

Economic questions: the Karl Polanyi question

<https://www.taxresearch.org.uk/Blog/2025/12/27/economic-questions-the-karl-polanyi-question/>

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This is one of a series of posts that will ask what the most pertinent question raised by a prominent influencer of [political economy](#) might have been, and what the relevance of that question might be today. There is a list of all posts in the series at the end of each entry. The [origin of this series is noted here](#).

After the first two posts in this series, the topics have been chosen by me, and this is one of those. This series has been produced using what I describe as directed AI searches to establish positions with which I agree, followed by final editing before publication.

Why have I included [Karl Polanyi](#)? That is because in his book '[The Great Transformation](#)', he questioned the concept of supposedly self-regulating markets. In addition, he advanced the concept of Double Movement, which refers to the process of marketisation and the pushback against it.

Neither gets much mention on this blog, yet both his most significant book and the concept of double movement are key to a proper understanding of political economy and inform my own thinking on this issue, which is a point I should acknowledge. This post is a way of making amends and doing just that.

Karl Polanyi's *The Great Transformation* is one of the most important critiques ever written of market fundamentalism. That is not because it opposes markets, but because it demonstrates a deep understanding of them, their nature and the threats that they pose.

Polanyi showed that the idea of a self-regulating market is not a natural outcome of human exchange, but a political project imposed by states in the nineteenth century. In doing so, he demonstrated that whenever society is forced to subordinate itself to market logic, the result is social disintegration, political instability, and authoritarian

reaction.

Polanyi's insight was not merely historical. It was diagnostic. He revealed a recurring pattern: market liberalisation produces suffering; society resists; elites respond either by re-embedding markets within social protection, or by turning to coercion. Democracy, he argued, only survives when the former path is chosen.

Hence, the Karl Polanyi Question: ***If attempts to create a self-regulating market repeatedly destroy social order, democracy and nature, why do we continue to treat market subordination as the price of modernity?***

Markets are made, not found

Polanyi's first and most important claim is that markets are not natural phenomena. They do not arise spontaneously from human barter. They are created by law, enforced by states, and sustained by institutions. The so-called "free market" required massive state intervention: enclosure of common land, criminalisation of subsistence, dismantling of local protections, and the forced creation of wage labour.

The irony is profound. The market was never free. It was imposed, and imposed violently. The language of freedom masked a transfer of power from communities to capital. Polanyi understood that once this history is acknowledged, the moral authority of laissez-faire collapses.

The fiction of the self-regulating market

Polanyi argued that the self-regulating market is not just unrealistic but impossible. Markets cannot regulate themselves because they depend on social foundations they cannot themselves create, whether they be trust, stability, care, legitimacy, or ecological continuity.

Yet market liberalism demands exactly this impossibility. It insists that labour, land and money be treated as commodities despite the fact that none of them are produced for sale. Labour is a part of human life. Land is nature, and the world we live upon in all its complexity. Money is a social institution that is a public good. To subject them to market pricing alone is to invite catastrophe.

Polanyi called these fictitious commodities, and his warning was precise: societies that try to commodify them will destroy themselves.

The double movement

One of Polanyi's most powerful ideas is that of "double movement". This suggests that as markets expand and social protections are stripped away, society pushes back. Workers organise. States intervene. Welfare systems emerge. Regulation returns. This is not a matter of ideology; it is about survival.

The tragedy, Polanyi observed, is that elites often resist this re-embedding. Instead of allowing social protection to stabilise capitalism, they seek to suppress resistance through repression, nationalism, or authoritarianism. Fascism, he argued, was not a rejection of markets but a reaction to the social chaos markets produced.

This insight is chillingly relevant today.

Democracy cannot survive market absolutism

Polanyi showed that democracy and market absolutism are incompatible. When markets are treated as supreme, democratic choices are overridden by “economic necessity”. Wages must fall. Services must be cut. Regulations must go. And, elections become theatre because the range of permissible policy is pre-determined by capital mobility and investor confidence.

This is how democracy hollows out. Citizens are told there is no alternative, not because other options do not exist, but because markets have been elevated above politics. Polanyi understood that when people lose democratic agency, they will seek it elsewhere, sometimes destructively.

Neoliberalism as a second great transformation

Polanyi wrote about the nineteenth and early twentieth centuries. But neoliberalism is a second great transformation, and another attempt to disembed markets from society. Austerity, deregulation, privatisation, labour precarity, financialisation, and the erosion of welfare states are not accidents. They are the deliberate revival of the self-regulating market ideal.

The consequences are exactly what Polanyi did or could have predicted:

- * rising inequality
- * social fragmentation
- * political extremism
- * ecological collapse
- * democratic decay

That these outcomes surprise policymakers is evidence not of novelty, but of intellectual amnesia.

Ecology completes Polanyi's argument

Polanyi did not live to see climate breakdown, but his framework anticipates it. Treating nature as a commodity subject to market pricing alone guarantees ecological

overshoot. Markets do not protect ecosystems. They exhaust them.

The climate crisis is therefore not a market failure. It is a market **success**; the logical outcome of subordinating planetary systems to price signals and profit incentives. Polanyi's insistence that land cannot be commodified without destruction now applies at the scale of the Earth itself.

What answering the Karl Polanyi Question would require

To take Polanyi seriously today would require reversing the second great transformation and re-embedding the economy within society and nature. That would involve:

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Reasserting democratic primacy, meaning markets must serve social goals, not dictate them.

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Decommodifying labour, requiring the restoration of security, dignity and bargaining power at work.

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Decommodifying land and nature, requiring that we treat ecological systems as limits, not inputs.

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Reclaiming public control over money and finance, meaning that we recognise money as a public utility, and not as a private weapon.

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Strengthening social protection, requiring the delivery of social security, health, housing and care as essential stabilising infrastructure within society.

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Rejecting the claim that "there is no alternative" by acknowledging that economic rules are always political choices.

These are not anti-market proposals. They are the necessary conditions for markets to exist without destroying the societies that host them.

Inference

The Karl Polanyi Question reveals the central delusion of modern political economy: that freedom lies in submitting society to markets. Polanyi showed that the opposite is true. When markets are allowed to dominate, freedom collapses into insecurity, democracy erodes, and authoritarianism beckons.

His lesson is neither nostalgic nor utopian. It is empirical and urgent, demanding that we recognise that markets must be embedded in society, or society will revolt against markets.

The question we face is not whether Polanyi was right. It is whether we are willing to learn from him, or whether we will repeat, yet again, the catastrophe he described.

Previous posts in this series

Previous posts in this series:

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