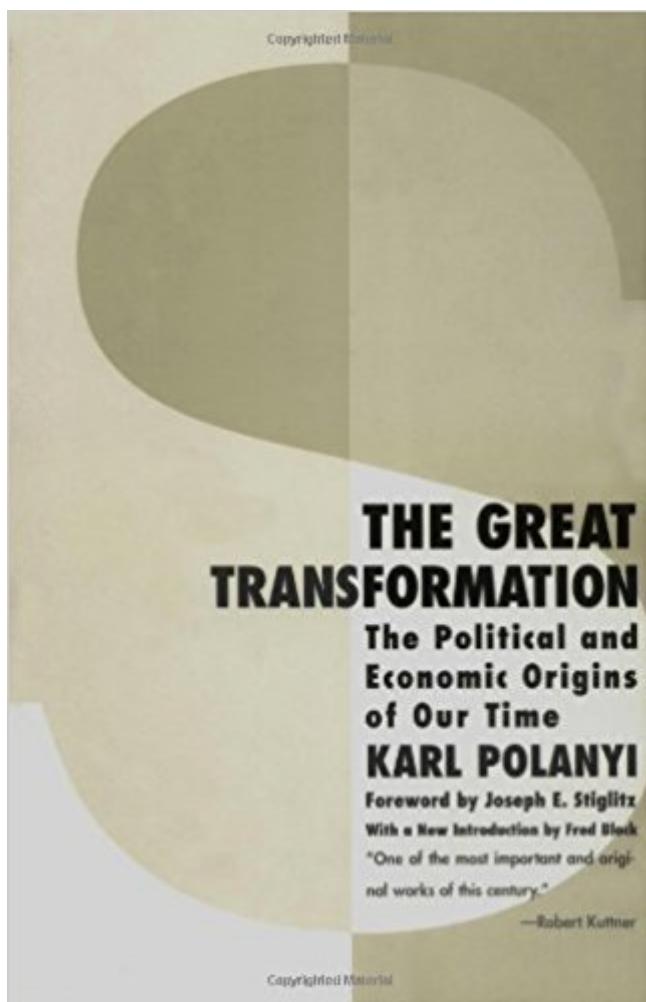


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# The Great Transformation: The Political And Economic Origins Of Our Time



## Synopsis

In this classic work of economic history and social theory, Karl Polanyi analyzes the economic and social changes brought about by the "great transformation" of the Industrial Revolution. His analysis explains not only the deficiencies of the self-regulating market, but the potentially dire social consequences of untempered market capitalism. New introductory material reveals the renewed importance of Polanyi's seminal analysis in an era of globalization and free trade.

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## Customer Reviews

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. -Larry Elliott, *The Guardian*"[The Great Transformation] did more than any work of that generation to broaden and deepen the critique of market societies."-John Buell, *The Progressive*

Karl Polanyi (1886-1964) is considered one of the twentieth century's most discerning economic historians. He left his position as senior editor of Vienna's leading financial and economic weekly in 1933, became a British citizen, taught adult extension programs for Oxford and London Universities, and held visiting chairs at Bennington College and Columbia University. He is co-author of *Christianity and the Social Revolution*; author of *The Great Transformation*; *Trade and Market in*

Early Empires (with C.Arnsberg and H.Pearson) and posthumously, Dahomey and the Slave Trade (with A.Rotstein). Joseph E. Stiglitz was formerly chair of President Clinton's Council of Economic Advisors, and chief economist of the World Bank. He is professor of economics at Stanford University, and senior fellow at the Brookings Institution. Fred Block is professor of sociology at the University of California, Davis.

A review of Karl Polanyi's "The Great Transformation: the political and economic origins of our time," by Jerry WoolpyPolanyi writes about the industrialization of Europe leading to the collapse of civilization in the 19th century. The balance of powers failed to prevent a war between the great powers, the gold standard failed to maintain the world economies, the markets failed to self-regulate, and liberal states became internally conflicted. He traces the history of the practice of these four doctrines. I was particularly interested in the history of dealing with unemployment, wages, and poverty, which no country has been able to manage in ways that do not end up exploiting the least able and least enfranchised. Polanyi shows that when economies are controlled objectively, without due concern for the welfare of all, they end up favoring the wealthy and ignoring the poor. We have to recognize that economics is part of the social sciences that are invariably linked such that when we manipulate the economy we change the society. Ignoring this linkage violates the promise of freedom, which is the be-all of liberal democracy. This is a classic that seems to have been overlooked by too many of our modern leaders and their advisors.

