

## TRANSNATIONAL MARKETS AND THE POLANYI PROBLEM

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## CHAPTER 1

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## I. INTRODUCTION

Karl Polanyi remains a most influential proponent of an institutionalist perspective in the social sciences, combining socio-economic analysis with a normative drive for social reform.<sup>1</sup> Polanyian insights into the political economy of economic development have persistently shaped diverse discourses that range from the theory of the welfare state via comparative economic systems to economic anthropology. Significantly, Polanyi is viewed as a paradigmatic reference concerning the variety of institutional arrangements that are required for the co-ordination of commodity production and exchange in modern capitalism.<sup>2</sup> Related to these assessments is the positioning of Polanyi as a theorist of the institutional transformation of the relationship between states and markets in the context of economic globalisation, involving attempts to regulate transnational markets.<sup>3</sup> This is the key content of the “Polanyi problem”, which defines the basic concern of the Polanyian perspective: how the globalisation of the market system as a dis-embedding process is to be reconciled with re-embedding moves that aim at social cohesion.<sup>4</sup> In facing this challenge of transnational markets, the Polanyian perspective explores the fundamental tensions within market society.

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<sup>1</sup> K. Hart, “Karl Polanyi’s Legacy”, (2008) 39 *Development and Change*, pp. 1135-1143.

<sup>2</sup> R. Boyer, “The Variety and Unequal Performance of Really Existing Markets: Farewell to Doctor Pangloss?”, in: J.R. Hollingsworth & R. Boyer (eds), *Contemporary Capitalism: The Embeddedness of Institutions*, (Cambridge: Cambridge University Press, 1997), pp. 55-93, at 60-61; R. Boyer & D. Drache, “Introduction”, in: idem, (eds), *States against Markets: The Limits of Globalization*, (London-New York: Routledge, 1996), pp. 1-27, at 9-10; R. Swedberg, “The Economic Sociology of Capitalism: An Introduction and Agenda”, in: V. Nee & R. Swedberg (eds), *The Economic Sociology of Capitalism*, (Princeton NJ: Princeton University Press, 2005), pp. 3-39, at 7-8.

<sup>3</sup> K. Hart & C. Hann, “Learning From Polanyi”, in: idem, (eds), *Market and Society: The Great Transformation Today*, (Cambridge: Cambridge University Press, 2008), pp. 1-16, at 8-9.

<sup>4</sup> F. Block, “Introduction”, in: Karl Polanyi, *The Great Transformation: The Political and Economic Origins of Our Time*, Second Paperback Edition, (Boston MA: Beacon Press, 2001), pp. xviii-xxxviii; R. Munck, “Globalization, Labor and the ‘Polanyi Problem’”, (2004) 45 *Labor History*, pp. 251-269.

Polanyi's re-consideration of the embeddedness of market operations in non-market institutions provides arguments for perceiving the regulation of transnational markets as a contested process that strives for a socially-viable demarcation of the market domain. Crucially, the notion of embeddedness requires a conceptual clarification that highlights its analytical edge in the critical exploration of the market system. Indeed, in line with Polanyi's reasoning, this chapter argues that an often-neglected key feature of the social embeddedness of markets is the de-commodification of labour and other fictitious commodities. Vice versa, a dis-embedding of markets implies a parallel commodification of labour and thus a social hegemony of the "commodity fiction", as Polanyi would have it.

In elaborating on these issues, this chapter proceeds as follows. First, the Polanyian perspective on the institutional evolution of the market system is taken to the fore with an emphasis on the notion of "the economy as instituted process", which addresses diverse patterns of social integration that provide for distinct patterns of embeddedness. Second, a conceptual clarification of the Polanyian concepts of embeddedness and commodification is put forward. It highlights a definition of embeddedness as a framework that addresses the shaping of economic activities by both market and non-market institutions. Decisively, it elaborates on the need for combining the matter of embeddedness with a re-consideration of the commodity status of labour and other fictitious commodities. Third, the Polanyian notion of the double movement of market expansion and social protection is discussed in relation to the problem of governing transnational markets. The ensuing exploration of the role of embeddedness and commodification in related policy concerns leads to the concluding remarks on a Polanyian assessment of globalisation.

## **II. THE POLANYIAN PERSPECTIVE ON SOCIO-ECONOMIC DEVELOPMENT**

Polanyi's notion of "the economy as instituted process" serves as a leitmotif of his research programme. It refers to a substantive definition of the economy as a process of satisfying material wants through the provision of goods and services.<sup>5</sup> An analysis of institutional substance is indispensable for understanding its social coherence and historical dynamism, as derived from the interplay of the economic and non-economic institutions that constitute a

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<sup>5</sup> K. Polanyi, *The Livelihood of Man*, ed. by H.W. Pearson, (New York: Academic Press, 1977), p. 20.

specific mode of social integration.<sup>6</sup> According to Polanyi, all historically recorded types of economies are integrated through historically specific support structures that institutionalise the movement of goods and services as well as the rights of disposal in the economic process. These institutional structures are denoted as reciprocity, re-distribution and exchange, and serve to highlight the integrative patterns of interaction. Reciprocity accounts for the movement of goods and rights of disposal between corresponding points of a symmetrical arrangement, as exemplified by kinship-related types of gift exchange. Re-distribution addresses movements towards and out of a political-administrative centre, while exchange stands for movements between dispersed or random points in a system of interactions, involving the presence of a market mechanism.<sup>7</sup>

Decisively, Polanyi claims that all economic systems, with the exception of the market system, submerge the economy in social relationships, framed by non-economic institutions. In other words, economic activity in production and distribution is established as a by-product of social relationships, which are subject to a non-economic rationale. Production and distribution do not follow economic interests shaped by acquisitive motives, but, instead, resemble social interests, based upon collectively shared norms and conventions. In primitive societies, this pattern of embedding economic activity in non-economic institutions which integrate social relations may be derived from kinship aspects as well as from separate political-economic organisations which precede the institutional evolution of the modern state.<sup>8</sup> This matter of embeddedness is a constitutive component in Polanyi's approach – although the concept itself is spelled out under different labels. With regard to its intellectual underpinnings, next to Hegel and Marx also Maine's sociological distinction between status and contract is accounted for, which serves as an inspiration for the anthropological positions of Malinowski as well as for Tönnies' distinction between community and society.<sup>9</sup>

According to this logic of embeddedness, the economic system was historically set to be a function of social organisation – a pattern that remained intact until the rise of the market

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<sup>6</sup> K. Polanyi, "The Economy as Instituted Process", in: K. Polanyi, C.M. Arensberg & H.W. Pearson (eds), *Trade and Market in the Early Empires: Economies in History and Theory*, (Glencoe IL: [The Free Press](#), 1957), pp. 243-270, at 249-250.

