Ecologist*, *Truthout*, *Jacobin*, *Open Democracy*, *Viewpoint* and *Spectre*.

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KARL POLANYI

The Great Transformation

The Political and Economic
Origins of Our Time

With an Introduction by Gareth Dale



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*To my beloved wife
Ilona Duczynska
I dedicate this book
which owes all to her help and criticism*

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Introduction

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 gathers together multiple economic and social ‘strains’: staggering levels of social inequality, slow economic 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 antisemitism 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, globalization, 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’

* Gareth Dale, ‘The great acceleration: is it ending and what comes next?’, *The Ecologist* (30 June 2023), <https://theecologist.org/2023/jun/30/great-acceleration-it-ending-and-what-comes-next>

of 1873–96, with its subdued profitability, protectionism and trade wars. Market liberalism, then as it is now, remained the prevailing paradigm, but its demons were coming to life in the shape of extreme wealth polarization, 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 antisemites. A few years later, the First World War broke out. In probably the greatest mistake of his life, Polanyi volunteered as an officer in an engineering brigade, and even looked forward to joining the fray. Such naïveté 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* was to offer a theorized account. Hard on its heels came fascism, the 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 teaching part-time for the Workers’ Educational Association. During the war he lost friends and family, and then, in the Holocaust, more relatives. His younger sister, her husband and his nephew-in-law were all murdered by the Nazis. Then, in the 1940s, following his move to the USA, the authorities permanently barred his wife, Ilona Duczyńska – whose ‘help and criticism’ was indispensable to this volume – from joining him. The background, once again, was fascism, this time the US version: in response to pressure from the Ku Klux Klan, Congress had enforced strict annual quotas to throttle immigration from eastern Europe. The more immediate

factors behind her exclusion were anti-communist decrees and their enforcement by government officials with fascist sympathies, notably Franklin Roosevelt's assistant secretary of state, Breckinridge Long, and his ambassador to Britain, Joseph Kennedy.

The collapse of liberal institutions and utopias in the early twentieth century raised profound questions. How extensive a rupture with liberal civilization was taking place, and was liberal political economy entering a terminal decline? Was a tidal shift toward autarky, corporatism and planning underway, and were its two most conspicuous examples, Nazism and Stalinism, better understood as antitheses or totalitarian twins? In what ways, beyond the familiar observation that recession-hit voters had turned to Hitler, 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. Unlike mainstream accounts that sought to blame the gathering chaos on pre-capitalist survivals, such as absolutism as an explanation of war, Polanyi focused his attention on modern institutions. And whereas mainstream accounts tended to treat the various moments of catastrophe in isolation, Polanyi asked: could they not be interconnected? Was the rise of nationalism a reaction to the anarchic effects of 'universal free trade', as some were arguing at the time? Could the world wars, fascism and the Great Depression all be symptoms of a deeper social emergency, a crisis of liberal civilization? These are the questions that he set out to explore in *Origins of the Cataclysm*, later to be retitled *The Great Transformation*.

The argument evolved in phases, across two decades. If the initial seed had been planted during the First World War, a new

* John Middleton Murry quoted, in Rudolf Schlesinger, *Federalism in Central and Eastern Europe* (Routledge, 1945), 153. See also Gareth Dalton's research of Karl Polanyi's 'International Relations theory', *Review of International Studies* (2016), vol. 42, no. 3.

thread emerged during Polanyi's stay in Red Vienna. By this stage of his life his political and spiritual colours were firmly set: socialist, democrat, Christian, anti-Zionist. He was captivated by literature that emphasized the natural or religious imperative of *social unity*. 'Western civilization', he believed, had been brought into being by a historic drive toward self-determination, but this harboured a danger, in that it ran along divergent tracks. The separate institutionalization of economic and political life brought severe social strains to the newly established bourgeois-democratic order. In Vienna this was clear to see: the means of production were owned by the capitalists, while political office was held by the workers' party, the Social Democrats.

