Part I
Theoretical Resources for Thinking about How to Harness the Regulatory Capacity of a Social Sphere
The Regulation of Markets: Polanyian Perspectives

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I. Introduction

Karl Polanyi’s reasoning on the institutional dynamics of market economies is persistently relevant in related discussions on economic sociology and political economy. In particular, Polanyi is viewed as a paradigmatic reference concerning the variety of institutional arrangements that are required for the coordination of commodity production and exchange in modern capitalism.¹ This implies that Polanyi is interpreted as a theorist of the institutional transformation of the relationship between states and markets, whose arguments may be applied to issues such as economic globalisation, international finance, welfare regimes, and industrial relations.² Yet a common denominator in these discussions is the concern with the regulation of markets; a concern that combines political, social and legal viewpoints in approaching a set of economic affairs.³ In fact, Polanyi’s reconsideration of the embeddedness of market operations in non-market institutions provides arguments for perceiving the regulation of markets as a persistently contested process. In this view, markets

tend to be embedded in social relationships that contain persistent struggles over the organisation of the market system and its viable demarcation to societal spheres of non-market coordination and social integration. The Polanyian rationale of market regulation differs markedly from the prevailing neoclassical argumentation in economic theory, which derives from the need for regulation from constellations of market failure that may be due to externalities, among others. According to Polanyi, it is not the failure of markets to function in line with the ideal of perfect competition that requires regulation. Rather, it is the impact of market competition on social areas that are decomposed by the market mechanism, which is the primary domain of regulatory efforts. However, these regulatory efforts are bound to fail under conditions of the institutional separation of political and economic affairs. Thus, in the Polanyian view, the regulation of markets is intimately related to the institutional range of market competition in society at large. Regulation needs to be viewed as an institutional component in the re-embedding of market competition in non-market schemes of coordination, thus redefining the relationship between economy and society in coping with the uncertainty that derives from the dynamics of markets. Based on these considerations, a Polanyian view on transnational risk regulation would insist that corresponding transnational governance mechanisms need to include not only government but also diverse economic and social actors with their particular interests and claims. In this manner, the transnational regulation of risk transcends the provision of an institutional order of market competition in order to accentuate the re-embedding of the market process in non-market schemes of economic, social and political interaction. In discussing these issues, the chapter proceeds as follows. The first section outlines Polanyi’s theory of the economy as instituted process, pinpointing the dynamism of the embeddedness of markets. The second section links up Polanyi’s views on embeddedness with the problems of market regulation. The third section then addresses the Polanyian concern with failures of market regulation under the condition of separated economic and political spheres.

II. Polanyi’s Theory of the Economy as Instituted Process

The key concern in Polanyi’s comparative institutional analysis of economic systems is provided by the notion of the economy as instituted process, which actually serves as a leitmotif of his research programme. It means that an analysis of the institutional substance of economic processes is indispensable for understanding their social coherence and historical
dynamism, which is derived from both economic and non-economic institutions that constitute a specific mode of social integration. Polanyi contrasts this substantive perspective with the concern of neoclassical economic theory, which is said to refer exclusively to the logic of choices about means–ends relationships that are marked by resource scarcity. In the Polanyian perspective of a substantive perception of economic life, interchanges with the natural and social environment for the means of material want satisfaction are taken to the fore, basically referring to subsistence as an analytical point of departure. Only this substantive perspective is said to approach the economy in adequate terms as an instituted process of coherent interactions between society and the natural environment.

All recorded types of economies are integrated through historically specific support structures that institutionalise the movement of goods and services and contain distinct rights of disposal that shape the allocation of resources in the economic process. These institutional structures are denoted as reciprocity, redistribution and exchange, highlighting integrative patterns of interaction that are relatively independent from deliberate interventions of government or the variable ideals of cultural frameworks. Reciprocity accounts for the movement of goods and rights of disposal between corresponding points of a symmetrical arrangement, involving symmetrically placed social groups as exemplified by kinship-related types of gift exchange. Redistribution addresses related movements towards and out of a centre, involving an established political–administrative centre as exemplified by a territorially centred storage system run by local authorities. Exchange stands for movements between dispersed or random points in a system of interactions, involving the presence of a market mechanism. Householding as an additional principle then contains the autarchic and self-sufficient production of a group. Yet its integrative function in more complex economic systems is of minor importance as compared with reciprocity, redistribution and exchange.