<sup>7</sup> K. Polanyi, note 4 supra, pp. 50-51; idem, note 5 supra, pp. 36-37).

<sup>8</sup> K. Polanyi, note 5 supra, p. 53.

<sup>9</sup> K. Polanyi, "Aristotle Discovers the Economy", in: K. Polanyi, C.M. Arensberg & H.W. Pearson (eds), note 6 supra, pp. 64-94, at 68-69.

economy in the Nineteenth century, which reversed the relationships between economy and society. The economising logic of the market process came to determine social structures. This implies a disembedding of the economic sphere, resembling a move from status to contract in Maine's terms, and from community to society in Tönnies's terms. The economy is no more embedded in social relationships, as these are now embedded in the economic system, that is, they come to follow the commodity logic of the market.<sup>10</sup> The dis-embeddedness of the economy from society, based upon the hegemonic position of the market system, is functionally accompanied by an institutional separation of economic operations. This separation relies on the establishment of specific institutional media of interaction, such as a legal system governing property rights, the organisation of the modern industrial firm, and the quantitative mechanisms of monetary accounting.<sup>11</sup>

Contract serves as the decisive feature of this dis-embedded economic sphere. Indeed, the rules and regulations of exchange constitute the institutional order of the market process. Status, in contrast to this, reflects the predominance of the norms of reciprocity and re-distribution which shape the embeddedness of both production and consumption in social institutions such as family and kinship. The dis-embeddedness of the economic sphere is therefore analogous to an institutional separation of the market from social relationships, apart from mechanisms of contractual exchange.<sup>12</sup> Accordingly, the rise of the market as a set of hegemonic institutions which shape the modern exchange economy coincides with the rule of law, which implies a reduction of social relations to the regulation of property and contract.<sup>13</sup> This dis-embedding separation of economy and society denotes the institutional dynamism of market society as a historically specific socio-economic formation.<sup>14</sup> Thus, the relationship between economic and social concerns is overturned, which leads to the relegation of society as a mere adjunct to the market:

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<sup>10</sup> K. Polanyi, "Our Obsolete Market Mentality", *Commentary*, Vol. 3, repr. in: G. Dalton (ed), *Primitive, Archaic, and Modern Economies: Essays of Karl Polanyi*, (New York: Anchor, 1947/1968), pp. 59-77, at 70.

<sup>11</sup> K. Polanyi, note 5 supra, pp. 52-53.

<sup>12</sup> K. Polanyi, note 9 supra, pp. 70-71.

<sup>13</sup> K. Polanyi, *Dahomey and the Slave Trade: An Analysis of an Archaic Economy*, (Seattle WA: University of Washington Press, 1966), p. xvii.

<sup>14</sup> K. Polanyi, note 5 supra, p. 47.

“Instead of economy being embedded in social relations, social relations are embedded in the economic system.”<sup>15</sup>

The exchange motives of truck and barter, so vibrantly portrayed by Adam Smith, thus cannot rely on the established social institutions. These have to be created in the deliberate formation of markets – which implies that market exchange and market regulation co-evolve.<sup>16</sup> As the English example illustrates, laissez-faire principles were historically enforced by the state and did not evolve spontaneously in a natural market order.<sup>17</sup> The expansion of markets required a massive re-structuring of social affairs, which was paralleled by an extension of interventions and regulations, which eventually fuelled a bureaucratisation of government, endowed with extended powers for social control.<sup>18</sup> Indeed, when viewed as a historical sequence, the institutional design of the market system in England during the first half the Nineteenth century proceeded primarily through legal instruments. The Poor Law Reform of 1834 promoted a de-regulated labour market and the commodification of labour, followed by the Bank Act in 1844, which established the gold standard for the self-regulation of the monetary sphere, while the repeal of the Corn Laws in 1846 allowed for free trade in grain, thus promoting the transformation of land into a marketable commodity.<sup>19</sup>

The resulting type of market economy resembles a system of self-regulating markets, directed by market prices. This constellation is viewed as being historically unique.<sup>20</sup> A price-regulated system implies that all production factors, goods and services – decisively involving labour, land and money – are turned into commodities, which are bought and sold at market prices while generating a market income.<sup>21</sup> Subjecting labour to the self-regulation of markets, however, tends to annihilate the organic inter-dependencies of the social whole as the contractual exchange mode of the labour market radically interferes with social relationships that are based upon non-contractual interactions.<sup>22</sup> This tendency establishes market society as an extended format of market principles beyond the economic domain. The

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<sup>15</sup> K. Polanyi, note 4 supra, p. 60.

<sup>16</sup> K. Polanyi, *ibid.*, p. 60.

<sup>17</sup> K. Polanyi, *ibid.*, pp. 145-146.

<sup>18</sup> K. Polanyi, *ibid.*, p. 146).

<sup>19</sup> K. Polanyi, note 10 supra, pp. 67-68.

<sup>20</sup> K. Polanyi, note 4 supra, p. 45.

<sup>21</sup> K. Polanyi, *ibid.*, p. 72.

<sup>22</sup> K. Polanyi, *ibid.*, p. 171.

essence of society is sub-ordinated to the market mechanism. Labour and land as representations of the human and natural substance of society become commodities; they are commodified. Together with money as the representation of purchasing power, they share the characteristic that they are not produced for sale. Their existence is not to be derived from a commercial rationale. Thus, their characterisation as marketable commodities is fictitious. This “commodity fiction” involving labour, land and money becomes the organising principle of the market society.<sup>23</sup> Consequently, changes in the institutional status of labour as a substantial resource of economic activity suffice to differentiate economic systems – and emerge as a decisive factor for understanding their developmental dynamics.<sup>24</sup>

The formation of the commodity fiction – a term which resembles Marx’s “commodity fetish” as it puts the commodification of socio-economic relations into the centre of the analysis – may be viewed as a social construction. It is the result of political, as well as technological, interventions that parallel each other in the formation of markets and industries.<sup>25</sup> Indeed, both the industrial dimension of the “machine age” and the commodity fiction of the market system characterise the socio-economic disruptions of the Nineteenth century. The self-regulating market system serves as an institutional adaptation to the factory system of the machine age and its industrial civilisation.<sup>26</sup> This technological aspect of industrial capitalism and its commercial logic is represented by the productive use of specialised machines that require a steady flow of marketable resources in inputs and outputs. In order to keep the productive circuit running smoothly and profitable, then, labour, land and money needed to be turned into commodities that would be readily available on demand. This is the technological basis of the commodity fiction of the market system.<sup>27</sup>

However, the self-regulated market system was short-lived, if ever realised in history, for society was soon substantially endangered in its totality. In particular, the institutional status of labour as a commodity included real humans who would become the socially exposed and dislocated objects of market volatility. For society at large, the need for protection arose as a condition for safeguarding the reproduction of its substantial

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<sup>23</sup> K. Polanyi, *ibid.*, pp. 75-76, K. Polanyi, note 5 *supra*, pp. 9-10.