Polanyi was optimistic – some would say to the point of 'determinism' – that democracy would expand and deepen, reaching into the workplaces and the economic sphere in general.* But he recognized that this natural next step faced a stiff obstacle: 'the class structure of society due to the capitalist system'.† The dispossessed classes would cast their votes to demand protection from market forces, but the market mechanism tightly circumscribed any flexing of their newfound political muscles. The result was an impasse. Worldwide, the contradiction between capitalist-owned economies and worker-influenced states was generating 'disruptive strains'. Workers defended their interests by electing parties that interfered with the market mechanism, preventing its efficient functioning. The captains of industry reacted by trying to trammel democracy, or abolish it altogether. A binary choice was impending. Society could fall 'under the leadership of the working class' and steer democratically toward a socialist society. (Elsewhere, in an early draft of the book, entitled *The Fascist Transformation*, Polanyi referred to this possibility as 'democracy made supreme over capitalism'.)‡ If that

* Gareth Dale, 'The iron law of democratic socialism: British and Austrian influences on the young Karl Polanyi', *Economy & Society* (20 November 2014), vol. 43, no. 4.

† Karl Polanyi Archive, Container 8, Folder 7 (Hereafter KPA-8-7), Karl Polanyi (1934–46), 'The Christian and the Worker in a Capitalist Society'.

‡ KPA-18-8, Karl Polanyi (undated), 'The Fascist Transformation'.

were not to happen, however, the propertied classes would support fascist attempts to dispatch with democracy altogether.*

The next pieces of the jigsaw were assembled in 1930s Britain. Here, Polanyi was witness to the barbarism of market society even in its most 'developed' zones. What, he wondered, were the roots of all this poverty and cruelty? The immediate culprit appeared to be the social dislocation that had accompanied nineteenth-century industrialization. He threw himself into its study; his findings form the centre of Part Two of *The Great Transformation*, where market society and classical economics are subjected to critical dissection.

The basic charge that Polanyi directs at market liberalism, following on from the positions sketched out in Vienna, is that it disintegrates society into 'separate economic, political, "religious", and other spheres', corrupting its natural, God-given condition. Essential to his book, as he wrote to his brother Michael during its preparation, is its description of the 'murderous' consequences of the market.† Nothing could be more contrary to 'the traditional organization of human society' than a system that treats land and human labour as 'fictitious commodities', to be disposed of as if they were 'cucumbers'.‡ In subsuming these vital elements of human life, the market subjects society to its own anarchic and perverse laws, debasing material existence, reducing its motivations to the fear of hunger (for workers) and the greed for profit (for entrepreneurs), and converting social life, as a whole, into a sorcerer's-apprentice realm in which we are entangled in webs of economic coercion.§ Prices, as Polanyi put it, come to 'rule everything, but

* KPA-21-5, Karl Polanyi (1936), 'The Nature of the Present World Crisis'; KPA-31-10, Polanyi, 'Present Age'.

† KPA-57-8, Karl Polanyi (1943) to Misi, 13 October.

‡ KPA-21-5, Karl Polanyi (1936), 'The Religious Nature of the Crisis'; KPA-21-22, Polanyi, 'Community and Society'; KPA-18-8, Polanyi, 'The Fascist Virus'.

§ KPA-8-7, Karl Polanyi, 'Rise and Decline of the Market Society' (1937), 'Community and Society. The Christian Criticism of Our Social Order'.

nobody rules them'.* In such ways, the market system *disembeds* economic life from the social whole, subjecting 'man and his natural habitat to the working of a blind mechanism running in its own grooves and following its own laws'.†

The disembedding thesis is a centrepiece of *The Great Transformation*; it also forms the basis of Polanyi's well-known theory of the 'double movement'. This concept refers to the way in which the very extremism of the free-market system ensures that it can never reign unchallenged. As the disembedding movement proceeds, subordinating human society and the natural environment to a calculus of purchase and sale, it becomes so corrosive to human life and welfare that blowback is inevitable, in the form of struggles for social protection. The 'countermovement' manifests itself in a wide variety of policies, institutions and social movements, including social legislation and fiscal redistribution, economic nationalism, and the activism of trade unions, cooperatives and churches.

If one consults only its pages on disembedding and the double movement, one could be forgiven for mistaking *The Great Transformation* for a primer on regulated capitalism. Some commentators do read it this way. The construction of the market system, they say, requires a countermovement to secure a stable and humane order. And Polanyi's account of the double movement in the nineteenth century does indeed propose that the system was able to expand relatively smoothly, without major wars and with the destructive spirits of *laissez-faire* progressively tamed by socially protective state policy. However, the two movements, he goes on, could not coexist stably for long. The interference with market forces that society demands impairs their functioning and gives rise to slumps and protectionism, generating and intensifying the 'disruptive strains'. Whereas Maynard Keynes, his contemporary, maintained that state intervention, for the most part, improves the functioning of

* KPA-1-50, Karl Polanyi (1922), 'Titanic journalism' [*Titáni publicisztika*], *Bécsi Magyar Újság*, 23 September.

