THE GREAT TRANSFORMATION

The Political and Economic Origins of Our Time

KARL POLANYI

Foreword by Joseph E. Stiglitz

With a New Introduction by Fred Block

"One of the most important and original works of this century."

—Robert Kuttner

[*Fred Block*]

Introduction

An eminent economic historian, reviewing the reception and influence over the years of *The Great Transformation,* remarked that "some books refuse to go away." It is an apt statement. Although written in the early 1940s, the relevance and importance of Karl Polanyi's work has continued to grow. Although few books these days have a shelf life of more than a few months or years, after more than a half a century *The Great Transformation* remains fresh in many ways. Indeed, it is indispensable for understanding the dilemmas facing global society at the beginning of the twenty-first century.

There is a good explanation for this durability. *The Great Transformation* provides the most powerful critique yet produced of market liberalism—the belief that both national societies and the global economy can and should be organized through self-regulating markets. Since the 1980s, and particularly with the end of the Cold War in the early 1990s, this doctrine of market liberalism—under the labels of Thatcherism, Reaganism, neoliberalism, and "the Washington Consensus"—has come to dominate global politics. But shortly after the work was first published in 1944, the Cold War between the United States and the Soviet Union intensified, obscuring the importance of Polanyi's contribution. In the highly polarized debates between the defenders of capitalism and the defenders of Soviet-style socialism, there was little room for Polanyi's nuanced and complex arguments. Hence there is a certain justice that with the ending of the Cold War era, Polanyi's work is beginning to gain the visibility it deserves.

The core debate of this post–Cold War period has been over globalization. Neoliberals have insisted that the new technologies of communications and transportation make it both inevitable and desirable that the world economy be tightly integrated through expanded trade and capital flows and the acceptance of the Anglo-American model of free market capitalism. A variety of movements and theorists around the world have attacked this vision of globalization from different political perspectives—some resisting on the basis of ethnic, religious, national, or regional identities; others upholding alternative visions of global coordination and cooperation. Those on all sides of the debate have much to learn from reading *The Great Transformation;* both neo-liberals and their critics will obtain a deeper grasp of the history of market liberalism and an understanding of the tragic consequences of earlier projects of economic globalization.

Polanyi's Life and Work

Karl Polanyi (1886–1964) was raised in Budapest, in a family remarkable for its social engagement and intellectual achievements.[1] His brother Michael became an important philosopher of science whose work is still widely read. Polanyi himself had been an influential personality in Hungarian student and intellectual circles before World War I. In Vienna, in the 1920s, Polanyi worked as a senior editor for the premier economic and financial weekly of Central Europe, *Der Österreichische Volkswirt.* During this time he first encountered the arguments of Ludwig von Mises and Mises's famous student, Friedrich Hayek. Mises and Hayek were attempting to restore the intellectual legitimacy of market liberalism, which had been badly shaken by the First World War, the Russian Revolution, and the appeal of socialism.[2] In the short term, Mises and Hayek had little influence. From the mid-1930s through the 1960s, Keynesian economic ideas legitimating active government management of economies dominated national policies in the West.[3] But after the Second World War, Mises and Hayek were tireless proponents for market liberalism in the United States and the United Kingdom, and they directly inspired such influential followers as Milton Friedman. Hayek lived until 1992, long enough to feel vindicated by the collapse of the Soviet Union. By the time of his death, he was widely celebrated as the father of neoliberalism—the person who had inspired both Margaret Thatcher and Ronald Reagan to pursue policies of deregulation, liberalization, and privatization. As early as the 1920s, however, Polanyi directly challenged Mises's arguments, and the critique of the market liberals continued as his central theoretical concern.

