

# Karl Polanyi's "Great Transformation": The Liberal World Order Is Collapsing Once Again

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*Last Year on June 14, we commemorated Kari's 100th birthday*

*Today June 14, 2024, one year later we celebrate Kari Polanyi Levitt's 101st birthday.*

*The legacy of Kari Polanyi Levitt and her father Karl Polanyi will live forever.*

*While Kari's health is fragile, more than ever she remains firm in her incisive understanding*

and analysis of world events, sovereignty and fundamental human rights.

She constitutes a powerful voice in the understanding and analysis of US hegemony and the global political economy.

Her first book published in 1970 entitled, *Silent Surrender: The Multinational Corporation in Canada*, predicted with foresight more than half a century ago, what is happening today.

**“First published in 1970**, *Silent Surrender* helped educate a generation of students about Canadian political economy. Kari Polanyi Levitt details the historical background of foreign investments in Canada, their acceleration since World War II and the result of intrusions by multinational corporations into a sovereign state”.

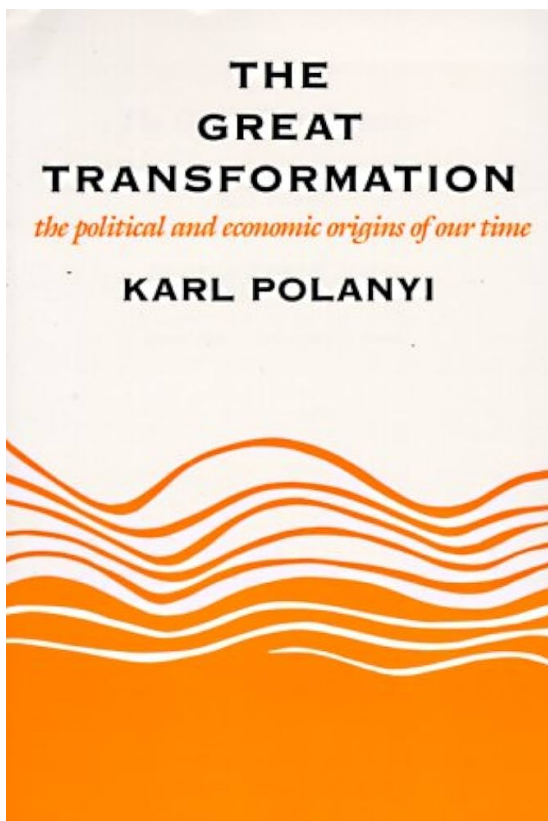


“And I think it has. It has happened. We have less sovereignty than we had some time ago.”  
(Kari Polanyi Levitt, June 30, 2021)

June 14, 2024. Long Live Kari Polanyi Levitt

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Few 20th-century thinkers have had such a lasting and profound influence as Karl Polanyi. “Some books refuse to go away — they get shot out of the water but surface again and remain afloat,” Charles Kindleberger, the economic historian, remarked about his masterpiece *The Great Transformation*. This remains truer than ever, 60 years since Polanyi’s death, and 80 since the book’s publication. As societies continue to wrestle the bounds of capitalism, the book arguably remains the sharpest critique of market liberalism ever written.



Born in Austria in 1886, Polanyi was raised in Budapest in a prosperous German-speaking

bourgeois family. Even though the latter was nominally Jewish, Polanyi converted to Christianity — or, more precisely, to Christian socialism — early on. Following the end of the First World War, he moved to “red” Vienna, where he became an editor of the prestigious economics journal *Der Österreichische Volkswirt* (*Austrian Economist*), and an early critic of the neoliberal, or “Austrian”, school of economics, represented among others by Ludwig von Mises and Friedrich Hayek. After the Nazi takeover of Germany in 1933, Polanyi’s views became socially ostracised, and he moved to England, and then to the United States in 1940. He wrote *The Great Transformation* while teaching at Bennington College in Vermont.

Polanyi set out to explain the massive economic and social transformations that he had witnessed during his lifetime: the end of the century of “relative peace” in Europe, from 1815 to 1914, and the subsequent descent into economic turmoil, fascism and war, which was still ongoing at the time of the book’s publication. He traced these upheavals back to a single, overarching cause: the rise of market liberalism in the early 19th century — the belief that society can and should be organised through self-regulating markets. For him, this represented nothing less than an ontological break with much of human history. Prior to the 19th century, he insisted, the human economy had always been “embedded” in society: it was subordinated to local politics, customs, religion and social relations. Land and labour, in particular, were not treated as commodities but as parts of an articulate whole — of life itself.

By postulating the allegedly “self-regulating” nature of markets, economic liberalism turned this logic on its head. Not only did it artificially separate “society” and “the economy” into two separate spheres, it demanded the subordination of society, of life itself, to the logic of the self-regulating market. For Polanyi, this “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”.

Polanyi’s first objection to this was moral, and was inextricably tied to his Christian beliefs: it is simply wrong to treat the organic elements of life — human beings, land, nature — as commodities, goods produced for sale. Such a concept violates the “sacred” order that has governed societies for much of human history. “To include [labour and land] in the market mechanism means to subordinate the substance of society itself to the laws of the market,” Polanyi argued. And in this sense, he was what we may call a “conservative socialist”: he opposed market liberalism not just on distributional grounds but also because it “attacked the fabric of society”, breaking down social and communitarian bonds, and breeding atomised and alienated individuals.

This relates to the second level of Polanyi’s argument, which was more practical: market liberals might have *wanted* to dis-embed the economy from society and create a fully self-regulating market, and went to great lengths to achieve this, but their project was always bound to fail. It simply cannot exist. As he writes in the opening of the book: “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.”