<sup>24</sup> K. Polanyi, note 5 *supra*, p. 43.

<sup>25</sup> K. Polanyi, note 4 *supra*, p. 60.

<sup>26</sup> K. Polanyi, note 5 *supra*, pp. xviii-1).

<sup>27</sup> K. Polanyi, note 4 *supra*, p. 44.

components.<sup>28</sup> The political counter-movement, which organised its resistance in England from the 1860s, resulted from spontaneous activities scattered all over society, pragmatically assembling diverse social interests and political ideologies.<sup>29</sup> The extension of markets and the parallel efforts for the self-protection of society thus amount to a “double movement” of market forces and social regulation, thereby checking the status of the fictitious commodities.<sup>30</sup> This double movement echoes an ideological conflict of distinct organisational principles in society, namely, economic liberalism which promotes self-regulating markets versus social protectionism as an effort to shield human and natural resources from the grip of market forces through interventions in legislation, administration and associative self-organisation.<sup>31</sup>

As witnessed during the late Nineteenth century, the interventionist counter-movement against the expansion of markets was incompatible with the working mechanism of the market itself, which led to a further intensification of institutional tensions.<sup>32</sup> Polanyi explains the permanence of instability by referring to the selective inter-connectedness of the separated political, social and economic domains that were to become subject to protectionist interventions. As protectionism encourages the monopolisation of market structures, interventions in support of a competitive order become ubiquitous, leading to an increasingly bureaucratic and corporatist setting that persistently distorts prices and prolongs recessions. For example, measures of social protectionism obstruct adjustments of labour markets by stabilising earnings above the level of volatile market incomes as well as by regulating institutional features such as professional standards. All of these measures are meant to re-constitute the human character of labour beyond the commodity fiction – and thus they are systematically at odds with the hegemonic structures of the market system.<sup>33</sup> Historically, then, as the counter-movement came to disturb the self-regulation of the market system, economic and political crises culminated in the national rivalries of World War I, followed by

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<sup>28</sup> K. Polanyi, *ibid.*, pp. 76-77.

<sup>29</sup> K. Polanyi, *ibid.*, p. 147.

<sup>30</sup> K. Polanyi, *ibid.*, p. 79.

<sup>31</sup> K. Polanyi, *ibid.*, pp. 138-139.

<sup>32</sup> K. Polanyi, *ibid.*, pp. 136-137.

<sup>33</sup> K. Polanyi, *ibid.*, pp. 185-186.

a period of instability that led to the “great transformation” of market society towards authoritarianism.<sup>34</sup>

The formation of the welfare state is a decisive component in the social protectionist counter-movement. It affects the status of labour – the crucial characteristic for specifying the rationale of an economic system. The political tendency of a restoration of the primacy of society over the economic system thus implies an abolition of the commodity fiction of labour, land and money. Actual modes of constraining the market system may vary over time, involving both authoritarianism and democracy, but, in any case, the status of labour as a fictitious commodity is abolished with far-reaching consequences for society at large:

“To take labor out of the market means a transformation as radical as was the establishment of a competitive labor market. The wage contract ceases to be a private contract except on subordinate and accessory points. Not only conditions in the factory, hours of work, and modalities of contract, but the basic wage itself, are determined outside the market.”<sup>35</sup>

Polanyi suggests that the formation of the welfare state represents a protective venture that offers workers “the mixed motives of status, security of income, teamwork, and a creative role in industry”.<sup>36</sup> Thus, in the Polanyian perspective, the distributive function of the welfare state is not to be separated from its impact on the democratisation of the labour process with all of its various political implications. Indeed, Polanyi’s own normative position highlights a kind of socialist option that is amended in terms of safeguarding “freedom in a complex society” that would restore the “habitation” of society through a democratically regulated industrial system.<sup>37</sup>

These political-economic dimensions of Polanyi’s approach highlight a range of problems that are associated with the dialectic relationship of embedding and dis-embedding tendencies in the market society – and thus pinpoint the need to view social embeddedness in relation with the commodification of labour as basic feature of the market system. Apart from its analytical relevance, this issue also specifies the normative edge of the Polanyian

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<sup>34</sup> K. Polanyi, *ibid.*, pp. 210-212 & 227-228.

<sup>35</sup> K. Polanyi, *ibid.*, p. 259.

<sup>36</sup> K. Polanyi, note 5 *supra*, p. 1.

<sup>37</sup> K. Polanyi, note 4 *supra*, p. 257.

approach. To this end, a clear-cut conceptual differentiation between the institutional order of the market and its social embeddedness needs to be taken to the fore.

### III. THE POLITICAL ECONOMY OF EMBEDDEDNESS AND COMMODIFICATION

A long-standing interpretation of Polanyi's notion of embeddedness refers to the non-market allocation of land and labour according to principles of social rights and values, which involve kinship as well as political or religious affairs.<sup>38</sup> With the advent of the self-regulating market and the commodification of labour, land and money, therefore, a dis-embedding procedure sets in, which is met by a counter-movement for regaining social control of the economy, and thus for re-embedding its institutional rationale.<sup>39</sup> This notion of embeddedness should actually serve as an antithesis to the atomised conception of market exchange that is prevalent in neoclassical economics, for it underlines the inter-relatedness of economic actors in distinct social, political and cultural environments.<sup>40</sup> There is thus a two-fold meaning of embeddedness in Polanyi: on the one hand, as a representation of the connection of markets to the moral fabric of society, on the other hand, as a political term that refers to social reform and the regulation of markets – in particular, regarding fictitious commodities.<sup>41</sup> However, both tend to converge to a functional argument, which claims that markets for labour, land and money simply require governmental guidance, as their self-regulating adjustment leads to disastrous social consequences. This is why market expansion usually implies a parallel expansion of rules and regulations that aim at social protection.<sup>42</sup> However, it is quite difficult to distinguish accurately between institutions that are intended to govern the competitive order of a market from those that promote the embeddedness of the market in non-market types of social integration. This distinction of the institutional order of market and non-market types of embedding institutions requires further specifications.

A first problem refers to the institutional substance of embeddedness. Fred Block, in particular, argues that persistent efforts in the re-embedding of economic processes will allow us to speak of an “always embedded market economy”, which Polanyi allegedly

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<sup>38</sup> G. Dalton, “Introduction”, in: *idem*, note 10 *supra*, pp.ix-liv, at xii-xiii.

