

The Institute recently received an essay on "Remembering Karl Polanyi – An Opinion Editorial" by Ali Wyne. We also enclosed the letter she sent us along with her essay.

Dear Sir / Madam,

I am currently a sophomore at the Massachusetts Institute of Technology, where I am pursuing dual degrees in Management and Political Science, as well as a minor in Economics.

This semester, for one of the classes in which I am enrolled, "17.195: Globalization," I was required to read Karl Polanyi's text, *The Great Transformation*. The elegance and insight with which the book is written so profoundly influenced my thoughts on the impact of economic globalization that I felt compelled to articulate them on paper and share them with others.

You can imagine my delight, then, at discovering the existence of the Karl Polanyi Institute of Political Economy, and especially of the forum that it maintains in which students, scholars, and others may share their views on his pivotal work. Attached is an opinion editorial "Remembering Karl Polanyi" for your consideration. Including the footnote located at the bottom of the first page, it is 1,262 words in length. I would greatly appreciate your considering it for publication on your website.

Thank you for your time and consideration.

Sincerely,
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Remembering Karl Polanyi *

Very rarely does one come across a work of scholarship whose depth of insight and cogency of argument fundamentally alter one's perspectives on a given subject. However, I have found precisely such a book: Karl Polanyi's masterpiece, *The Great Transformation* (1944). It is doubtless one of the most beautifully written and powerfully argued refutations of the orthodoxies of economic liberalism that have come to infuse mainstream discourse. I hasten to note that Polanyi was hardly an "anti-globalist," as his detractors portrayed him. Rather, he understood and documented, far more deeply than his contemporaries, the dangers of unbridled international capitalism.

The number and complexity of arguments that he presents are too great to be distilled here, and, as such, I will only discuss Polanyi's central point: that it is not the individual's

natural instinct to “truck, barter, and exchange.” For most of recorded human history prior to the Industrial Revolution, in fact, it was the prevailing social order that determined economic practices, unlike today, when economic structures largely guide social norms.

Accordingly, while it is widely accepted that the system of capitalism that (roughly) emerged during the mid 19th century represented a natural extension of the individual’s “self-interest,” Polanyi documents that it was largely a product of state intervention. Indeed, individuals and towns, rather than facilitating its intrusion, actively resisted it. Their fears that industrialization would result in massive social dislocation (and, in the case of 17th century Spain, widespread ravage) proved to be firmly grounded.

Today, these fears appear to be equally, if not more, valid. And yet, while mainstream discourse usually presumes the connection between globalization, as currently imposed, and human advancement, nuanced discussion properly challenges its legitimacy. Consider, for example, that in 2002, the country that topped the International Monetary Fund’s index of trade openness, Haiti, is the “poorest country in the Western Hemisphere,” with “80% of [its] population [living] in abject poverty.” The IMF’s incongruous characterization of Haiti, however, is not anomalous. Indeed, it appears that many countries that are praised as examples of economic success are not those that have achieved equitable growth, or even growth at all, but rather, those that have opened themselves to penetration by external economic forces.

The natural extension of the IMF’s view is that government interference in a country’s economic affairs is generally undesirable. However, most, if not all, countries that currently enjoy robust economic growth grew on the foundations of protectionism. In an August 2002 study of free trade and economic globalization, *The New York Times* noted, for example, that East Asia ascended to a position of influence by shielding its markets and banking sectors from foreign penetration. Today’s system of globalization does not afford poorer nations the luxury to grow by similar methods. It is this injustice, above all, that is most searing, because countries that possess weak economies and inadequate regulatory infrastructures cannot be expected to adjust to and prepare for the vagaries of the market. The economic crisis that gripped Argentina in 2001 is among the clearest testaments to this assertion (Another illuminating case study is the 1997 Asian economic crisis, which revealed that even the most robust economies are not immune to the effects of rapid capital influx and outflow.).

Clearly, then, unfettered capitalism’s theoretical and actual impacts are quite different. We can better understand the sources of this divergence by examining the (purported) scholarly foundations of modern capitalism, in particular, Adam Smith’s *The Wealth of Nations*. Therein, it is argued, Smith provided an impassioned defense of laissez-faire as the most principled economic strategy: hence the idea that an “invisible hand” ensured societal welfare (Interestingly, Smith only used the phrase “invisible hand” once throughout his entire volume. Research of the past three and a half decades in the field of information asymmetry reveals that the “invisible hand” is, in reality, a negligible force.). While Smith believed in the existence of self-interest, he did not argue that its pursuit was always advantageous. In Book 3, Chapter 4, for example, he concludes, “All for ourselves and

nothing for other people' seems, in every age of the world, to have been the vile maxim of the masters of mankind," who, in Smith's time, were English merchants and manufacturers. Furthermore, he would have viewed with consternation the sweeping global trend towards privatization and deregulation, especially as much of it has occurred without the concomitant establishment of legal, regulatory, and institutional apparatuses to support it (It is not surprising, then, that in the 1980s, the Commonwealth of Independent States endured such ruinous consequences as a result of pursuing price liberalization and dismantling existing, centrally-planned economic structures: they paid insufficient attention to developing institutional counters to the market's oscillations.).

Most importantly, for our purposes, Smith strongly criticized the division of labor and laissez-faire, concepts that he is said to have espoused with fervor:

In the progress of the division of labor...The man whose whole life is spent in performing a few simple operations...generally becomes as stupid and ignorant as it is possible for a human creature to become...His dexterity at his own particular trade seems, in this manner, to be acquired at the expense of his intellectual, social, and martial virtues. But in every improved and civilized society, this is the state into which the laboring poor, that is, the great body of the people, must necessarily fall, unless government takes some pains to prevent it.

Assertions such as these permeate *The Wealth of Nations*. How then, does one reconcile his actual views with the way in which they have been rendered? The answer is that they cannot be squared (See J.Z. Muller's 1993 work, *Adam Smith in His Time and Ours*, for comprehensive documentation.). Indeed, many of the underpinnings of modern capitalism and trade theory rest on revisionism on the part of their proponents.

Documenting this last point, while not the central aim of Polanyi's text, is nonetheless an important ancillary consideration of his. Indeed, *The Great Transformation* teaches searing lessons about the destruction that market forces can inflict if they are not carefully regulated. Its tone is polemical, to be sure, and its prose at various points is nearly impenetrable. And yet, its conclusion could not be clearer or more inspiring. Polanyi's prescription for redressing the consequences of a market-based economy lies in acknowledgement:

Uncomplaining acceptance of the reality of society gives man indomitable courage and strength to remove all removable injustices and unfreedom. As long as he 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.

As texts advocating the virtue of unregulated international capitalism gain currency, Polanyi's iconoclastic critique becomes more trenchant. It is widely believed that, as economic globalization accelerates, people will increasingly become incapable of governing the network of economic forces that have come to determine their livelihoods. Polanyi

warns us, however, against this view. For at such point as we believe ourselves powerless, and lose faith in our ability to achieve self-determination, human society is at a loss.

* I would like to extend my deep gratitude to Suzanne Berger, Raphael Dorman and Helen Starbuck Professor of Political Science at the Massachusetts Institute of Technology, for her invariably penetrating and patient explanations of some of the more sophisticated analyses contained in *The Great Transformation*, which helped me to more thoughtfully organize and articulate my thoughts on this classic work.