At this point, the matter of embeddedness emerges as a major analytical device, because Polanyi claims that all historically recorded economic systems except for the market

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5 ibid 243–44.
6 ibid 248–50.
8 Polanyi, The Great Transformation (n 2) 55.
system submerge the economy in social relationships, framed by non-economic institutions. Production and distribution would not follow economic interests shaped by acquisitive motives, but rather resemble social interests, based on collectively shared norms and conventions. These may differ in diverse economic systems over time and space, involving small hunting communities as well as vast despotic societies. Yet in all of these cases economic systems were driven by non-economic motives. This means that the individual economic actor ‘does not act as to safeguard his individual interest in the possession of material goods; he acts so as to safeguard his social standing, his social claims, his social assets.’ In primitive societies, thus, the pattern of embedding economic activity in non-economic institutions that integrate social relations may be derived from kinship aspects as well as from separate political–economic organisations preceding the institutional evolution of the modern state:

Since there is no separate economic organization and, instead, the economic system is embedded in social relations, there has to be an elaborate social organization to take care of such aspects of economic life as the division of labor, disposal of land, organization of work, inheritance, and so on.

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 economy in the nineteenth century, which reversed relationships between economy and society as economic requirements came to determine social structures. This would actually imply a disembedding of the economic sphere. With intellectual reference to Maine and Tönnies, then, this disembedding dynamism resembles a move from status to contract in terms of Maine, and from community to society in terms of Tönnies. Economic systems are 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. Contract serves as the decisive feature of this disembedded economic sphere, in which legal aspects of exchange provide the institutional order of the market process. Status, in contrast to that, reflects the predominance of norms of reciprocity and redistribution which shape the embeddedness of production and consumption in societal institutions like family and kinship. The

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9 ibid 48.
10 ibid.
11 Polyany, The Livelihood of Man (n 7) 53.
disembeddedness of the economic sphere is therefore analogous to the institutional separation of the market from social relationships apart from contractual exchange. Accordingly, as the market becomes an institution in its own right that shapes the modern exchange economy, it coincides with legal concepts like the rule of law, which imply a reduction of social relations to the regulation of property and contract.

As the resulting institutional order propels the disembedding of the economic domain from non-market modes of social integration, it also drives a separation of economy and society at large. According to Polanyi, this issue is to be approached as follows:

It was characteristic of the economic system of the nineteenth century that it was institutionally distinct from the rest of society. In a market economy, the production and distribution of material goods is carried on through a self-regulating system of markets, governed by laws of its own, the so-called laws of supply and demand, motivated in the last resort by two simple incentives, fear of hunger and hope of gain. This institutional arrangement is thus separate from the noneconomic institutions of society: its kinship organization and its political and religious systems. Neither the blood tie, nor legal compulsion, nor religious obligation, nor fealty, nor magic created the sociologically defined situations that insured the participation of individuals in the system. They were, rather, the creation of institutions like private property in the means of production and the wage system operating on purely economic incentives.

This institutional dynamism of market exchange relates to the aspect that the exchange motives of truck and barter, so vibrantly portrayed by Adam Smith, cannot rely on established social institutions. These have to be created in the deliberate formation of markets. The resulting type of market economy resembles a self-regulating system of markets. It is historically unique in its character as an economic system that is exclusively directed by market prices. Market prices are indispensable for this kind of self-regulation: according to Polanyi, ‘[a] market economy is an economic system controlled, regulated, and directed by market prices; order in the production and distribution of goods is entrusted to this self-regulating mechanism.’ Yet self-regulation through market prices also implies that all production factors, goods and services—decisively involving labour, land and money—are turned into commodities, bought and sold at market prices while generating a market

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15 Polanyi, The Livelihood of Man (n 7) 47.
16 Polanyi, The Great Transformation (n 2) 60.
17 ibid 45.
18 ibid 71.
income. Subjecting labour to the self-regulation of markets and thus separating it from other societal domains, however, tends to annihilate the organic interdependencies of the social whole. The underlying freedom of contract eliminates non-contractual organisations such as kinship. Indeed, the contractual exchange mode of the labour market, ideologically legitimised through the notion of non-interference in the spontaneous order of the market process, radically interferes with social relationships that are based on non-contractual interactions. This tendency drives the formation of market society as an extended format of market principles beyond the economic domain.

