



# THE RISING ASIA REVIEW OF BOOKS

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## THE END OF THE “LONG PEACE” MAY BE COMING A Foreboding Book for These Times

Karl Polanyi, *The Great Transformation: The Political and Economic Origins of Our Time* (London: Penguin, 2024), 358 pages, GBP 10.99.

**I**n 1944, during the unprecedented global dislocation produced by the Second World War, the Austro-Hungarian economist Karl Polanyi published *The Great Transformation: The Political and Economic Origins of Our Time*. The book advanced a groundbreaking critique of capitalism, arguing that nineteenth-century civilization had collapsed under the combined assault of unregulated markets, the fall of the gold standard, the rise of *haute finance* and the emergence of liberal states, all of which had unhinged the global balance of power. On the eightieth anniversary of its publication, the book provides a warning about the way in which the world is headed.<sup>1</sup>

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<sup>1</sup> Karl Polanyi, *The Great Transformation: The Political and Economic Origins of Our Time* (London: Penguin Books, 2024).

Polanyi threads politics into history with economics. Europe, the most socially advanced region of the world in the nineteenth century, enjoyed the Hundred Years Peace, from the Concert of Vienna in 1815 to the outbreak of the First World War in 1914, mainly because of the Concert of Europe. The Concert subjugated intra-European dynastic, national and ideological rivalries (caused principally by Bonapartism and nascent Bolshevism) to normative and practical considerations that would uphold the European balance of power. But that arrangement of convenience began to fall apart when its constituent elements proved to be irreconcilable.

Why did this occur? In reply, Polanyi's chief target is the self-adjusting market because that 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". The gold standard "was merely an attempt to extend the domestic market system to the international field". The liberal state, likewise, "was itself a creation of the self-regulating market". The "balance-of-power system was a superstructure erected upon and, partly, worked through the gold standard".<sup>2</sup> *Haute finance*, "an institution *sui generis*, peculiar to the last third of the nineteenth and the first third of the twentieth century, functioned as the main link between the political and the economic organization of the world."<sup>3</sup>

Polanyi describes in intricate detail how those institutions worked together to produce what he calls the "peace interest". Given their common interest in peace during the Concert of Europe, the Great

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<sup>2</sup> Ibid., 1-2.

<sup>3</sup> Ibid., 11.

Powers used the “liberty of action” which they offered to small states to make the latter conform to the former’s “joint interest—which happened to be peace”.<sup>4</sup> As for *haute finance*, it “was not designed as an instrument of peace; this function fell to it by accident... The motive of *haute finance* was gain; to attain it, it was necessary to keep in with the governments whose end was power and conquest”.<sup>5</sup> This observation draws Polanyi into remarking that the balance of power is not a formula for peace but only a way for states to preserve their survival. The theory of balance of power “merely postulates that three or more units capable of exerting power will always behave in such a way as to combine the power of the weaker units against any increase in the power of the strongest”.<sup>6</sup> The liberal state represented the domestic political constituent, so to say, of a vast international system which it both underpinned and served to reproduce in material and ideational terms.

The peace interest disappeared once these interlocking elements of the international economic and political system came apart. Europe, taking the rest of the world with it, slid into the abyss of the First World War.

The defeat of Germany in that war proved to be temporary because the underlying structural tensions in the international system did not disappear. Moving beyond Polanyi’s analysis, it is clear that the tensions were exacerbated into fissures by the punitive pressure of the wartime reparations imposed on Germany at the Treaty of Versailles in 1919, reparations whose exaction the great public intellectual John Maynard Keynes had opposed in his tract, *The Economic Consequences of*

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<sup>4</sup> Ibid., 9.

<sup>5</sup> Ibid., 13.

<sup>6</sup> Ibid., 7.

*the Peace* (1919). The rise of Hitler and his Nazis, and the eventual rearmament of Germany; the Bolshevik ascendancy in Russia and the consequent rise of the Soviet Union as a countervailing socialist power to both the liberal West and Nazi Germany, which, for all their differences, were capitalist powers; the failure of the League of Nations, established in the spirit of the Wilsonian Peace proposed by America, to reflect the international distribution of power; and the Great Depression of 1929 to 1939 all contributed to the Second World War.

That depression was the proximate economic cause of the war because it brought down the edifice of economic security and vanity on which Western power and its claim to global hegemony had rested. Declining consumer demand, financial panics and shortsighted policies caused economic output to fall in the United States, while a resurrected gold standard transmitted the American downturn to other countries. Nazism, or National Socialism, sought to be an alternative to the Western free market, but only by abjuring the link between that market and the liberal politics of the West. It is not an ideological accident that the Molotov-Ribbentrop Pact was signed in August 1939, signaling a shared desire by Moscow and Berlin to erase the West's imprint on global affairs by setting up Soviet and German spheres of influence in eastern Europe. The pact held for a great while after September 1, 1939, when Germany began the Second World War by invading Poland from the west, and the Soviet Union followed up days later by invading it from the east. The pact became obsolete in 1941, when Germany, eager after its imperial successes in much of western and central Europe, attacked the Soviet Union itself without warning in Operation Barbarossa. Moscow moved towards the West, sealing the fate of Germany.