The Great Transformation: The Political and Economic Origins of Our Time. Karl Polanyi. 1944. In 1944, the opposing monumental classics, *The Road to Serfdom* by Friedrich Hayek and *The Great Transformation* by Karl Polanyi, were published. From the right, Hayek argued that market liberalism led to prosperity, political liberty, and prevention of authoritarian governance. From the left, Polanyi argued that the rise of market liberalism during the industrial revolution led to intolerable hardship, inevitable unsustainable countermeasures, and finally collapse into fascism, the Great Depression, and World Wars I and II. Since their publication during World War II, these markedly opposed ideas have now been tested by seventy years of history. For the first thirty years after the war, policies reflecting Polanyi's ideas led to a mixed economy of government policies and regulated markets in the US, northern Europe, and elsewhere that produced robustly increased prosperity broadly shared at all income levels. For the next forty years, ascendancy of Hayek's ideas led to reduction of the role of government with attendant economic instability, rising inequality (with all economic gains going to the rich in the US), and coercive

imposition of market liberalism by authoritarian governments with disastrous results throughout Latin America and the former Soviet Union. Given the adverse consequences of resurgent market liberalism, the rebuttal of its ideas in *The Great Transformation* is as important today as ever. In *The Great Transformation*, Polanyi maintains that before the industrial revolution, markets did not play an important role in human society — they were embedded in society rather than the other way around. Goods and services were generally distributed without the motive for profit by the non-market mechanisms of reciprocity according to social relations, centralized storage with redistribution, and production for one's own use known as householding. When present, the role of markets was peripheral and subordinate to politics, religion, and social relations. The industrial revolution brought about an almost miraculous improvement in the tools of production accompanied by catastrophic dislocations of the lives of the common people, of which poverty was merely the economic aspect. During this time, English thinkers created the theory of market liberalism, which radically reversed the previous subordination of markets to society by removing the role for government so that society was instead subordinated to self-regulating markets (without government interference). This change required that human labor, nature, and money be turned into commodities that could be bought and sold without regard to human and social considerations. Efficient functioning of markets also required callous indifference to the social dislocation, poverty, and damage to nature that resulted and even to hunger as a motivating factor for the working class. This change from regulated to self-regulating markets that organized the whole of society on the principle of gain and profit marked a great transformation of the nature of society by the removal of democratic control of markets. The goals of this transformation were unrealistically utopian and could never be achieved without annihilating the human and natural substance of society. Even during its installation, laissez-faire proved to be a myth. Government action was mandatory to adjust the supply of money and credit, to enforce provisions for labor and land, and to prevent political disruption. Even with this level of government activity, market liberalism still imposed unsustainable hardships on ordinary people from speculative excess, growing inequality, competition from imports, depressions, unemployment, poverty, and reduced entitlement to assistance. By the late 1800s, these impossible pressures of the self-regulating market necessarily led to a countermovement in industrialized nations to protect their societies from the market. This countermovement included protectionism for national markets and competition for colonies to take resources from other societies. In exotic and colonial regions with the absence of protective measures unspeakable suffering resulted. Thus Polanyi characterizes market societies as having two opposing movements, referred to as a "double

movement. These two contradictory movements resulted in simultaneous struggles to expand the scope of the market because of the opportunities for some and to limit the scope of the market because of the adverse consequences for many. These internal contradictions led to disruptive stresses and strains that were unsustainable for market societies. In the domestic economy, class conflict resulted from issues like the choice between inflation for stability of workers incomes and employment and deflation for stability of currency for investors. Market liberals from Spencer to Mises held that popular democracy was a danger to capitalism and that workers should not have the right to vote. In the international economy, relentless shocks imposed by the gold standard forced nations to consolidate around heightened national and imperial boundaries. In international politics, intensified political, military, and economic rivalries finally culminated in World War I. By this time, the class struggle over market liberalism was at an impasse. For a critical decade, economic liberals supported authoritarian intervention in service of their deflationary policy to protect currency exchange and investment. This merely weakened the democratic forces that might otherwise have averted the fascist catastrophe. During the Great Depression, the gold standard finally collapsed, foreign debts were repudiated, capital markets and world trade dwindled away, and the global political and economic system disintegrated. In a second great transformation of society that followed, the replacements of market society by fascism, socialism, and the New Deal were similar only in discarding laissez-faire principles. The conflict between the market and the elementary requirements of an organized social life had ultimately destroyed society. World Wars I and II merely hastened its destruction. In 1944, Polanyi appears to have regarded the utopia of market liberalism as utterly discredited. He expressed the hope that the passing of market economy could become the beginning of an era of unprecedented freedom. He noted that freedom as the absence of power and compulsion as claimed by market liberals is not possible in a complex society. The function of power is to ensure the measure of conformity which is needed for the survival of the group: its ultimate source is opinion. Regulation both extends and restricts freedom; only the balance of freedoms lost and won is significant. The comfortable classes enjoy the freedom provided by leisure in security. They resent the suggestion to spread out income, leisure, and security to extend to others the freedom they enjoy. Obviously, those who lack security cannot enjoy the same freedom as the comfortable classes. Those who want more freedom for all need not fear that either power or planning will undermine their freedom. Regulation and control in a complex society strive to give us all the security we need to achieve freedom not only for the few, but for all.