† KPA-21-1, Karl Polanyi (1939) 'The Reason of Freedom'; KPA-35-10, Polanyi (1949), 'Economic History and the Problem of Freedom'.

capitalism, Polanyi subscribed to pre-Keynesian tenets: state interference causes markets to malfunction, and higher wages lead to lower investment.

A market economy, in Polanyi's assessment, cannot operate effectively or efficiently if the welfare net is woven tightly enough to afford workers and nature genuine protection, and still less where parliamentary democracy enables workers' parties to enter office. As working-class pressure in the late nineteenth century forced states to introduce tariffs and wage regulation, the price elasticity upon which the smooth functioning of the world market depended, as institutionalized in the gold standard, was undermined. The resulting contradictions spilled over into economic nationalism, geopolitical tensions, and, ultimately, the First World War.* In its aftermath, a regulated capitalism was patched together, but it was brittle and inherently unstable. Among the most powerful sections of *The Great Transformation* is Polanyi's analysis of the shuttling of 'strains' between the political and economic spheres and the national and international scales, a tracing of the ways in which the various crises of the age – democracy, market society, international order and world economy – interlaced, with each connection multiplying the intensity of the crisis as a whole.

One can read *The Great Transformation*, then, as an argument that the liberal agenda of extending the self-regulating market to the world scale – the project known today as neoliberal globalization – sows the seeds of its own demise. The cataclysmic developments through which Polanyi's generation was living – world war, fascism, economic slump and renewed global conflict – were not discrete events but manifestations of the disruption of social unity, a pathology of liberal capitalism. What, *in nuce*, had occasioned the collapse of liberal civilization? In Polanyi's view, it was liberalism itself.

Equally, one can read *The Great Transformation* as an account of the genesis of twentieth-century fascism, locating its source in nineteenth-century Britain. For what was fascism? It was a movement defined by

* KPA-16-16, Karl Polanyi (1989), *WHA Lecture 20, KPA-15-4*, Polanyi, Morley lectures.

its hostility to socialism, liberalism and individualism. It was the last throw of the dice by embattled capitalist elites as they confronted democratization, working-class revolts and the profitability crises that culminated in the Great Depression. And what was the Great Depression? It was the outcome of ‘disruptive strains’ – the social tensions and economic imbalances that had arisen as the fallout from the operation of the gold standard – or the pegging of banknotes to gold, which afforded businesses security in international trade and investments but constrained the autonomy of national governments. And what was the gold standard? In Polanyi’s view, it was the market economy’s ‘chief institution’ at the global level; it was the institutional embodiment of free-market economics.* And where did free market economics come from? From the writings of the economists Thomas Robert Malthus and David Ricardo. Hence the dictum at the end of Chapter Two: ‘In order to comprehend German fascism, we must revert to Ricardian England.’

In the late 1930s, Polanyi began to draft *The Great Transformation*. Its subject would be ‘capitalism and the great transformation’: the evolution and nature of the market system and its associated mentalities, the crises that followed the collapse of liberalism after the First World War, and the emergence of alternative socioeconomic orders.† Two semantic elements here should be unpacked. One concerns what Polanyi meant by ‘the great transformation’. The usual interpretation is that the phrase refers to the past – to industrialization and the rise of market society in the eighteenth and nineteenth centuries. And, indeed, Polanyi does see this conjuncture as a world-historic transformation; he even, occasionally, uses ‘great transformation’ in this connection. However, during his research on the book, and in its pages too, he associates ‘transformation’ and ‘great transformation’ far more frequently with the breakdown and replacement of market

* KPA-15-8, Karl Polanyi (1943–4), ‘Government and Industry’, Lecture 24. For critical reflections on this position, see Samuel Knafo, ‘The gold standard’, in Gareth Dale, Christopher Holmes and Maria Markantonatou (eds.), *Karl Polanyi’s Political and Economic Thought* (Agneta, 2019).