During his tenure at *Der Österreichische Volkswirt*, Polanyi witnessed the U.S. stock market crash in 1929, the failure of the Vienna Kreditanstalt in 1931, which precipitated the Great Depression, and the rise of fascism. But with Hitler's ascent to power in 1933, Polanyi's socialist views became problematic, and he was asked to resign from the weekly. He left for England, where he worked as a lecturer for the Workers' Educational Association, the extramural outreach arm of the Universities of Oxford and London.[4] Developing his courses led Polanyi to immerse himself in the materials of English social and economic history. In *The Great Transformation*, Polanyi fused these historical materials to his critique of Mises and Hayek's now extraordinarily influential views.

The actual writing of the book was done while Polanyi was a visiting scholar at Bennington College in Vermont in the early 1940s.[5] With the support of a fellowship, he could devote all of his time to writing, and the change of surroundings helped Polanyi synthesize the different strands of his argument. In fact, one of the book's enduring contributions—its focus on the institutions that regulate the global economy—was directly linked to Polanyi's multiple exiles. His moves from Budapest to Vienna to England and then to the United States, combined with a deep sense of moral responsibility, made Polanyi a kind of world citizen. Toward the end of his life he wrote to an old friend: "My life was a 'world' life—I lived the life of the human world.… My work is for Asia, for Africa, for the new peoples."[6] While he retained a deep attachment to his native Hungary, Polanyi transcended a Eurocentric view and grasped the ways that aggressive forms of nationalism had been fostered and supported by a certain set of global economic arrangements.

In the years after World War II, Polanyi taught at Columbia University in New York City, where he and his students engaged in anthropological research on money, trade, and markets in precapitalist societies. With Conrad M. Arensberg and Harry W. Pearson, he published *Trade and Market in the Early Empires;* later, his students prepared for publication posthumous volumes based on Polanyi's work of this period. Abraham Rotstein assisted with the publication of *Dahomey and the Slave Trade;* George Dalton edited a collection of previously published essays, including excerpts from *The Great Transformation*, in *Primitive, Archaic, and*

Modern Economies: Essays of Karl Polanyi; and Pearson also compiled *The Livelihood of Man* from Polanyi's Columbia lecture notes.[7]

Polanyi's Argument: Structure and Theory

The Great Transformation is organized into three parts. Parts One and Three focus on the immediate circumstances that produced the First World War, the Great Depression, the rise of fascism in Continental Europe, the New Deal in the United States, and the first five-year plan in the Soviet Union. In these introductory and concluding chapters, Polanyi sets up a puzzle: Why did a prolonged period of relative peace and prosperity in Europe, lasting from 1815 to 1914, suddenly give way to a world war followed by an economic collapse? Part Two—the core of the book—provides Polanyi's solution to the puzzle. Going back to the English Industrial Revolution, in the first years of the nineteenth century, Polanyi shows how English thinkers responded to the disruptions of early industrialization by developing the theory of market liberalism, with its core belief that human society should be subordinated to self-regulating markets. As a result of England's leading role as "workshop of the world," he explains, these beliefs became the organizing principle for the world economy. In the second half of Part Two, chapters 11 through 18, Polanyi argues that market liberalism produced an inevitable response—concerted efforts to protect society from the market. These efforts meant that market liberalism could not work as intended, and the institutions governing the global economy created increasing tensions within and among nations. Polanyi traces the collapse of peace that led to World War I and shows the collapse of economic order that led to the Great Depression to be the direct consequence of attempting to organize the global economy on the basis of market liberalism. The second "great transformation"—the rise of fascism—is a result of the first one—the rise of market liberalism.

In making his argument, Polanyi draws on his vast reading of history, anthropology, and social theory.[8] *The Great Transformation* has important things to say on historical events from the fifteenth century to World War II; it also makes original contributions on topics as diverse as the role of reciprocity and redistribution in premodern societies, the limitations of classical economic thought, and the dangers of commodifying nature. Many contemporary social scientists—anthropologists, political scientists, sociologists, historians, and economists—have found theoretical inspiration from Polanyi's arguments. Today a growing number of books and articles are framed around key quotations from *The Great Transformation.*

Because of the very richness of this book, it is futile to try to summarize it; the best that can be done here is to elaborate some of the main strands of Polanyi's argument. But doing this first requires recognizing the originality of his theoretical position. Polanyi does not fit easily into standard mappings of the political landscape; although he agreed with much of Keynes's critique of market liberalism, he was hardly a Keynesian. He identified throughout his life as a socialist, but he had profound differences with economic determinism of all varieties, including mainstream Marxism.[9] His very definition of capitalism and socialism diverges from customary understandings of those concepts.