<sup>39</sup> F. Block, note 4 *supra*, pp. xxiii-xxv.

<sup>40</sup> K. Ibata-Arens, J. Dierkes & D. Zorn, “Theoretical Introduction to the Special Issue on the Embedded Enterprise”, (2006) 7 *Enterprise and Society*, pp. 1-18, at 2.

<sup>41</sup> J. Beckert, “The Great Transformation of Embeddedness: Karl Polanyi and the New Economic Sociology”, (2007) 07/1 *Max Planck Institute for the Study of Societies Discussion Paper*, p. 8.

<sup>42</sup> F. Block, note 4 *supra*, pp. xxv-xxvii.

overlooked.<sup>43</sup> Block claims that markets are always politically embedded in distinct legal rules and institutions, while they are also always morally embedded in specific values and norms that support rule compliance and trust.<sup>44</sup> This line of reasoning is summarised in the concept of ideational embeddedness, which suggests that markets are always embedded in rules and regulative institutional arrangements. Thus, instead of a disembedding of the market sphere there is only a persistent re-embedding in different sets of institutions, including ideas, discourses and ideologies which are part of the normalisation of the market process.<sup>45</sup>

In Block's reasoning, it follows that markets are never fully dis-embedded, for they always require some institutional scaffold to sustain their operation. An example of these mechanisms is provided by the regulation of labour markets.<sup>46</sup> Yet, this reference neglects the role of labour markets as a terrain for the commodification of labour. Instead of addressing the embeddedness of economic operations in non-market modes of social integration, it indicates that Block's perception of embeddedness instead tackles the institutional order of markets, that is, the rules and norms that institutionalise the competitive order of market exchange. In this manner, the differentiation between market and non-market modes of integration loses its relevance, although it is precisely this distinction which highlights the de-commodification of fictitious commodities as a key aspect of embeddedness in Polanyian terms. This issue is well illustrated by Block's affirmative references to John Ruggie's concept of "embedded liberalism". Its interpretation of the Bretton Woods system associates the embeddedness of market liberalism with multilateralism in trade and with investment regulations which combine economic internationalisation with national welfare states.<sup>47</sup> Again, such an identification of embeddedness with the rules and regulations of a market order differs markedly from Polanyi's concern with commodification and de-commodification as the key components of dis-embedding and re-embedding strategies and practices.

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<sup>43</sup> F. Block, "Karl Polanyi and the Writing of The Great Transformation", (2003) 32 *Theory and Society*, pp. 275-306, at 297-298.

<sup>44</sup> G. Krippner, M. Granovetter, F. Block et al., "Polanyi Symposium: A Conversation on Embeddedness", (2001) 2 *Socio-Economic Review*, pp. 109-135, at 118-119.

<sup>45</sup> M.R. Somers & F. Block, "From Poverty to Perversity: Ideas, Markets, and Institutions in Over 200 Years of Debate", (2005) 70 *American Sociological Review*, pp. 260-287, at 263-264.

<sup>46</sup> F. Block, "Understanding the Diverging Trajectories of the United States and Western Europe: A Neo-Polanyian Analysis", (2007) 35 *Politics and Society*, pp. 3-33, at 5-6.

<sup>47</sup> J.G. Ruggie, "International Regimes, Transactions, and Change: Embedded Liberalism in the Postwar Economic Order", (1982) 36 *International Organization*, pp. 379-415, at 393.

Clearly, Polanyi acknowledges the need to position markets in an institutional order that allows for enforcement mechanisms of contractual arrangements, which accompany the allocative function of the price system in the self-regulation of markets. This market order addresses the rules and norms that organise the market process – and, as such, it is, indeed, constitutive for every type of market exchange. However, Polanyi addresses a different matter when he approaches the embeddedness of economic operations. In this case, a differentiation between market order and market embeddedness is at stake. Indeed, the Polanyian concept of embeddedness is not associated with the rules of the market as such. Instead, it is the content of these rules with regard to the commodity fiction regarding labour, land and money that matters. A Polanyian viewpoint thus implies an integrated perspective on embeddedness and commodification: the former addresses types of social integration, while the latter is concerned with the socio-ecological substance of commodity production.

This specification is well illustrated by the case of labour markets. Rules that simply fulfil a market-enhancing function, for instance, by reducing transaction costs and information asymmetries in wage-setting, do not qualify as embedding rules. They support a rationale of commodification that follows the allocative logic of market supply and demand. However, a set of rules that delegates some components of wage-setting and the related features of industrial relations to an institutional domain beyond this commodity logic qualifies as a factor in the embedding of markets. These sets of rules, which may refer to the inclusion of welfare arrangements in wage-setting or to the participation of the workforce in management decisions, just as in German co-determination law, may promote a de-commodification of labour, as they shield its reproductive conditions from market conditions. Thus, distinguishing between ordered markets and embedded markets is decisive for understanding the Polanyian distinction between dis-embedding liberal moves and re-embedding social protectionist counter-moves in the Polanyian development scheme.

Some mis-representations of the concept of embeddedness may be traced back to shortcomings in Polanyi's own statements. Despite repeated references to the matter of institutional variety, Polanyi tends to identify the rationale of the market economy under conditions of industrial capitalism exclusively with market exchange, contractual arrangements and the profit motive. Paradoxically, it seems that the corresponding assessment of market performance remains true to the framework of the Austrian School of Economics, which had been an influence in his intellectual socialisation. Indeed, Polanyi believes in the equilibrating, self-stabilising capacities of markets which are unhampered by

policy interventions. Quite in line with the Austrian School's monetary business cycle theory of Mises and Hayek, the dynamism of business cycles is largely derived from policy interventions; a position which contradicts contemporary Keynesian ideas on the endogenous instability of markets.<sup>48</sup> This is most obvious when Polanyi claims that policy interventions tend to aggravate market instability. In other words, Polanyi is overdoing the case of market distortions by policy interventions, as he seems to rely on a type of flawless market process that should become most prominent with neoclassical general equilibrium theory.<sup>49</sup>

Yet, apart from this rather dogmatic understanding of a "pure" market mechanism, Polanyi's related re-consideration of the separateness between economy and polity as societal domains that follow a distinct functional logic has also invited affirmative interpretations in terms of systems theory. Thus, the separateness of the economy tackles issues such as the hegemonic logic of commodity production, its technological means in modern industry, and its institutional media such as money and the law. Economic affairs are not viewed as a mere by-product of social integration, for they develop a dynamic of their own. The market system is accordingly viewed as a differentiated social sub-system with an internal logic that may conflict with the alien rationale of external interventions from the political system. Polanyi's thesis of the functional separateness of economy and polity is thus translated into a system theoretical argument on the complexity of governing differentiated self-organising sub-systems.<sup>50</sup> Notwithstanding this, Polanyi's characterisation of embeddedness as a constellation in which the economy, as such, is regulated predominantly by non-economic institutions, which means that re-embedding the economy would imply a strengthening of non-economic components, is challenged by the problem of defining such a clear-cut distinction between the economic and non-economic spheres without falling prey to tautological definitions. More convincingly, therefore, Polanyi's ideas on embeddedness may be re-iterated with reference to Durkheimian arguments in terms of the embedding of markets in non-market institutions that involve non-commercial motivations and non-contractual arrangements.