Consequently, the differentiation of economic and political spheres becomes a historically unique trend in the evolution of market economies. While in preceding formations the economic order served as a function of the social order now these relationships are redefined, as the separate economic system of a market economy promotes the formation of a market society as a supporting device. The unfolding of the market pattern as the dominant system in the economy leads to the relegation of society as a mere adjunct to the market. Market society is thus adapted to the institutional pattern of the market economy. Polanyi puts forward the following argument that underlines the hegemony of the market domain, which is actually equalled with the economic sphere in general:

> Instead of economy being embedded in social relations, social relations are embedded in the economic system. The vital importance of the economic factor to the existence of society precludes any other result. For once the economic system is organized in separate institutions, based on specific motives and conferring a special status, society must be shaped in such a manner as to allow that system to function according to its own laws.

However, this extension of the market sphere all over society breeds a basic structural contradiction. The essence of society is subordinated to the market mechanism, for labour and land as representations of the human substance and natural environment of society also become commodities. Together with money as a mere representation of purchasing power promoted by the state and the banking system they share the characteristic that they are actually 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

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19 ibid 72.
20 ibid 171.
21 ibid 60.
fiction becomes the organising principle of the market society. Indeed, the rise of the market society is necessarily based on this commodity fiction involving labour, land and money, which requires comprehensive policy interventions during its emergence.\textsuperscript{22} Decisively, then, the formation of the market system is not a spontaneous process as liberal theory may have it, but the politically administered result of artificial stimuli based on socio-economic constellations shaped by the likewise artificial phenomenon of modern machinery as a representation of disruptive technological change.\textsuperscript{23} In this manner, the logic of technology breeds a market setting that is set to mould the fabric of society in its own fashion.

Yet the constellation of a predominance of an almost uncontested market system was short-lived, if ever realised in history, for society was soon endangered in its totality, as reflected by the uncertain living conditions of labour. Thus, the need of protection arose as a condition in safeguarding the reproduction of its substantial components, namely its human substance and the natural habitat.\textsuperscript{24} The extension of markets was actually paralleled by efforts in the self-protection of society, amounting to a ‘double movement’ of market forces and social regulation:

Social history in the nineteenth century was thus the result of a double movement: the extension of the market organization in respect to genuine commodities was accompanied by its restriction in respect to fictitious ones. While on the one hand markets spread all over the globe and the amount of goods involved grew to unbelievable dimensions, on the other hand a network of measures and policies was integrated into powerful institutions designed to check the action of the market relative to labour, land, and money.\textsuperscript{25}

What was to be observed was a double movement of distinct organisational principles in society, namely economic liberalism promoting self-regulating markets, socially based in the trading classes versus social protectionism as an effort to shield human and natural resources from the grip of the market forces through interventionist measures in legislation, administration and associative self-organisation, socially based primarily in the working and landed classes.\textsuperscript{26}

\textsuperscript{22} ibid 75–76; Polanyi, \textit{The Livelihood of Man} (n 7) 9–10.
\textsuperscript{23} Polanyi, \textit{The Great Transformation} (n 2) 60.
\textsuperscript{24} ibid 76–77.
\textsuperscript{25} ibid 79.
\textsuperscript{26} ibid 138–39.
Yet this interventionist counter-movement against the expansion of markets and its underlying commodity fiction was incompatible with the working mechanism of the market itself, leading to a further intensification of institutional tensions.\textsuperscript{27} Measures of social protectionism obstructed price-based adjustments of labour markets by stabilising earnings beyond volatile market incomes as well as by regulating institutional features such as professional standards, thus reconstituting the human character of labour beyond the commodity fiction.\textsuperscript{28} As the counter-movement and its interventionist–protectionist stance came to disturb the self-regulation of the market system ever severely since the 1880s all over Western Europe, the national domain became the decisive terrain for political identity—implying a drive for national rivalry. Economic and political crises then culminated in World War I, followed by a prolonged period of instability afterwards that would pave the way for totalitarian solutions to the prolonged crisis of the market system during a ‘great transformation’ of society.\textsuperscript{29} At this point, it needs to be reconsidered that Polanyi’s view of economy–society relationships transcends common distinctions between market and state. Instead, viewed in a substantive manner, the economy is basically viewed as a subset of society that is concerned with the production and distribution of goods, paralleled by other subsets of society such as kinship organisation, religious systems and the political system, which are concerned with particular norms and obligations in the reproduction of society at large. Accordingly, the trias of economy, polity and civil society is constitutive for Polanyi’s line of reasoning—and so is the related concern with democratic governance as a key feature of sustainable regulative efforts.