POLANYI'S CONCEPT OF EMBEDDEDNESS

The logical starting point for explaining Polanyi's thinking is his concept of embeddedness. Perhaps his most famous contribution to social thought, this concept has also been a source of enormous confusion. Polanyi starts by emphasizing that the entire tradition of modern economic thought, continuing up to the present moment, rests on the concept of the economy as an interlocking system of markets that automatically adjusts supply and demand through the price mechanism. Even when economists acknowledge that the market system sometimes need help from government to overcome market failure, they still rely on this concept of the economy as an equilibrating system of integrated markets. Polanyi's intent is to show how sharply this concept differs from the reality of human societies throughout recorded human history. Before the nineteenth century, he insists, the human economy was always embedded in society.

The term "embeddedness" expresses the idea that the economy is not autonomous, as it must be in economic theory, but subordinated to politics, religion, and social relations.[10] Polanyi's use of the term suggests more than the now familiar idea that market transactions depend on trust, mutual understanding, and legal enforcement of contracts. He uses the concept to highlight how radical a break the classical economists, especially Malthus and Ricardo, made with previous thinkers. Instead of the historically normal pattern of subordinating the economy to society, their system of self-regulating markets required subordinating society to the logic of the market: He writes in Part One: "Ultimately that is why the control of the economic system by the market is of overwhelming consequence to the whole organization of society: it means no less than the running of society as an adjunct to the market. Instead of economy being embedded in social relations, social relations are embedded in the economic system." Yet this and similar passages lend themselves to a misreading of Polanyi's argument. Polanyi is often mistakenly understood to be saying that with the rise of capitalism in the nineteenth century, the economy was successfully disembedded from society and came to dominate it.[11]

This misreading obscures the originality and theoretical richness of Polanyi's argument. Polanyi does say that the classical economists wanted to create a society in which the economy had been effectively disembedded, and they encouraged politicians to pursue this objective. Yet he also insists that they *did not* and *could not* achieve this goal. In fact, Polanyi repeatedly says that the goal of a disembedded, fully self-regulating market economy is a utopian project; it is something that cannot exist. On the opening page of Part One, for example, he writes: "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 physcially destroyed man and transformed his surroundings into a wilderness."

WHY DISEMBEDDING CANNOT BE SUCCESSFUL

Polanyi argues that creating a fully self-regulating market economy requires that human beings and the natural environment be turned into pure commodities, which assures the destruction of both society and the natural environment. In his view the theorists of self-regulating markets and their allies are constantly pushing human societies to the edge of a precipice. But as the consequences of unrestrained markets become apparent, people resist; they refuse to act like lemmings marching over a cliff to their own destruction. Instead, they retreat from the tenets of market self-regulation to save society and nature from destruction. In this sense one might say that disembedding the market is similar to stretching a giant elastic band. Efforts to bring about greater autonomy of the market increase the tension level. With further stretching, either the band will snap—representing social disintegration—or the economy will revert to a more embedded position.

The logic underlying this argument rests on Polanyi's distinction between real and fictitious commodities. For Polanyi the definition of a commodity is something that has been produced for sale on a market. By this definition land, labor, and money are fictitious commodities because they were not originally produced to be sold on a market. Labor is simply the activity of human beings, land is subdivided nature, and the supply of money and credit in modern societies is necessarily shaped by governmental policies. Modern economics starts by pretending that these fictitious commodities will behave in the same way as real commodities, but Polanyi insists that this sleight of hand has fatal consequences. It means that economic theorizing is based on a lie, and this lie places human society at risk.