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<sup>48</sup> G. Dalton, "Introduction", in: *idem*, note 10 *supra*, p. xxv.

<sup>49</sup> S. Hejeebu & D. McCloskey, "The Reproving of Karl Polanyi", (1999) 16 *Critical Review*, pp. 285-314, at 302.

<sup>50</sup> B. Jessop, "Regulationist and Autopoieticist Reflections on Polanyi's Account of Market Economies and Market Society", (2001) 6 *New Political Economy*, pp. 213-232, at 222-223.

A second problem with the interpretation of Polanyi's notion of embeddedness relates to the characterisation of markets as being void of social relationships. This interpretation is implicit in the claim that the integration modes of reciprocity and re-distribution would differ from exchange, in that they represent specific social relationships such as kinship or political-religious affiliation, whereas market exchange would stand out as a one-shot interaction among anonymous actors.<sup>51</sup> Given Polanyi's prevalent identification of market exchange with competitive spot markets, such an interpretation may be legitimate. Yet, this problematical account of the social structures of markets has paved the way for further controversies in the understanding of embeddedness. Most prominently, Mark Granovetter's notion of embeddedness emphasises that economic institutions are always constrained by ongoing social relations, as exemplified by personal networks in economic transactions. Accordingly, non-market societies are less embedded and market societies less dis-embedded than Polanyi claims.<sup>52</sup> A favourite empirical example is the evolution of trade in financial derivatives at the Chicago Board Options Exchange, which was originally based upon inter-personal efforts at re-defining a specific set of transactions and furthering a shared understanding of their business implications.<sup>53</sup> From a Polanyian perspective, however, set apart from the issue of the social construction of market exchange, trade in financial derivatives instead qualifies as a component in dis-embedding commodification. Thus, both conceptually and empirically, Granovetter's concept of embeddedness differs markedly from the most decisive features of Polanyi's framework.

In contrast to these reductionist efforts, recent advances in economic sociology have highlighted the structural complexity of Polanyian embeddedness and its political-economic implications. For instance, Greta Krippner insists that every market transaction is a social process that involves a history of struggle, contestation, bargaining, and understanding. The state, politics and culture are all viewed as inherent components of the market process.<sup>54</sup> Building on such a politicised understanding of socio-economic integration mechanisms, a corresponding Polanyian strategy would possibly differentiate various types and levels of embeddedness that perceive its variability as a hegemonic manifestation of fragile social

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<sup>51</sup> G. Dalton, note 38 supra, pp. xiv-xv).

<sup>52</sup> M. Granovetter, "Economic Action and Social Structure: The Problem of Embeddedness", (1985) 91 *American Journal of Sociology*, pp. 481-510, at 481-482 & 506-507.

<sup>53</sup> G. Krippner, M. Granovetter & F. Block et al., note 44 supra, pp. 115-116.

<sup>54</sup> *Ibid.*, p. 112; G. Krippner, "The Elusive Market: Embeddedness and the Paradigm of Economic Sociology", (2001) 30 *Theory and Society*, pp. 775-810, at 777-778; J. Beckert, note 41 supra, pp. 9-10.

compromises. Such an effort would counter recent suggestions that a “gradational” interpretation of embeddedness might contradict Polanyian holism.<sup>55</sup> Indeed, on a historical-empirical plane, the ideal types of exchange, reciprocity, and re-distribution will present themselves in a socially contested and thus historically variable shape of combinations. Distinguishing different levels of embeddedness may contribute to an understanding of the dynamism of this variability. For instance, inter-personal and inter-organisational relations may be distinguished from the social embeddedness of functionally differentiated modes of integration that mark the complexity of the market society.<sup>56</sup>

Drawing on these positions, a re-combination of the concepts of embeddedness and de-commodification is at hand. As outlined above, a crucial problem with Polanyi’s notion of embeddedness is its inherent tendency to represent the market economy almost exclusively as a domain of exchange, contract and profit. Acknowledging this problem by specifying embeddedness in terms of a totality of market and non-market modes of integration would allow for an understanding of the economy as a set of diverse institutional constellations. In such a setting, institutional variety becomes a key condition for the sustainability of market exchange, involving both the reciprocity of networks as well as the re-distributive role of the state. Accordingly, in line with Polanyian ideas on comparative economic systems, specific integrative patterns of embeddedness become a defining feature of actually existing national and regional varieties of capitalism.

Most obviously, these considerations are well preserved in recent theorising on the varieties of welfare capitalism. In Polanyian terms, the welfare state stands for the social protectionist move, involving the social right of a minimum level of income and the corresponding allocation of benefits and payments according to non-market criteria.<sup>57</sup> In addressing these issues, Gøsta Esping-Andersen’s highly influential work draws extensively on Polanyi’s concept of commodification. Esping-Andersen claims that the unalienable social rights as described by T.H. Marshall contribute to a process in which individuals as carriers of marketable labour are de-commodified, that is, their material reproduction may no longer be contingent upon the sale of their labour power. This quality of de-commodification rests upon the combination of social welfare assistance with an emancipation of individuals from

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<sup>55</sup> K. Gemici, “Karl Polanyi and the Antinomies of Embeddedness”, (2008) 6 *Socio-Economic Review*, pp. 5-33, at 10-11.

<sup>56</sup> B. Jessop, note 50 *supra*, pp. 223-224.

<sup>57</sup> G. Dalton, note 38 *supra*, p. xxvi.

market dependence. Accordingly, complete de-commodification would amount to de-proletarianisation, as the choice to work replaces work compulsion.<sup>58</sup> Thus, in this particular understanding of the welfare state, the basic character of the market system is at stake.