Human beings, Polanyi argued, will always react against the devastating social consequences of unrestrained markets — and struggle to re-subordinate the economy, to some degree, to their material, social and even “spiritual” wants. This is the source of his

argument about the “double movement”: because attempts to disembed the economy from society inevitably invite resistance, market societies are constantly shaped by two opposing movements. There’s the movement to constantly expand the scope of the market, and the countermovement resisting this expansion, especially insofar as “fictitious” commodities are concerned, primarily labour and land.

“Attempts to disembed the economy from society inevitably invite resistance.”

This leads on to the third level of Polanyi’s critique, which dismantled the orthodox liberal account of the rise of capitalism. Precisely because there is nothing natural about the market economy, which actually represents an attempt to disrupt the natural order of societies, it can never emerge spontaneously — nor can it self-regulate. On the contrary, the state was needed to enforce changes in social structure and human thinking that allowed for a competitive capitalist economy. The proclaimed separation of state and market is an illusion, Polanyi said. Markets and trading in commodities are a part of all human societies, but in order to create a “market society”, these commodities have to be subject to a larger, coherent system of market relations. This is something that can only be accomplished through state coercion and regulation.

“There was nothing natural about laissez-faire; free markets could never have come into being merely by allowing things to take their course,” he wrote. “Laissez-faire was planned... [it] was enforced by the state.” Polanyi wasn’t just referring to the “enormous increase in continuous, centrally organised and controlled interventionism” needed to enforce the logic of the market, but also to the need for state repression to counter the inevitable reaction — the countermovement — of those bearing the social and economic costs of disembedding: families, workers, farmers and small businesses exposed to the disruptive and destructive forces of the market.

In other words, the support of state structures — to protect private property, to police the dealings of different members of the ruling class with each other, to provide services that are essential for the reproduction of the system — was the political prerequisite for the development of capitalism. And yet, paradoxically, market liberalism’s need for the state to function is also the main reason for its enduring intellectual appeal. Precisely because pure self-regulating markets cannot exist, its advocates, such as contemporary libertarians, can always claim that capitalism’s failures are due to the lack of truly “free” markets.

And yet, even Polanyi’s ideological enemies, neoliberals such as Hayek and Mises, were perfectly aware that the self-regulating market is a myth. As Quinn Slobodian [has written](#), their aim was “not to liberate markets but to encase them, to inoculate capitalism against the threat of democracy”, by using the state to artificially separate the “economic” from the “political”. In this sense, market liberalism can be considered a political project as much as an economic one: a response to the entrance of the masses into the political arena from the late-19th century, as a result of the extension of universal suffrage — a development most militant liberals of the time were vehemently opposed to.

This project wasn’t just pursued at the national level but at the international one too, through the creation of the gold standard, which was an attempt to extend the logic of the allegedly self-regulating (but actually enforced) market to the economic relations between countries. This was an early globalist attempt to marginalise the role of nation-states — and their citizens — in the management of economic affairs. The gold standard effectively subordinated national economic policies to the inflexible rules of the global economy. But it

also shielded the economic realm from the democratic pressures building as suffrage spread across the West, while at the same time offering a very effective tool to discipline labour.

However, the gold standard imposed such massive costs on societies, in the form of destructive deflationary policies, that the tensions created by the system eventually imploded. First, we saw the collapse of the international order in 1914, and then again following the Great Depression. The latter prompted the biggest anti-liberal countermovement the world had ever seen, as nations sought different ways to protect themselves from the destructive effects of the global “self-regulating” economy — including by embracing fascism. In this sense, according to Polanyi, the Second World War was a direct consequence of the attempt to organise the global economy on the basis of market liberalism.

The war was still ongoing when the book was published. Yet Polanyi remained an optimist. He believed that the violent transformations that had shook the world over the previous century had set the stage for the ultimate “great transformation”: the subordination of national economies as well as the global economy to democratic politics. He called such a system “socialism” — but his understanding of the term differed significantly from mainstream Marxism. Polanyi’s socialism wasn’t just the construction of a more just society, but the “the continuation of that endeavour to make society a distinctively human relationship of persons which in Western Europe was always associated with Christian traditions”. In this sense, he also emphasised the “*territorial* character of sovereignty” — the nation-state as the precondition for the exercise of democratic politics.

A bigger role for government needn’t necessarily take an oppressive form, according to Polanyi. On the contrary, he argued that freeing human beings from the tyrannical logic of the market was a precondition for “achiev[ing] freedom not only for the few, but for all” — freedom for people to start *living* rather than just surviving. The welfare-capitalist and social-democratic regimes implemented after the Second World War, though far from perfect, represented a first step in this direction. They partially de-commodified labour and social life, and created an international system that facilitated high levels of international trade while buffering societies from the pressures of the global economy. In Polanyian terms, the economy was, to some degree, “re-embedded” in society.

But this ended up engendering yet another countermovement — this time from the capitalist class. Beginning in the Eighties, the doctrine of market liberalism was resurrected in the form of neoliberalism, hyper-globalisation and a renewed attack on the institutions of national democracy — all done with the active support of the state. Meanwhile, in Europe, an even more extreme version of the gold standard was created: the euro. National economies were once again placed in a straightjacket. Just as under previous iterations of market liberalism, this old-new order impoverished workers and laid waste to our industrial capacity, public services, vital infrastructures and local communities. Polanyi would have argued that a backlash was inevitable — and indeed it came, beginning in the late 2010s, though the populist uprisings of the past decade also failed to replace the system with a new order.

The result is that, just as a century ago, the intrinsic contradictions of the “international liberal order” are once again leading to a breakdown of the system, and to a dramatic intensification of international tensions. If Polanyi were alive today, he probably wouldn’t be as optimistic as he was when he published his book. We are definitely in the midst of yet another “great transformation” — but the future it heralds couldn’t be farther from the

democratic, co-operative international order he envisioned.

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