There are two levels to Polanyi's argument. The first is a moral argument that it is simply wrong to treat nature and human beings as objects whose price will be determined entirely by the market. Such a concept violates the principles that have governed societies for centuries: nature and human life have almost always been recognized as having a sacred dimension. It is impossible to reconcile this sacred dimension with the subordination of labor and nature to the market. In his objection to the treatment of nature as a commodity, Polanyi anticipates many of the arguments of contemporary environmentalists.[12]

The second level of Polanyi's argument centers on the state's role in the economy.[13] Even though the economy is supposed to be self-regulating, the state *must* play the ongoing role of adjusting the supply of money and credit to avoid the twin dangers of inflation and deflation. Similarly, the state has to manage shifting demand for employees by providing relief in periods of unemployment, by educating and training future workers, and by seeking to influence migration flows. In the case of land, governments have sought to maintain continuity in food production by a variety of devices that insulate farmers from the pressures of fluctuating harvests and volatile prices. In urban areas governments manage the use of the existing land through both environmental and land-use regulations. In short, the role of managing fictitious commodities places the state inside three of the most important markets; it becomes utterly impossible to sustain market liberalism's view that the state is "outside" of the economy.[14]

The fictitious commodities explain the impossibility of disembedding the economy. Real market societies *need* the state to play an active role in managing markets, and that role requires political decision making; it cannot be reduced to some kind of technical or administrative function.[15]

When state policies move in the direction of disembedding through placing greater reliance on market self-regulation, ordinary people are forced to bear higher costs. Workers and their families are made more vulnerable to unemployment, farmers are exposed to greater competition from imports, and both groups are required to get by with reduced entitlements to assistance. It often takes *greater* state efforts to assure that these groups will bear these increased costs without engaging in disruptive political actions. This is part of what Polanyi means by his claim that "laissez-faire was planned"; it requires statecraft and repression to impose the logic of the market and its attendant risks on ordinary people.[16]

THE CONSEQUENCES OF IMPOSSIBILITY

The efforts of free market theorists to disembed the economy from society are doomed to fail. But the very utopianism of market liberalism is a source of its extraordinary intellectual resilience. Because societies invariably drawback from the brink of full-scale experimentation with market self-regulation, its theorists can always claim that any failures were not the result of the design but of a lack of political will in its implementation. The creed of market self-regulation thus cannot be discredited by historical experiences; its advocates have an airtight excuse for its failures. This has occurred most recently in the effort to impose market capitalism on the former Soviet Union through "shock therapy." Although the failure of this effort is obvious for all to see, defenders of "shock therapy" continue to blame the failure on politicians who caved too quickly to political pressures; had they only persisted, the promised benefits of a rapid shift to the market would have been realized.[17]

Polanyi's extreme skepticism about disembedding the economy is also the source of his powerful argument about the "double movement." Because efforts to disembed the economy from society inevitably encounter resistance, Polanyi argues that market societies are constituted by two opposing movements—the laissez-faire movement to expand the scope of the market, and the protective countermovement that emerges to resist the disembedding of the economy. Although the working-class movement has been a key part of the protective countermovement, Polanyi explicitly states that all groups in society have participated in this project. When periodic economic downturns destroyed the banking system, for example, business groups insisted that central banking be strengthened to insulate the domestic supply of credit from the pressures of the global market.[18] In a word even capitalists periodically resist the uncertainty and fluctuations that market self-regulation produces and participate in efforts to increase stability and predictability through forms of protection.