Polanyi's book appeared in 1944, before the denouement that the world would witness in 1945, but its main message is that what finances



peace finances its breakdown as well. Indeed, the American strategist Edward Luttwak notes disconcertingly that peace is the time when nations prepare for war by training armies and building munitions factories that are to be employed in conflict. That is precisely why military personnel and installations are the first hostile targets when war does break out.

### **The Long Peace Should Not Be Taken for Granted**

In this context, it is important to not take the Long Peace of the twentieth century—from 1945 to now—for granted. There have been innumerable proxy wars waged between the United States and its allies, and the erstwhile Soviet Union and its allies during the Cold War, but the general peace has held since the end of the Second World War: there has been no Third World War. Nuclear weapons have not upheld this peace because they are produced for use in war, as are all other weapons. The Long Peace is the legacy of two events that occurred in 1944: the Bretton Woods Conference that led to the creation of the International Monetary Fund and the World Bank; and the Dumbarton Oaks Conference that led to the creation of the United Nations. The implosion of the Soviet Union in 1991 removed the main challenger to American imperium, leading to the global expansion of that imperium in the form of the neoliberal Washington Consensus of 1999, which privileged the unseen hand of the global market over the regulatory power of the national state and held the concept of global free trade as being commensurate with international peace. The countervailing advent of the Beijing Consensus argued in favor of state capitalism as a mainstay of national and global stability, reflecting the political economy of the People's Republic of China, where the ruling Chinese Communist Party equates itself with the stability, security and longevity of the Chinese nation.

The stage is set for a struggle between two forms of capitalism contending for global supremacy. With the common threat of the Soviet alternative gone, Washington and Beijing are working to impose their own versions of the economics of peace on the rest of the world. Economics does not mean peace. Instead, dissonance between the two leading economies today portends war. “Every war, almost, was organized by financiers; but peace also was organized by them,” Polanyi writes.<sup>7</sup> If finance capitalism can organize peace today, it can also pay for war. That is an ominous thought.

What is the future of Polanyi’s critique of the market economy? Short of a nuclear winter (but perhaps even then) there will be something always called a market, which is nothing more nor less than a mechanism for the exchange of goods and services whether through barter, currency or coercion (as with the slave trade).

Even in the Soviet Union, there was a market in the purchase of state-produced goods and services (albeit marked by inferior quality and perpetual scarcity) by consumers who could not exercise choice. The failure of an ideology (communism) to produce the things that citizens needed cost it a kingdom (the Soviet Union). Had not the Kremlin spent so much on defence as to distort the production of goods and services for the peaceful economy, the system might not have collapsed. Thereby hangs a totalitarian tale.

However, a market economy is not the obvious answer. The very concept implies the total organization and mobilization of society around the arousal of the economic instincts of citizens, instincts devoted to the singular pursuit of profit over all other citizens who are similarly engaged in the exclusive pursuit of profit. This domestic

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<sup>7</sup> *Ibid.*, 18.

paradigm is then exported to the rest of the world through globalization. Multinational corporations and megalomaniac banks are the main conduits of a massive exercise in the promotion of the Darwinian survival of the economically fittest. The international balance of power reflects these realities: It privileges hegemony and their satellites, global capitals and rentier states, so long as they can last, over the moral, economic and ecological needs of humankind.

The end of the Hundred Years' Peace in 1914, and the possible coming conclusion of the Long Peace of the twentieth century, should reawaken interest in the cerebral ferocity with which Karl Polanyi explains the downfall of nineteenth-century civilization. Civilizations do fall. The twentieth century avoided that prospect. The twenty-first century might not.

### ***Note on the Reviewer***

**Asad Latif** is an Indian-origin journalist in Singapore. He is the Co-General Editor of the 50-volume Singapore Chronicles series, and the author of several books, including *Between Rising Powers: China, Singapore and India* (2007), *Three Sides in Search of a Triangle: Singapore-America-India Relations* (2008), *India in the Making of Singapore* (2008), and *Lim Kim San: A Builder of Singapore* (2009). He graduated with Honours in English from Presidency College in Kolkata, was a Chevening Scholar in History at Cambridge, and was a Fulbright Visiting Scholar at Harvard. He served on the editorial committee of the *Cambridge Review of International Affairs* and was a member of the president's committee of the Cambridge Union Society, the university debating club. He was also a Jefferson Fellow at the East-West Center in Honolulu, Hawai'i. His columns and reviews have been published in the *Rising Asia Journal*. He may be contacted at [badiarghat@gmail.com](mailto:badiarghat@gmail.com)