† KPA-59-5, Karl Polanyi (1941) to Ilona, 25 February.

society, which he believed was occurring in the first half of the twentieth century. In Chapter One he makes this plain: ‘Nineteenth-century civilization has collapsed. This book is concerned with the political and economic origins of this event, as well as with the great transformation *which it ushered in.*’

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 other semantic issue that requires clarification is ‘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

* KPA-20-16, Karl Polanyi (undated), ‘Corrections’.

† KPA-20-4, Karl Polanyi (1939–40), ‘Common Man’s Masterplan’.

dominate society as a whole. But the terms ‘market economy’ and ‘market system’, as the economist J. K. Galbraith 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, generalized 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 centralization, to crisis, and to social and spatial polarization. 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 industrialization – and, I would argue, Soviet ‘communism’ too.†

In failing to anticipate that state intervention would contribute to the long-term stabilization of market societies, the conceptual

* John Kenneth Galbraith, *The Economics of Innocent Fraud* (Houghton Mifflin, 2004); David McNally, *Against the Market* (Verso, 1993); Kurtuluş Gemici, ‘The neoclassical origins of Polanyi’s self-regulating market’, *Sociological Theory* (26 June 2015), vol. 33, no. 2.

† Gareth Dale and Vladimir Unkovski-Korica, ‘Varieties of capitalism or variegated state capitalism? East Germany and Yugoslavia in comparative perspective’, *Business History* (14 November 2022), vol. 65, issue 7.

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 per cent 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 democratize as he had expected, and no phoenix arose from the ashes of liberal civilization: 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* initially enjoyed a modest reception. In Britain it may have suffered from academic snobbishness toward Polanyi – this peripatetic WEA teacher and Hungarian Jew, whose approach and writing style appeared so awfully alien. More importantly, its leftist yet anti-Keynesian political economy did not slot smoothly into prevailing lines of debate; and from its publication until the author’s death in 1964, a core theory advanced in the book – that regulated capitalism is necessarily slow-growing and unstable – did not speak to the real world, as capitalism enjoyed its greatest boom under statist regimes. It did gain an influential readership among anthropologists but remained relatively unknown among political economists and even socialists.

That changed dramatically in the final quarter of the twentieth century, with the ascendancy of neoliberalism. The critics of this new and particularly disintegrative and polarizing phase of capitalism – associated with the likes of Augusto Pinochet, Ronald Reagan and Bill Clinton, Margaret Thatcher and Tony Blair – found inspiration in

Polanyi's work, for his takedown of 'classical' market fundamentalism, which echoed strongly in the market-worshipping present. Indeed, his critique of the nineteenth-century classical political economists was viewed through the lens of his own clashes with major pioneers of neoliberalism – including his younger brother, Michael.

Michael Polanyi, together with his friend Friedrich Hayek, was a dedicated defender of market society and a critic of the contemporary trend toward economic planning. The latter represented, in their view, an artificial experiment in social engineering, anti-human in its suppression of individual spontaneity.

In *The Great Transformation*, Karl Polanyi turns the tables. In his diagnosis, economic liberalism is the extreme and inhuman philosophy – and artificially engineered too. One of his book's key achievements is its debunking of the myth that the industrial revolution was a spontaneous process supervised by a hands-off 'nightwatchman' state. Behind the industrial revolution, and the global market economy, lay state-led social-engineering programmes that were far more intrusive than any pre-modern equivalents. (Neoliberalism, its libertarian fringe notwithstanding, is not at all 'anti-state', nor does it favour a 'borderless' world.) If 'spontaneity' belongs to one side of the double movement, argued Polanyi, it is to his side, as it were – to the *countermovements* that demanded protection from the depredations of the market – and not to his brother's neoliberalism.

In the neoliberal era, *The Great Transformation* struck a chord. It gained a much broader audience, and its status as a classic was assured. More recently, neoliberal globalization 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 left social-democratic politics, not unlike Polanyi's – think, for instance, of 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, 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 civilizational 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 polarization, the erosion of US hegemony, and geopolitical fission and conflict. States from Brazil to India, and Israel to Italy, have seen fascists enter government. The US and Britain launched assaults upon countries across the Middle East, Russia invaded Ukraine, and Israel conducted its 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 own contemporary cataclysms with the help of his book.