Polanyi is insistent that "laissez-faire was planned; planning was not." He explicitly attacks market liberals who blamed a "collectivist conspiracy" for erecting protective barriers against the working of global markets. He argues, instead, that this creation of barriers was a spontaneous and unplanned response by all groups in society against the impossible pressures of a self-regulating market system. The protective countermovement *had* to happen to prevent the disaster of a disembedded economy. Polanyi suggests that movement toward a laissez-faire economy needs the countermovement to create stability. When, for example, the movement for laissez-faire is too powerful, as in the 1920s (or the 1990s) in the United States, speculative excesses and growing inequality destroy the foundations for continuing prosperity. And although Polanyi's sympathies are generally with the protective countermovement, he also recognizes that it can sometimes create a dangerous political-economic stalemate. His analysis of the rise of fascism in Europe acknowledges that when neither movement was able to impose its solution to the crisis, tensions increased until fascism gained the strength to seize power and break with both laissez-faire and democracy.[19]

Polanyi's thesis of the double movement contrasts strongly with both market liberalism and orthodox Marxism in the range of possibilities that are imagined at any particular moment. Both market liberalism and Marxism argue that societies have only two real choices: there can be market capitalism or socialism. Although they have opposing preferences, the two positions agree in excluding any other alternatives. Polanyi, in contrast, insists that free market capitalism is not a real choice; it is only a utopian vision. Moreover, in chapter 19 he defines socialism as "the tendency inherent in an industrial civilization to transcend the self-regulating market by consciously subordinating it to a democratic society." This definition allows for a continuing role for markets within socialist societies. Polanyi suggests that there are different possibilities available at any historical moment, since markets can be embedded in many different ways. To be sure, some of these forms will be more efficient in their ability to expand output and foster innovation, and some will be more “socialist” in subordinating the market to democratic direction, but Polanyi implies that alternatives that are both efficient and democratic were available both in the nineteenth and twentieth centuries.[20]

THE CENTRALITY OF THE GLOBAL REGIME

Yet Polanyi is far too sophisticated a thinker to imagine that individual countries are free to choose the particular way in which they want to reconcile the two sides of the double movement. On the contrary, Polanyi’s argument is relevant to the current global situation precisely because he places the rules governing the world economy at the center of his framework. His argument about the rise of fascism in the interwar period pivots on the role of the international gold standard in constraining the political options that were available to actors within countries. To understand this part of Polanyi’s argument requires a brief excursion into the logic of the gold standard, but this excursion is hardly a digression, because the underlying purposes of the gold standard continue to exert a powerful influence on contemporary market liberals. Polanyi saw the gold standard as an extraordinary intellectual achievement;[21] it was an institutional innovation that put the theory of self-regulating markets into practice, and once in place it had the power to make self-regulating markets appear to be natural.

Market liberals wanted to create a world with maximal opportunities to extend the scope of markets internationally, but they had to find a way that people in different countries with different currencies could freely engage in transactions with each other. They reasoned that if every country conformed to three simple rules, the global economy would have the perfect mechanism for global self-regulation. First, each country would set the value of its currency in relation to a fixed amount of gold and would commit to buying and selling gold at that price. Second, each country would base its domestic money supply on the quantity of gold that it held in its reserves, its circulating currency would be backed by gold. Third, each country would endeavor to give its residents maximal freedom to engage in international economic transactions.

The gold standard put a fantastic machinery of global self-regulation into place. Firms in England were able to export goods and invest in all parts of the world, confident that the currencies they earned would be as “good as gold.” In theory, if a country is in a deficit position in a given year because its citizens spent more abroad than they earned, gold flows out of that country’s reserves to clear payments due to foreigners.[22] The domestic supply of money and credit automatically shrinks, interest rates rise, prices and wages fall, demand for imports declines, and exports become more competitive. The country’s deficit would therefore be self-liquidating. Without the heavy hand of government, each nation’s international accounts would reach a balance. The globe would be unified into a single market place without the need for some kind of world government or global financial authority; sovereignty would remain divided among many nation-states whose self-interest would lead them to adopt the gold standard rules voluntarily.

CONSEQUENCES OF THE GOLD STANDARD

The gold standard was intended to create an integrated global marketplace that reduced the role of national units and national governments, but its consequences were exactly the opposite.[23] Polanyi shows that when it was widely adopted in the 1870s, it had the ironic effect of intensifying the importance of the nation as a unified entity. Although market liberals dreamed of a pacified world in which the only international struggles would be those of individuals and firms to outperform their competitors, their efforts to realize these dreams through the gold standard produced two horrific world wars.

