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The Great Transformation—the political and economic origins of our time

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“Practical men, who believe themselves to be quite exempt from any intellectual influence, are usually the slaves of some defunct economist. Madmen in authority, who hear voices in the air, are distilling their frenzy from some academic scribbler of a few years back.”

—John Maynard Keynes

Published in 1944 were two books that became famous for their authors' opposing interpretations of the history and effects of economic markets. While both works have attained the status of classics in academic circles, one of them, Friedrich Hayek's *The Road to Serfdom*, became well-known in the field of economics. In the 30 years following World War II, the popularity of European social democracies expanded and Keynesian economics became a template on which an enormous program of government intervention and regulation was built in the United States. During this time, *The Road to Serfdom* was forgotten by the public and practically ignored by economists until 1974, when Hayek won the Nobel Prize in economics for his work that demonstrated the futility and corruptibility of planned economies. Hayek's free market principles became a driving force behind the policies instituted by the Reagan and Thatcher administrations to create a deregulated market system that resulted in 25 years of uninterrupted economic growth.

The other book, *The Great Transformation*, was written by Karl Polanyi while living in the U.S and England during the Second World War. For 75 years it has remained part of the sociology and political science curriculums of major universities, yet has remained relatively unknown in the field of economics and finance. The book examines the forces behind the 100 year peace and economic expansion that began in 1815, the collapse of the world economy in the early 20th century, and the motivations that handed control of markets back to governments in the years leading up to WW II. While Polanyi's perspective has often been misinterpreted by both proponents and opponents of government market intervention when it

served their political purpose, a thorough reading of this book will provide insight into the historic market and political events that seem to be recurring today.

In *The Great Transformation*, Polanyi observes that over the long forgotten history of the human race, man's economy has generally been an integrated result of his social relationships. He submits therefore, that the success of any economic system is secondary because it relies on the stable structure of the social system. That is, man values material goods and markets only to the extent that they support his social standing and relationships.

Polanyi's thesis is that markets are constructs of the social order, and when markets become too influential to the point of breaking social bonds, society will move to reign in the market forces by regulating them. He calls this continuing tension and conflict “the double movement.”

Polanyi asserts that land, labor, and money were redefined as commodities in pursuit of a Self Regulating Market (SRM) during the 19th century. This was the great transformation that attempted to decouple society from markets, and removed many of the non-monetary incentives to work, except the motive of individual gain. Defining irreplaceable land, labor and money as fictional commodities is necessary to the pursuit of a SRM because it is an economic system that is controlled, regulated, and directed by market prices alone. Polanyi notes that since land cannot be created, labor is a power inherent in people, and money is merely a token of exchange, “to allow the market mechanism to be sole director of the fate of human beings and their natural environment...would result in the demolition of society.” He argues that this effect on society is inevitable because unregulated markets create unsustainable inequalities and dislocations that previously did not exist. He points to England's Industrial Revolution and its Poor Laws as the exemplar of purely economic progress at the price of social dislocation.

Polanyi differentiates between economic systems in which there were necessary local markets and the “starkly utopian” economy of the SRM system of the nineteenth century. A stark utopia in this context implies an unachievable institutionalized and barren existence. Essentially Polanyi contends that the idea of the SRM as the only organizing power in an economy is impossible to realize because it is devoid of the social influence and order that all sustainable markets require to survive. He concludes that the SRM failed after 1929 because it required the transformation of the natural and human substance of society into commodities, which is not a sustainable condition.

Polanyi suggests that the collapse of civilization in the 1930’s was caused by the very measures that societies of the world adopted to protect themselves from being ground to bits by the action of the self-regulating market. These measures further impaired the self-regulation of the market, disorganized industries, and endangered society in another way – with economic depression and world war. Whether one agrees with Polanyi’s thesis or not, what seems most relevant to those of us living in the 21st century is his detailed account of the U.S. economic boom of the 1920’s, followed by a liquidity crises, collapse of the international banking system, and how it enabled socialism and fascism to rise again with their promises to correct the social dislocations created by the unregulated market economy.

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