This orientation is also relevant when the overall policy rationale of embeddedness and de-commodification is taken to the fore. For instance, Wolfgang Streeck re-iterates Polanyi's views on the socially-disruptive character of self-regulating markets in terms of the problem of stability in social integration. Income levels based upon unpredictable fluctuations in relative prices become highly volatile. This prevents stability in social integration and thus fuels a need for market regulation and price controls.<sup>59</sup> While this argumentation tackles some key issues from a Polanyian viewpoint, it surprisingly overlooks the policy-related dimensions which embed de-commodification. The latter is not exclusively about relative prices, income distribution and structural change, and thus its policy implications are not only about market regulation and price control – which, according to Polanyi, even worsens the situation. In fact, the Polanyian perspective transcends the sphere of circulation, as the sphere of production also needs to be taken into account. Issues such as wage-setting, labour standards and co-determination reflect a policy rationale of embedding de-commodification through market-constraining initiatives that challenge the commodity logic of the market system.

The decisive point in the suggested conceptual re-combination of embeddedness and commodification is derived from the argument that the Polanyian notion of embeddedness derives its outstanding analytical quality from its exposition of the commodity fiction in the market system. In the Polanyian framework, embeddedness addresses the shaping of market operations by non-market modes of social integration, whereas commodification denotes the exposure of production and consumption to commercial principles and incentives. The commodity status of labour plays a decisive role in outlining the social dynamism of the market system. Actually existing varieties of capitalism and related types of welfare states combine distinct patterns of embeddedness and de-commodification. Accordingly, liberal reform projects involve a shift from embedding de-commodification to dis-embedding commodification. At this point, the political dimension of Polanyian thought becomes crucial,

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<sup>58</sup> G. Esping-Andersen, *The Three Worlds of Welfare Capitalism*, (Cambridge: Polity Press, 1990), pp. 21-23 & 37.

<sup>59</sup> W. Streeck, *Re-Forming Capitalism: Institutional Change in the German Political Economy*, (Oxford: Oxford University Press, 2009), pp. 249-253.

as it addresses both the prospects and the limits of public policy in co-ordinating the drive for a market system and parallel efforts in its social regulation. It resonates with those political-economic conflicts that are aggravated by the formation of transnational markets in globalisation.

#### IV. TRANSNATIONAL MARKETS AND THE “DOUBLE MOVEMENT”

Acknowledging the inter-dependencies of political-economic conflicts in the optional range of dis-embedding commodification and embedding de-commodification allows for an evolutionary understanding of the Polanyian approach to socio-economic development. Such a perspective would invoke key concerns of recent institutionalist theorising on the institutional evolution of capitalist market economies.<sup>60</sup> This point of view involves a re-consideration of simultaneity in the double movement of liberalisation and social protection. Viewing the double movement merely as an unfolding succession of specific development phases of political-economic affairs is contradicted by the different modalities of moves and counter-moves, as well as by their complex timing. Both tendencies proceed as a strategic couple, subject to persistently contested hegemonic constellations. Historical evidence especially highlights continuity in the exercise of market-constraining policy measures that lead to the formation of welfare states, which may be interpreted as a framing condition of politically co-ordinated market expansion.<sup>61</sup>

A sustainable market society requires the partial embeddedness of economic and social affairs in non-market relations, involving the persistence of non-commodity producing domains in the wider sphere of commodity production. This relationship between diverse modes of social integration remains subject to conflict and change. It is this contested inter-dependence between exchange, reciprocity and re-distribution that endows market society with unparalleled transformative qualities. In this manner, the double movement reflects the internal dynamics of the economy as a loosely-coupled system which derives its temporary coherence from politicised buffer mechanisms.<sup>62</sup> Consequently, the double movement of dis-embedding commodification and re-embedding de-commodification may be conceptualised

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<sup>60</sup> A. Ebner, “Introduction: The Institutions of the Market”, in: A. Ebner & N. Beck (eds), *The Institutions of the Market: Organisations, Social Systems, and Governance*, (Oxford-New York: Oxford University Press, 2008), pp. 1-20, at 8-11.

<sup>61</sup> S. Halperin, “Dynamics of Conflict and System Change: The Great Transformation Revisited”, (2004) 10 *European Journal of International Relations*, pp. 263-306, at 277-279; E. Rieger & S. Leibfried, *Limits to Globalization: Welfare States and the World Economy*, (Cambridge: Polity Press, 2003), pp. 61-62.

<sup>62</sup> F. Block, note 46 supra, p. 7.

as a clash of social principles, resulting from contradictions between the market system and non-market modes of social integration. A frictionless harmonisation of market process and policy interventions remains out of sight.<sup>63</sup>

Part of these dialectics of the double movement lies in the fact that the relationship between the commodification of labour and its social regulation evolved in country-specific terms, depending on the actual constellations of socio-economic forces and their political articulation. For example, late nation-building in continental Europe allowed for a stronger interest representation of organised labour as compared with the case of England.<sup>64</sup> Likewise, recent liberal transformations of welfare regimes in the direction of an extension of market principles, which have been witnessed in the OECD world, at least since the 1990s, are well described in terms of a re-commodification of labour in line with country-specific socio-economic constellations. These transformations usually proceed as a move towards a work-based support system that focuses on conditional assistance, which aims at the employability of welfare recipients. While this liberal move towards a flexibilisation of welfare regimes under the leitmotif of competitiveness has been shaping policy agendas, a parallel counter-move of de-commodification and social protectionism is nonetheless also unfolding. It is well illustrated by the political entrenchment of the welfare state at national level, accompanied by transnational efforts in labour regulation as exemplified by the matter of global social standards. However, linking these social protectionist tendencies with transnational governance requires the establishment of legitimate, as well as effective, governance structures beyond the domain of the nation-state. Again, the relationship between national and transnational governance is at stake.

A prime example of this issue is the role of global finance. A Polanyian diagnosis of globalised finance would denounce the establishment of a commodity fiction with a global reach that undermines the monetary coherence of national economies while promoting the international transmission of instability.<sup>65</sup> Such a Polanyian view might consider financial de-regulation to be an economic trend that is cultivated by state action, meeting the counter-

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<sup>63</sup> B. McClintock & J.R. Stanfield, "The Crisis of the Welfare State: Lessons from Karl Polanyi", in: M. Mendell & D. Salée (eds), *The Legacy of Karl Polanyi: Market, State and Society at the End of The Twentieth Century*, (London: Macmillan, 1991), pp. 50-65, at 58-59; K. Polanyi Levitt, "Keynes and Polanyi: The 1920s and the 1990s", (2006) 13 *Review of International Political Economy*, pp. 152-177, at 162-163.

<sup>64</sup> M. Burawoy, "For a Sociological Marxism: The Complementary Convergence of Antonio Gramsci and Karl Polanyi", (2003) 31 *Politics and Society*, pp. 193-261, at 237-238.