The reality was that the simple rules of the gold standard imposed on people economic costs that were literally unbearable. When a nation’s internal price structure diverged from international price levels, the *only* legitimate means for that country to adjust to the drain of gold reserves was by deflation. This meant allowing its economy to contract until declining wages reduced consumption enough to restore external balance. This implied dramatic declines in wages and farm income, increases in unemployment, and a sharp rise in business and bank failures.

It was not just workers and farmers who found the costs of this type of adjustment to be high. The business community itself could not tolerate the resulting uncertainty and instability. Hence, almost as soon as the gold standard mechanism was in place, entire societies began to collude in trying to offset its impact. A first recourse was for countries to increase their use of protective tariffs for both agricultural and manufactured goods.[24] By making trade flows less sensitive to price changes, countries could gain some degree of greater predictability in their international transactions and be less vulnerable to sudden and unanticipated gold outflows.

A further expedient was the rush by the major European powers, the United States, and Japan to establish formal colonies in the last quarter of the nineteenth century. The logic of free trade had been strongly anticolonial, because the costs of empire would not be offset by corresponding benefits if all traders had access to the same markets and investment opportunities. But with the rise of protectionism in international trade, this calculation was reversed. Newly acquired colonies would be protected by the imperial powers' tariffs, and the colonizers' traders would have privileged access to the colonies' markets and raw materials. The "rush to empire" of this period intensified the political, military, and economic rivalry between England and Germany that culminated in the First World War.[25]

For Polanyi the imperialist impulse cannot be found somewhere in the genetic code of nations; rather, it materializes as nations struggle to find some way to protect themselves from the relentless pressures of the gold standard system. The flow of resources from a lucrative colony might save the nation from a wrenching crisis caused by a sudden outflow of gold, and the exploitation of the overseas populations might help keep domestic class relations from becoming even more explosive.

Polanyi argues that the utopianism of the market liberals led them to invent the gold standard as a mechanism that would bring a borderless world of growing prosperity. Instead, the relentless shocks of the gold standard forced nations to consolidate themselves around heightened national and then imperial boundaries. The gold standard continued to exert disciplinary pressure on nations, but its functioning was effectively undermined by the rise of various forms of protectionism, from tariff barriers to empires. And yet even when this entire contradictory system came crashing down with the First World War, the gold standard was so taken for granted that statesmen mobilized to restore it. The whole drama was tragically played out again in the 1920s and 1930s, as nations were forced to choose between protecting the exchange rate and protecting their citizens. It was out of this stalemate that fascism emerged. In Polanyi's view the fascist impulse—to protect society from the market by sacrificing human freedom—was universal, but local contingencies determined where fascist regimes were successful in taking power.

Contemporary Relevance

Polanyi's arguments are so important for contemporary debates about globalization because neoliberals embrace the same utopian vision that inspired the gold standard. Since the end of the Cold War, they have insisted that the integration of the global economy is making national boundaries obsolete and is laying the basis for a new era of global peace. Once nations recognize the logic of the global marketplace and open their economies to free movement of goods and capital, international conflict will be replaced by benign competition to produce ever more exciting goods and services. As did their predecessors, neoliberals insist that all nations have to do is trust in the effectiveness of self-regulating markets.

To be sure, the current global financial system is quite different from the gold standard. Exchange rates and national currencies are no longer fixed in relation to gold; most currencies are allowed to fluctuate in value on the foreign exchange markets. There are also powerful international financial institutions, such as the International Monetary Fund and the World Bank, that play a major role in managing the global system. But behind these important differences there lies a fundamental commonality—the belief that if individuals and firms are given maximum freedom to pursue their economic self-interest, the global marketplace will make everyone better off.