Gareth Dale, 2024

* Christine Lagarde, ‘Policymaking in an age of shifts and breaks’ (30 August 2023), www.bis.org/review/r230830b.htm

Note on the 2001 Edition

In preparing this revision of Karl Polanyi's *The Great Transformation*, several minor changes have been made to the 1957 edition of Polanyi's text. First, the text incorporates small editing changes that Polanyi made after the first US edition went to press; these changes had been introduced when the book was published by Gollancz in the United Kingdom in 1945. Second, the 'additional note' on the Poor Law that appears at the end of the notes in the 1957 edition has been moved to the appropriate place in the Notes on Sources. Third, some proper names have been corrected and spelling and punctuation have been updated. Finally, the text has been repaginated, so there is no trace of pages 258A and 258B, which appeared in earlier US editions.

FRED BLOCK

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Author's Acknowledgments

This book was written in America during the Second World War. But it was begun and finished in England, where the author was Lecturer for the Extramural Delegacy of the University of Oxford and the corresponding institutions of the University of London. Its main thesis was developed during the academic year 1939–40 in conjunction with his work in Tutorial Classes, organized by the Workers' Educational Association, at Morley College, London, at Canterbury, and at Bexhill.

The story of this book is a story of generous friendships. Very much is due to the author's English friends, notably Irene Grant, with whose group he was associated. Common studies linked him to Felix Schafer of Vienna, an economist, at present in Wellington, New Zealand. In America, John A. Kouwenhoven helped as a trusted friend with reading and editing; many of his suggestions have been incorporated in the text. Among other helpful friends were the author's Bennington colleagues, Horst Mendershausen and Peter F. Drucker. The latter and his wife were a source of sustained encouragement, notwithstanding their wholehearted disagreement with the author's conclusions; the former's general sympathy added to the usefulness of his advice. The author also owes thanks for a careful reading to Hans Zeisel of Rutgers University. In America the book was seen through the press entirely by Kouwenhoven, with the help of Drucker and Mendershausen, for which act of friendship the author feels deeply grateful.

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PART ONE

The International System

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I

The Hundred Years' Peace

Nineteenth-century civilization has collapsed. This book is concerned with the political and economic origins of this event, as well as with the great transformation which it ushered in.

Nineteenth-century civilization rested on four institutions. The first was the balance-of-power system which for a century prevented the occurrence of any long and devastating war between the Great Powers. The second was the international gold standard which symbolized a unique organization of world economy. The third was the self-regulating market which produced an unheard-of material welfare. The fourth was the liberal state. Classified in one way, two of these institutions were economic, two political. Classified in another way, two of them were national, two international. Between them they determined the characteristic outlines of the history of our civilization.

Of these institutions the gold standard proved crucial; its fall was the proximate cause of the catastrophe. By the time it failed, most of the other institutions had been sacrificed in a vain effort to save it.

But the fount and matrix of the system was the self-regulating market. It was this innovation which gave rise to a specific civilization. The gold standard was merely an attempt to extend the domestic market system to the international field; the balance-of-power system was a superstructure erected upon and, partly, worked through the gold standard; the liberal state was itself a creation of the self-regulating market. The key to the institutional system of the nineteenth century lay in the laws governing market economy.

Our thesis is that the idea of a self-adjusting market implied a stark utopia. Such an institution could not exist for any length of

time without annihilating the human and natural substance of society; it would have physically destroyed man and transformed his surroundings into a wilderness. Inevitably, society took measures to protect itself, but whatever measures it took impaired the self-regulation of the market, disorganized industrial life, and thus endangered society in yet another way. It was this dilemma which forced the development of the market system into a definite groove and finally disrupted the social organization based upon it.

Such an explanation of one of the deepest crises in man's history must appear as all too simple. Nothing could seem more inept than the attempt to reduce a civilization, its substance and ethos, to a hard-and-fast number of institutions; to select one of them as fundamental and proceed to argue the inevitable self-destruction of civilization on account of some technical quality of its economic organization. Civilizations, like life itself, spring from the interaction of a great number of independent factors which are not, as a rule, reducible to circumscribed institutions. To trace the institutional mechanism of the downfall of a civilization may well appear as a hopeless endeavor.

Yet it is this we are undertaking. In doing so, we are consciously adjusting our aim to the extreme singularity of the subject matter. For the civilization of the nineteenth century was unique precisely in that it centered on a definite institutional mechanism.