<sup>65</sup> K. Polanyi Levitt, note 63 supra, pp. 152-153.

movement of re-embedding efforts that aim at bringing global finance under social control, particularly in a transnational setting of rules and regulations.<sup>66</sup> Indeed, a major difference between the liberal international economic order of the Nineteenth century which constitutes the historical-empirical matter of Polanyi's elaborations and the recent drive for globalisation is associated with the steering capacity of the nation-state. In the former case, nation-building was accompanied by the evolution of social protectionism on the national level, whereas, in the latter constellation, the national regulatory framework for social protection is weakened by globalisation. Therefore, transnational regulation becomes ever more pressing.<sup>67</sup>

A key question in this regard addresses the rationale of governing transnational markets. From the outset, markets emerge out of social relationships, that is, they resemble open-ended social spaces that contain persistent struggles over the re-organisation of the market system.<sup>68</sup> The rationale of regulation may be derived from market failure due to externalities that are already present in the creation of markets by political interventions. Historically variable demarcations of private and public domains then add to its complexity. This is well exemplified by recent efforts in national de-regulation and international re-regulation at various levels of governance, which involve not only a re-orientation of governments in line with the requirements of locational competition, but also an expansion of the private sector into formerly public concerns with social welfare.<sup>69</sup> The matter of de-commodification is a key component in these constellations. It addresses controversies over the definition of property rights in various segments of economy and society, thus also informing the privatisation pattern of welfare state reforms with its shifting delineation of private and public goods. When de-commodification by regulation fails, the commodity logic of the market becomes the supreme principle of socio-economic affairs – with far-reaching implications for market regulation as a genuinely political process.<sup>70</sup>

Globalisation adds to this setting of regulatory issues, as it leads to a transnational re-configuration of governance structures on diverse institutional levels, involving regulatory

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<sup>66</sup> E. Helleiner, "Globalization and Haute Finance – Déjà Vu?", in: K. McRobbie & K. Polanyi Levitt (eds), *Karl Polanyi in Vienna: The Contemporary Significance of The Great Transformation*, (Montreal-New York: Black Rose, 2000), pp. 12-31, at 12-13.

<sup>67</sup> E. Helleiner, *ibid.*, pp. 25-27.

<sup>68</sup> R. Boyer & D. Drache, "Introduction", note 2 *supra*, p. 11.

<sup>69</sup> R.D. Lipschutz & J.K. Rowe, *Globalization, Governmentality and Global Politics*, (London-New York: Routledge, 2005), pp. 34-35.

<sup>70</sup> R.D. Lipschutz & J.K. Rowe, *ibid.*, pp. 63-64.

processes, actors, and actor-specific networks. Together, all of these elements may constitute the pillars of a transnational type of “regulatory capitalism”.<sup>71</sup> Transnational regulation is characterised by three major components: rule-setting as the basis of standards, codes of conduct and other soft types of regulation; monitoring as a complement to rule-setting, which addresses a performance-oriented way of promoting compliance; and agenda-setting as a means for diffusing ideas and shaping discourses.<sup>72</sup> Key aspects of the underlying transnational governance structures involve a re-ordering of actors. It highlights the transformation of state capacity to the benefit of private sector and civil society organs, mediated by both hard and soft law. Indeed, in this multi-level setting, the call for regulatory reform has become a centrepiece of discourses sponsored by diverse international organisations such as WTO and OECD.<sup>73</sup> However, related reform initiatives are subject to power struggles among diverse regulatory coalitions, which may hamper their actual realisation. In this manner, the rise of transnational governance implies a re-arrangement of organisational fields and related discourses with a strategic range that is set to transcend the national terrain of conflict resolution.<sup>74</sup>

The Common Market of the European Union serves as an adequate example for the problems of governing transnational markets by shedding more light on the policy dimension of embeddedness and commodification. While most commentators view it as a manifestation of a liberal movement with market-making and market-expanding intentions, others hold the view that it contains a double character that allows for the establishment of supranational regulations with a socially embedding character. Caporaso and Tarrow, in particular, argue that the European Court has implicitly served the social embeddedness of the Common Market, as exemplified by the Court’s interpretations of the Treaties in the case of the free movement of labour. These rulings are said to reflect a coincidence of market-making regulation with an embedding of markets in inherited social practices. This is illustrated by recent decisions on the character of social services in the face of cross-border labour

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<sup>71</sup> D. Levi-Faur, “The Global Diffusion of Regulatory Capitalism”, in: D. Levi-Faur & J. Jordana (eds), *The Rise of Regulatory Capitalism*, (London: Sage, 2005), pp. 12-32, at 12.13.

<sup>72</sup> B. Jacobsson & K. Sahlin-Andersson, “Dynamics of Soft Regulation”, in: M.-L. Djelic & K. Sahlin-Andersson (eds), *Transnational Governance: Institutional Dynamics of Regulation*, (Cambridge: Cambridge University Press, 2006), pp. 247-265, at 253-256.

<sup>73</sup> M.-L. Djelic & K. Sahlin-Andersson, “Introduction: A World of Governance – The Rise of Transnational Regulation”, in: *ibid.*, pp. 1-28, at 8-12.

<sup>74</sup> M.-L. Djelic & K. Sahlin-Andersson, “Institutional Dynamics in a Re-Ordering World”, in: *ibid.* pp. 375-397, at 395-396.

mobility. The example of the Acciardi case highlights the access to family-related unemployment benefits regardless of the family members' residence in the European Union, thus allegedly accounting for the legally relevant role of family networks as embedding structures.<sup>75</sup> From a Polanyian perspective, however, dis-embedding commodification needs to be distinguished from embedding de-commodification. In re-considering this issue, the Acciardi case is not about the promotion of social embeddedness, but rather about market order. It promotes the institutional establishment of a common European labour market by means of a de-construction of the national limitations of welfare regimes that should benefit labour mobility – and thus stands for a transnational effort in the commodification of labour. Again, the rationale of regulation matters.

In fact, reflecting the hegemonic character of the liberal move for dis-embedding commodification, the European Union proceeds with an activation paradigm that shapes its integrated employment and social policies, which involve a reduction in welfare benefits as well as a strengthening of conditionality. All of this contributes to a re-commodification of labour in Polanyian terms.<sup>76</sup> However, promising traces of a European counter-movement may be associated with the European social dialogue. It is a modest attempt at establishing an adequate representation of labour in the discourse on the European social model, based upon a transnational co-operation of national labour unions. However, this kind of neo-corporatist arrangement comes together with typical problems of inclusiveness and legitimacy, both of which are aspects that haunt the provision of market regulations by means of private governance in general. It follows that the regulatory role of the nation-state remains unparalleled.<sup>77</sup>

Facing these issues, the institutional character of a transnational counter-movement presents itself as a key issue in the present policy debates. The diversity of social interests and the problem of their incoherence within the counter-movement is a major topic in Polanyi's reasoning. It is characterised as a spontaneous, de-centralised and society-wide

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<sup>75</sup> J. Caporaso & S. Tarrow, "Polanyi in Brussels: European Institutions and the Embedding of Markets in Society", (2008) 1 RECON Online Working Paper, pp. 16-18.