Of course back then, he was calling it liberal economics. But this was well before Milton

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Polanyi posited that across human history, market system was only a functional part of a larger society, subjected to various constraints of social norms and morality (1971, 41-42, 49). Even the emergence of trade did not entail automatic emergence of market institutions (1971, 58-59). Historically, three principles of economic exchange included reciprocity, redistribution and household economy (1971, 47-53). Market economy, on the other hand, was controlled and regulated solely by market; productions were all priced for sale; and it refuted state and policy regulations in place of the price mechanism (1971, 68-69). Market economy's requirement thus entailed a war on two fronts, market against man and nature, in order to commodify land and human beings into "land and labor" (1971, 71-73, 191-192), while in the process separating political from economic institutions (1971, 75). In similar way, monetary exchange was also reformulated in gold standard system to maintain an "autonomous" international monetary regime (1971, 195-196, 198-200). Hence, market economy institutions and unified national economy were not "natural", but must be artificially engineered (1971, 65-67, 139). Polanyi went on to reconstruct the emergence of market economy. The emergence of "liberal creed" (1971, 135), according to Polanyi, abandoned Adam Smith's concern of safety and security as well as national well-being in economy (1971, 111-112) and adopted a utilitarian, natural perspective towards market economy (1971, 113-116). A double movement, in which extension of market organization was accompanied by a series of restraining measures and policies on its effects, characterized the 19th century European social history and the Industrial Revolution (1971, 37-38, 76). For instance, while Speenhamland law devastated rural communities and created wide-spread pauperism in England (1971, 99-102), its replacement by 1834 Poor Law constituted a critical strategic step towards removal of social protection of peasants and commodification of labor in England (1971, 82-84, 224-226), as destruction of non-contract social fabrics sunk individuals into the labor market for sale (1971, 163). On the other hand, society generated spontaneous reaction in the wake of destructive expansion of market (1971, 149-150). The Chartist movement, for example, demanded political protection, while Owenism represented a retreat to social network (1971, 169-173). Continental European countries, amid late arrival of Industrial Revolution, exhibited similar reactions (1971, 176-177). Where societies reacted, so did the states. Desperate to avoid being sidelined by market competition, European states shifted from free trade and laissez-faire to trade protectionism and

struggle for overseas and exotic markets and raw material sources (1971, 211-215). The two sources — “institutional sources of tension” — thus included, domestically, the need to re-balance the transcendence of market economy by political means while political institutions were increasingly separated from international ones and, internationally, Imperialistic competition over markets and resources and support for national businesses while maintaining the international gold standard as the benchmark of international economy (1971, 217-218). For Polanyi, Socialism thus constituted a “natural” solution for checking the self-regulating market economy by restraining it with democratic politics, and it could be revolutionary/destructive amid national emergencies (1971, 233-235). On the other hand, Fascism was a de-generative solution in which democratic institutions were eliminated and individuals were ripped of social and political activism (1971, 237-239). The complex interaction of market — turbulent expansion, social reaction, desperate international competition ultimately contributed to the meltdown of international political and economic system amid the two World Wars (1971, 18-23). By the end of World War II, in Polanyi’s time of writing, he posited that we must confront the consequences of market expansion and reaction, and look for alternative ways to preserve liberty in a “complex society” (1971, 258A-B). Polanyi was consciously in dialogue with Marx and a series of classical/new liberals. Particularly, he critiqued Marxist attribution of class as fundamentally economically determined and class interests and positions as explanations of social processes. Instead, he proposed to study social processes in relation to class formation and class interest primarily as subjective desires and satisfactions (1971, 151-152). Moreover, while the specific term was absent, Polanyi referred to a process of financialization (in manners similar to that of Giovanni Arrighi) as the latest development of global capitalism. He paid much attention to the international banker’s class possessing financial resources that were vital to the international economy (1971, 14-15, 200). Yet Polanyi’s critiques of Marx appeared to contradict his own emphasis on importance of a single economic factor (that is, the market economy) as well as interests of particular classes in expanding market economy, as if he had replaced the mythical agency of “capital” in Marx with his own mythical agency of market (liberated and upheld by a particular social group). Also ambiguous was Polanyi’s simultaneous refutation of “liberal conspiracy” in the creation of market society and his emphasis on “blind faith” as well as desperation among societies in the friction between market expansion and social reaction (1971, 76, 84, 151-152). Polanyi’s theory on crisis was similarly ambiguous, sometimes

blaming the destructive nature of market forces while other times pointing to chaotic reaction from society and/or from political institutions. In the end, and apparently due to the inability to locate the nexus of crisis, Polanyi categorized socialism and Fascism as morally, religiously and intellectually distinct from liberalism, based on different principles but together constituted acceptance of finality of knowledge and questioning of values of freedom (1971, 258A). He appeared, in resistance of socialism and Fascism, to be hoping to restore the balance between socio-political constraints and market prosperity while preserving the hard-won individual liberties; but if he was unable to elaborate on the mechanisms of crisis, there is little possibility for him to articulate an action plan for this utopian notion. Referred Work Polanyi, Karl, 1971 (1944). *The Great Transformation: the Political and Economic Origins of Our Time*. Boston, MA: Beacon.

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