No explanation can satisfy which does not account for the suddenness of the cataclysm. As if the forces of change had been pent up for a century, a torrent of events is pouring down on mankind. A social transformation of planetary range is being topped by wars of an entirely new type in which a score of states have crashed, and the contours of new empires are emerging out of a sea of blood. But this fact of demoniac violence is merely superimposed on a swift, silent current of change which swallows up the past often without so much as a ripple on the surface! A reasoned analysis of the catastrophe must account both for the tempestuous action and the quiet dissolution.

Ours is not a historical work; what we are searching for is not a convincing sequence of outstanding events, but an explanation of

their trend in terms of human institutions. We shall feel free to dwell on scenes of the past with the sole object of throwing light on matters of the present; we shall make detailed analyses of critical periods and almost completely disregard the connecting stretches of time; we shall encroach upon the field of several disciplines in the pursuit of a single aim.

First we shall deal with the collapse of the international system. We shall try to show that the balance-of-power system could not ensure peace once the world economy on which it rested had failed. This accounts for the abruptness with which the break occurred, the inconceivable rapidity of the dissolution.

But if the breakdown of our civilization was timed by the failure of world economy, it was certainly not caused by it. Its origins lay more than a hundred years back in that social and technological upheaval from which the idea of a self-regulating market system sprang in Western Europe. The end of this venture has come in our time; it closes a distinct stage in the history of industrial civilization.

In the final part of the book we shall deal with the mechanism which governed social and national change in our time. We shall also deal with the human situation. Broadly, we believe that the present condition of man is to be defined in terms of the institutional origins of the crisis.

The nineteenth century produced a phenomenon unheard of in the annals of Western civilization, namely, a hundred years' peace – 1815–1914. Apart from the Crimean War – a more or less colonial event – England, France, Prussia, Austria, Italy, and Russia were engaged in war among each other for altogether only eighteen months. A computation of comparable figures for the two preceding centuries gives an average of sixty to seventy years of major wars in each. But even the fiercest of nineteenth-century conflagrations, the Franco-Prussian War of 1870–71, ended after less than a year's duration with the defeated nation being able to pay over an unheard-of sum as an indemnity without any disturbance of the currencies concerned.

This triumph of a pragmatic pacifism was certainly not the result of an absence of grave causes for conflict. Almost continuous shifts in the internal and external conditions of powerful nations and great empires accompanied this irenic pageant. During the first part of the century civil wars, revolutionary and antirevolutionary interventions, were the order of the day. In Spain a hundred thousand troops under the Duc d'Angoulême stormed Cadiz; in Hungary the Magyar revolution threatened to defeat the emperor himself in pitched battle and was ultimately suppressed only by a Russian army fighting on Hungarian soil. Armed interventions in the Germanies, in Belgium, Poland, Switzerland, Denmark, and Venice marked the omnipresence of the Holy Alliance. During the second half of the century the dynamics of progress were released; the Ottoman, Egyptian, and the Sheriffian empires broke up or were dismembered; China was forced by invading armies to open her door to the foreigner, and in one gigantic haul the continent of Africa was partitioned. Simultaneously, two Powers rose to world importance: the United States and Russia. National unity was achieved by Germany and Italy; Belgium, Greece, Romania, Bulgaria, Serbia, and Hungary assumed, or reassumed, their places as sovereign states on the map of Europe. An almost incessant series of open wars accompanied the march of industrial civilization into the domains of outworn cultures or primitive peoples. Russia's military conquests in Central Asia, England's numberless Indian and African wars, France's exploits in Egypt, Algiers, Tunis, Syria, Madagascar, Indo-China, and Siam raised issues between the Powers which, as a rule, only force can arbitrate. Yet every single one of these conflicts was localized, and numerous other occasions for violent change were either met by joint action or smothered into compromise by the Great Powers. Regardless of how the methods altered, the result was the same. While in the first part of the century constitutionalism was banned and the Holy Alliance suppressed freedom in the name of peace, during the other half – and again in the name of peace – constitutions were foisted upon turbulent despots by business-minded bankers. Thus under varying forms and ever-shifting ideologies – sometimes in the name of progress and liberty,

sometimes by the authority of the throne and the altar, sometimes by grace of the stock exchange and the checkbook, sometimes by corruption and bribery, sometimes by moral argument and enlightened appeal, sometimes by the broadside and the bayonet – one and the same result was attained: peace was preserved.