<sup>76</sup> R. van Berkel & M. Roche, "Activation Policies as Reflexive Social Policies", in: R. van Berkel & I.H. Møller (eds), *Active Social Policies in the EU: Inclusion Through Participation?*, (Bristol: Policy Press, 2002), pp. 197-224, at 202-203; R. van Berkel & I.H. Møller, "The Concept of Activation", in: *ibid.*, pp. 45-71, at 52.

<sup>77</sup> S. Smismans, "Transnational Private Governance in the EU: When Social Partners Bargain Beyond Borders", in: J.-C. Graz & A. Nölke (eds), *Transnational Private Governance and its Limits*, (London-New York: Routledge, 2008), pp. 185-195, at 193-194.

response to the dis-embeddedness of the market system. Some critics have taken issue with this position by claiming that Polanyi actually provides an apolitical theory of social protectionism and the welfare state, which neglects the powerful role of social interest groups. Thus, it seems that Polanyi views society as having a reality of its own, acting as a self-conscious entity.<sup>78</sup> Nonetheless, Polanyi's approach may find support in the insistence on multiple social interests and broad-based political coalitions as a constitutive component of the counter-movement. Such a characterisation is well designed to counter a mechanistic understanding of politics, which would derive all political action from rationally calculating interest groups. Accordingly, Wolfgang Streeck argues convincingly that the dialectics of movement and counter-movement in Polanyi's approach allow for bringing back politics into the debate on comparative capitalisms. The insistence on the conflict-ridden profile of socio-economic change is portrayed as a decisive analytical advantage of Polanyian reasoning in comparison with other institutionalist approaches – in particular, when contrasted with the comparative statics of the “varieties of capitalism” approach.<sup>79</sup>

After all, Polanyi's notion of the double movement qualifies as an adequate device for assessing the organised criticism of globalisation as the formation of a globalised commodity fiction.<sup>80</sup> Confronting this commodity fiction through the embedding of transnational markets requires an international counter-movement that concentrates its efforts on building counter-hegemonic positions for diverse social concerns. Its multi-level interactions may range from local to transnational platforms, mediated through the persistently relevant institutional capacity of nation-states. In fact, the potentially contradictory social dynamics of the double movement are reflected within the state apparatus itself, augmenting the complexity of public policy.<sup>81</sup> The nation-state remains a decisive terrain for the double movement. Its governance capacity provides an institutional basis for the international co-ordination of political initiatives and social coalitions that tackle conflict-ridden issues such as the de-commodification of labour.<sup>82</sup> In this manner, both embeddedness and commodification

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<sup>78</sup> M. Burawoy, note 64 supra, pp. 189-199; S. Hejeebu & D. McCloskey, note 49 supra, p. 295.

<sup>79</sup> W. Streeck, note 59 supra, pp. 254-256.

<sup>80</sup> V. Birchfield, “José Bové and the Globalisation Countermovement in France and Beyond: A Polanyian Interpretation”, (2005) 31 *Review of International Studies*, pp. 581–598, at 581-582.

<sup>81</sup> P. Evans, “Is An Alternative Globalization Possible?”, (2008) 36 *Politics and Society*, pp. 271-305, at 273-274; B. Jessop, note 50 supra, pp. 228-229.

<sup>82</sup> R. Munck, “Globalization and Democracy: A New Great Transformation?”, (2002) 581 *Annals of the American Academy of Political and Social Science*, pp. 10-21, at 18.

remain contested features of the undetermined dynamism of socio-economic development that informs the Polanyian perspective – thus adding to its enduring relevance.

## V. CONCLUSION

The global economic crisis has propelled the governance of transnational markets to the forefront of policy debates. In this context, Polanyi has emerged as a figurehead of market scepticism, who is mentioned together with Keynes as an intellectual inspiration for concerted efforts in the political regulation of international economic affairs. Keynesian recipes for the regulation of transnational markets usually highlight the matter of market instability, which is said to require adequate macro-economic measures in the area of effective demand. Thus, in the face of the current global economic crisis, eminent Keynesian economists such as Joseph Stiglitz propose a massive recovery programme that should tackle both the issues of economic stabilisation and social protection, involving an orientation in wage-setting that promotes effective demand.<sup>83</sup> Apart from the economic crisis, Stiglitz refers not only Keynes but also to Polanyi when he claims that a new paradigm for development policy needs to account for social capital, education and a strict regulation of financial markets as a means of achieving social coherence in economic growth.<sup>84</sup> Yet, in fact, Polanyi's original reasoning goes way beyond these macro-economic aspects of market stabilisation in a turbulent economic environment. It combines an encompassing understanding of the market system and its social underpinnings with a normative drive for reform options that are set to challenge the hegemony of market ideologies and their political ramifications.

The key concern of the Polanyian perspective is the social and ecological sustainability of capitalist market economies. Maintaining sustainability requires a partial embeddedness of economic affairs in non-market modes of social integration. The required institutional variety of market and non-market components is well described by the Polanyian trias of exchange, re-distribution and reciprocity. It informs the co-ordination domains of market, state and civil society, which enter distinct relationships that are politically contested and thus historically variable. The corresponding institutional tension shapes the double movement of market liberalism and social protectionism, which is reflected in regulative

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<sup>83</sup> J. Stiglitz, "The Global Crisis, Social Protection and Jobs", (2009) 148 *International Labour Review*, pp. 1-13, at 9-10.

<sup>84</sup> J. Stiglitz, "Foreword", in: K. Polanyi, *The Great Transformation: The Political and Economic Origins of Our Time*, note 4 *supra*, pp. vii-xvii, at x-xiii.

patterns and policy strategies. This contested inter-dependence between diverse modes of social integration characterises the socio-economic development process of capitalist market economies. More specifically, the Polanyian position implies an integrated perspective on embeddedness and commodification, which means that the role of non-market modes of social integration needs to be viewed in the context of the commodity fiction of the market system. As the commodity form of labour is a constitutive element of capitalism, the de-commodification of labour by means of social embeddedness remains a fundamental issue. A Polanyian political project thus may involve the governmental regulation of welfare regimes, the democratic co-determination of firms, as well as associative self-organisation. Embeddedness, then, turns out to be a genuinely political category that needs to be put in the context of the Polanyi problem: how to govern the institutional tension between dis-embedding commodification and embedding de-commodification as overlapping moments in the double movement of market-making and market-constraining initiatives.