This fundamental belief lies behind the systematic efforts of neoliberals to dismantle restraints on trade and capital flows and to reduce governmental "interference" in the organization of economic life. Thomas Friedman, an influential defender of globalization, writes: "When your country recognizes … the rules of the free market in today's global economy, and decides to abide by them, it puts on what I call 'the Golden Straitjacket.' The Golden Straitjacket is the defining polical-economic garment of this globalization era. The Cold War had the Mao suit, the Nehru jacket, the Russian fur. Globalization has only the Golden Straitjacket. If your country has not been fitted for one, it will be soon."[26] Friedman goes on to say that the "golden straitjacket" requires shrinking the state, removing restrictions on trade and capital movements, and deregulating capital markets. Moreover, he cheerfully describe how the constraints of this garment are enforced by the "electronic herd" of international traders on foreign exchange and financial markets.

Polanyi's analysis of the three fictitious commodities teaches that this neoliberal vision of automatic market adjustment at the global level is a dangerous fantasy. Just as national economies depend on an active governmental role, so too does the global economy need strong regulatory institutions, including a lender of last resort. Without such institutions particular economies—and perhaps the entire global economy—will suffer crippling economic crises.

But the more fundamental point learned from Polanyi is that market liberalism makes demands on ordinary people that are simply not sustainable. Workers, farmers, and small business people will not tolerate for any length of time a pattern of economic organization in which they are subject to periodic dramatic fluctuations in their daily economic circumstances. In short, the neoliberal utopia of a borderless and peaceful globe requires that millions of ordinary people throughout the world have the flexibility to tolerate—perhaps as often as every five or ten years—a prolonged spell in which they must survive on half or less of what they previously earned. Polanyi believes that to expect that kind of flexibility is both morally wrong and deeply unrealistic. To him it is inevitable that people will mobilize to protect themselves from these economic shocks.

Moreover, the recent period of ascendant neoliberalism has already witnessed widespread protests occurring around the world where people attempt to resist the economic disruptions of globalization.[27] As such dissatisfactions intensify, social order becomes more problematic and the danger increases that political leaders will seek to divert discontent by scapegoating internal or external enemies. This is how the utopian vision of neoliberals leads not to peace but to intensified conflict. In many parts of Africa, for example, the devastating effects of structural adjustment policies have disintegrated societies and produced famine and civil war. Elsewhere, the post–Cold War period has seen the emergence of militantly nationalist regimes with aggressive intentions toward neighbors and their own ethnic minorities.[28] Furthermore, in every corner of the globe militant movements—often intermixed with religious fundamentalism—are poised to take advantage of the economic and social shocks of globalization. If Polanyi is right, these signs of disorder are harbingers of even more dangerous circumstances in the future.

Democratic Alternatives

Although he wrote *The Great Transformation* during World War II, Polanyi remained optimistic about the future; he thought the cycle of international conflict could be broken. The key step was to overturn the belief that social life should be subordinated to the market mechanism. Once free of this "obsolete market mentality," the path would be open to subordinate both national economies and the global economy to democratic politics.[29] Polanyi saw Roosevelt's New Deal as a model of these future possibilities. Roosevelt's reforms meant that the U.S. economy continued to be organized around markets and market activity, but a new set of regulatory mechanisms now made it possible to buffer both human beings and nature from the pressures of market forces.[30] Through democratic politics, people decided that the elderly should be protected from the need to earn income through Social Security. Similarly, democratic politics expanded the rights of working people to form effective unions through the National Labor Relations Act. Polanyi saw these initiatives as the start of a process by which society would decide through democratic means to protect individuals and nature from certain economic dangers.

At the global level Polanyi anticipated an international economic order with high levels of international trade and cooperation. He did not lay out a set of blueprints, but he was clear on the principles:

> However, with the disappearance of the automatic mechanism of the gold standard, governments will find it possible to drop the most obstructive features of absolute sovereignty, the refusal to collaborate in international economics. At the same time it will become possible to tolerate willingly that other nations shape their domestic institutions according to their inclinations, thus transcending the pernicious nineteenth-century dogma of the necessary uniformity of domestic regimes within the orbit of world economy.