This almost miraculous performance was due to the working of the balance of power, which here produced a result that is normally foreign to it. By its nature that balance effects an entirely different result, namely, the survival of the power units involved; in fact, it merely postulates that three or more units capable of exerting power will always behave in such a way as to combine the power of the weaker units against any increase in the power of the strongest. In the realm of universal history, balance of power was concerned with states whose independence it served to maintain. But it attained this end only by continuous wars between changing partners. The practice of the ancient Greek or the Northern Italian city-states was such an instance; wars between shifting groups of combatants maintained the independence of those states over long stretches of time. The action of the same principle safeguarded for over two hundred years the sovereignty of the states forming Europe at the time of the Treaty of Münster and Westphalia (1648). When, seventy-five years later, in the Treaty of Utrecht, the signatories declared their formal adherence to this principle, they thereby embodied it in a *system*, and thus established mutual guarantees of survival for the strong and the weak alike through the medium of war. The fact that in the nineteenth century the same mechanism resulted in peace rather than war is a problem to challenge the historian.

The entirely new factor, we submit, was the emergence of an acute peace interest. Traditionally, such an interest was regarded as being outside the scope of the system. Peace with its corollaries of crafts and arts ranked among the mere adornments of life. The Church might pray for peace as for a bountiful harvest, but in the realm of state action it would nevertheless advocate armed intervention; governments subordinated peace to security and sovereignty, that is, to intents that could not be achieved otherwise than by recourse to the ultimate means. Few things were regarded as more

detrimental to a community than the existence of an organized peace interest in its midst. As late as the second half of the eighteenth century, J. J. Rousseau arraigned tradespeople for their lack of patriotism because they were suspect of preferring peace to liberty.

After 1815 the change is sudden and complete. The backwash of the French Revolution reinforced the rising tide of the Industrial Revolution in establishing peaceful business as a universal interest. Metternich proclaimed that what the people of Europe wanted was not liberty but peace. Gentz called patriots the new barbarians. Church and throne started out on the denationalization of Europe. Their arguments found support both in the ferocity of the recent popular forms of warfare and in the tremendously enhanced value of peace under the nascent economies.

The bearers of the new 'peace interest' were, as usual, those who chiefly benefited by it, namely, that cartel of dynasts and feudalists whose patrimonial positions were threatened by the revolutionary wave of patriotism that was sweeping the Continent. Thus for approximately a third of a century the Holy Alliance provided the coercive force and the ideological impetus for an active peace policy; its armies were roaming up and down Europe putting down minorities and repressing majorities. From 1846 to about 1871 – 'one of the most confused and crowded quarter centuries of European history'* – peace was less safely established, as the ebbing strength of reaction met the growing strength of industrialism. In the quarter century following the Franco-Prussian War we find the revived peace interest represented by that new powerful entity, the Concert of Europe.

Interests, however, like intents, remain platonic unless they are translated into politics by the means of some social instrumentality. Superficially, such a vehicle of realization was lacking; both the Holy Alliance and the Concert of Europe were, ultimately, mere groupings of independent sovereign states, and thus subject to the balance of power and its mechanism of war. How then was peace maintained?

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* Sontag, R. J., *European Diplomatic History, 1871–1932, 1933.*

True, any balance-of-power system will tend to prevent such wars as spring from one nation's failure to foresee the realignment of Powers which will result from its attempt to alter the status quo. Famous instances were Bismarck's calling off of the Press campaign against France, in 1875, on Russian and British intervention (Austria's aid to France was taken for granted). This time the Concert of Europe worked against Germany, who found herself isolated. In 1877–78 Germany was unable to prevent a Russo-Turkish War, but succeeded in localizing it by backing up England's jealousy of a Russian move toward the Dardanelles; Germany and England supported Turkey against Russia – thus saving the peace. At the Congress of Berlin a long-term plan for the liquidation of the European possessions of the Ottoman Empire was launched; this resulted in averting wars between the Great Powers in spite of all subsequent changes in the status quo, as the parties concerned could be practically certain in advance of the forces they would have to meet in battle. Peace in these instances was a welcome by-product of the balance-of-power system.

Also, wars were sometimes avoided by deliberately removing their causes, if the fate of small Powers only was involved. Small nations were checked and prevented from disturbing the status quo in any way which might precipitate war. The Dutch invasion of Belgium in 1831 eventually led to the neutralization of that country. In 1855 Norway was neutralized. In 1867 Luxembourg was sold by Holland to France; Germany protested and Luxembourg was neutralized. In 1856 the integrity of the Ottoman Empire was declared essential to the equilibrium of Europe, and the Concert of Europe endeavored to maintain that empire; after 1878, when its disintegration was deemed essential to that equilibrium, its dismemberment was provided for in a similarly orderly manner, though in both cases the decision involved the existence of several small peoples. Between 1852 and 1863 Denmark, between 1851 and 1856 the Germanies threatened to disturb the balance; each time the small states were forced by the Great Powers to conform. In these instances, the liberty of action offered to them by the system was used by the Powers to achieve a joint interest – which happened to be peace.

But it is a far cry from the occasional averting of wars either by a timely clarification of the power situation or by the coercing of small states to the massive fact of the Hundred Years' Peace. International disequilibrium may occur for innumerable reasons – from a dynastic love affair to the silting of an estuary, from a theological controversy to a technological invention. The mere growth of wealth and population, or their decrease, is bound to set political forces in motion; and the external balance will invariably reflect the internal. Yet even an organized balance-of-power system can ensure peace without the permanent threat of war only if it is able to act upon these internal factors directly and prevent imbalance *in statu nascendi*. Once the imbalance has gathered momentum only force can set it right. It is a commonplace that to ensure peace one must eliminate the causes of war; but it is not generally realized that to do so the flow of life must be controlled at its source.

The Holy Alliance contrived to achieve this with the help of instruments peculiar to it. The kings and aristocracies of Europe formed an international of kinship; and the Roman Church provided them with a voluntary civil service ranging from the highest to the lowest rung of the social ladder in Southern and Central Europe. The hierarchies of blood and grace were fused into an instrument of locally effective rule which needed only to be supplemented by force to ensure Continental peace.

But the Concert of Europe, which succeeded it, lacked the feudal as well as the clerical tentacles; it amounted at the best to a loose federation not comparable in coherence to Metternich's masterpiece. Only on rare occasions could a meeting of the Powers be called, and their jealousies allowed a wide latitude to intrigue, cross-currents, and diplomatic sabotage; joint military action became rare. And yet what the Holy Alliance, with its complete unity of thought and purpose, could achieve in Europe only with the help of frequent armed interventions was here accomplished on a world scale by the shadowy entity called the Concert of Europe with the help of a very much less frequent and oppressive use of force. For an explanation of this amazing feat, we must seek for some undisclosed powerful social instrumentality at work in the new setting, which

could play the role of dynasties and episcopacies under the old, and make the peace interest effective. This anonymous factor, we submit, was *haute finance*.

No all-round inquiry into the nature of international banking in the nineteenth century has yet been undertaken; this mysterious institution has hardly emerged from the chiaroscuro of politico-economic mythology.* Some contended that it was merely the tool of governments; others, that the governments were the instruments of its unquenchable thirst for gain; some, that it was the sower of international discord; others, that it was the vehicle of an effeminate cosmopolitanism which sapped the strength of virile nations. None was quite mistaken. *Haute finance*, an institution *sui generis*, peculiar to the last third of the nineteenth and the first third of the twentieth century, functioned as the main link between the political and the economic organization of the world. It supplied the instruments for an international peace system, which was worked with the help of the Powers, but which the Powers themselves could neither have established nor maintained. While the Concert of Europe acted only at intervals, *haute finance* functioned as a permanent agency of the most elastic kind. Independent of single governments, even of the most powerful, it was in touch with all; independent of the central banks, even of the Bank of England, it was closely connected with them. There was intimate contact between finance and diplomacy; neither would consider any long-range plan, whether peaceful or warlike, without making sure of the other's goodwill. Yet the secret of the successful maintenance of general peace lay undoubtedly in the position, organization, and techniques of international finance.

Both the personnel and the motives of this singular body invested it with a status the roots of which were securely grounded in the private sphere of strictly commercial interest. The Rothschilds were subject to no *one* government; as a family they embodied the abstract principle of internationalism; their loyalty was to a firm, the credit

* Feis, H., *Europe, the World's Banker 1875-1914*, 1930, a work we have often textually followed.