In other words collaboration among governments would produce a set of agreements to facilitate high levels of international trade, but societies would have multiple means to buffer themselves from the pressures of the global economy. Moreover, with an end to a single economic model, developing nations would have expanded opportunities to improve the welfare of their people. This vision also assumes a set of global regulatory structures that would place limits on the play of market forces.[31]

Polanyi's vision depends on expanding the role of government both domestically and internationally. He challenges the now fashionable view that more government will inevitably lead to both bad economic results and excessive state control of social life. For him a substantial governmental role is indispensable for managing the fictitious commodities, so there is no reason to take seriously the market liberal axiom that governments are by definition ineffectual. But he also explicitly refutes the claim that the expansion of government would necessarily take an oppressive form. Polanyi argues instead that "the passing of market economy can become the beginning of an era of unprecedented freedom. Juridical and actual freedom can be made wider and more general than ever before; regulation and control can achieve freedom not only for the few, but for all." But the concept of freedom that he outlines goes beyond a reduction of economic and social injustice; he also calls for an expansion of civil liberties, stressing that "in an established society, the right to nonconformity must be institutionally protected. The individual must be free to follow his conscience without fear of the powers that happen to be entrusted with administrative tasks in some of the fields of social life."

Polanyi ends the book with these eloquent words: "As long as [man] is true to his task of creating more abundant freedom for all, he need not fear that either power or planning will turn against him and destroy the freedom he is building by their instrumentality. This is the meaning of freedom in a complex society; it gives us all the certainty that we need."[32] Of course, Polanyi's optimism about the immediate post–World War II era was not justified by the actual course of events. The coming of the Cold War meant that the New Deal was the end of reform in the United States, not the beginning. Planned global economic cooperation gave way relatively quickly to new initiatives to expand the global role of markets. To be sure, the considerable achievements of European social democratic governments, particularly in Scandinavia, from the 1940s through the 1980s provides concrete evidence that Polanyi's vision was both powerful and realistic. But in the larger countries, Polanyi's vision was orphaned, and the opposing views of market liberals like Hayek steadily gained strength, triumphing in the 1980s and 1990s.

Yet now that the Cold War is history, Polanyi's initial optimism might finally be vindicated. There is a possible alternative to the scenario in which the unsustainability of market liberalism produces economic crises and the reemergence of authoritarian and aggressive regimes. The alternative is that ordinary people in nations around the globe engage in a common effort to subordinate the economy to democratic politics and rebuild the global economy on the basis of international cooperation. Indeed, there were clear signs in the last years of the 1990s that such a transnational social movement to reshape the global economy is now more than a theoretical possibility.[33] Activists in both the developed and developing countries have organized militant protests against the international institutions—the World Trade Organization, the International Monetary Fund, and the World Bank—that enforce the rules of neoliberalism. Groups around the world have begun an intense global dialogue over the reconstruction of the global financial order.[34]

This nascent movement faces enormous obstacles; it will not be easy to forge a durable alliance that reconciles the often conflicting interests of people in the global South with those in the global North. Furthermore, the more successful such a movement is, the more formidable will be the strategic challenges it faces. It remains highly uncertain whether the global order can be reformed from below without plunging the world economy into the kind of crisis that occurs when investors panic. Nevertheless, it is of enormous significance that for the first time in history, the governance structure of the global economy has become the central target of transnational social movement activity.

This transnational movement is an indication of the continuing vitality and practicality of Polanyi's vision. For Polanyi the deepest flaw in market liberalism is that it subordinates human purposes to the logic of an impersonal market mechanism. He argues instead that human beings should use the instruments of democratic governance to control and direct the economy to meet our individual and collective needs. Polanyi shows that the failure to take up this challenge produced enormous suffering in the past century. His prophecy for the new century could not be clearer.

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