\section*{III. Embeddedness and the Regulation of Markets}

In reiterating the motives discussed so far, Polanyi’s notion of embeddedness comprises two distinct facets. On the one hand, in an analytical sense, it denotes the historically contested connectedness of markets to the moral fabric of society; on the other hand, it may be perceived as a normative term that refers to the political and social regulation of markets—in

\begin{footnotesize}
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\item \textsuperscript{27} ibid 136–37.
\item \textsuperscript{28} ibid 185–86.
\item \textsuperscript{29} ibid 210–12.
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particular regarding the domain of fictitious commodities. However, both of these aspects converge in Polanyi’s claim that markets for labour, land and money simply require public guidance, as their self-regulating adjustment would lead to disastrous social consequences. That is why market expansion usually implies a parallel expansion of rules and regulations that are set to enhance social protection. Yet this set of arguments requires further specifications. A first problem refers to the institutional substance that is involved in the embedding of economic processes. For instance, it has been argued that persistent efforts in the re-embedding of economic processes would allow for speaking of an ‘always embedded market economy’, which Polanyi allegedly overlooked while he was coping with the drive for embedding market forces in social protectionist measures and the obstructive impact of these measures on the self-regulation of markets. In this view, markets are always politically embedded in legal rules and institutions. Yet they are also always morally embedded in specific values and norms that support rule compliance and trust. In this constellation of ideational embeddedness there is no disembedding of the market sphere but only its persistent re-embedding in different sets of institutions, including ideas, discourses and ideologies that are part of the normalisation of market processes.

From this self-labelled Neo-Polanyian thesis follows that fully disembedded markets cannot exist, as markets always require some type of institutional underpinning to sustain their operation, which also shapes the varieties of market systems. This view of the Polanyian double movement of disembedding and re-embedding currents in the social regulation of markets informs the impression that all economies are embedded all the time, as wide-ranging social and political regulations of the market mechanism are constitutive for their operation. Yet such a perception of embeddedness rather tackles the institutional order of markets, that is the legal rules and social norms that institutionalise the competitive order of market exchange, instead of addressing the embeddedness of the market process in non-market modes of social integration. It is the latter aspect that allows for the de-commodification of fictitious commodities as a key aspect of embeddedness in Polanyian

In fact, given Polanyi’s thesis that the institutionalised market logic decomposes the fabric of society, this amounts to saying that markets are ‘always precarious’ despite the persistence of regulatory efforts.

At this point, another problem with the interpretation of Polanyi’s notion of embeddedness comes into play, which is related to the characterisation of markets as void of social relationships. This interpretation is implicit in the claim that the integration modes of reciprocity and redistribution 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 merely economic interaction among anonymous actors. Obviously, such a view of markets contradicts current reasoning in economic sociology with its claim that every market transaction is a social process involving a history of struggle, contestation, understandings and rules, thus making state, politics and culture inherent components of any market. Accordingly, markets emerge out of social relationships, that is, they resemble open-ended social spaces that contain persistent struggles over the organisation and regulation of the market process. Such a politicised understanding of socio-economic integration mechanisms allows for the differentiation of various types and levels of embeddedness whose variability reflects hegemonic manifestations of fragile social compromises. Such an effort would also counter critical claims on the detection of an allegedly ‘gradational’ and therefore unsound conceptualisation of embeddedness in Polanyi’s reasoning. Indeed, a reconsideration of the social structures of markets still actually echoes Polanyi’s own reasoning on public policy as a major factor in the regulation and embedding of market processes.

In more detail, Polanyi entertains a distinct theory of public policy, based on a portrayal of the state as an indispensable factor in regulating the complex affairs of modern society. In acknowledging this often neglected aspect of Polanyi’s thought, however, recent

41 Gemici (n 35) 10–11.
43 Polanyi, ‘Our Obsolete Market Mentality’ (n 12) 73.
institutionalist interpretations have focused almost exclusively on the matter of state interventions in regulating market processes.\textsuperscript{44} An underlying argument suggests that the Coasean solution to the externalities problem is misconceived, for its emphasis on the introduction of property rights is meant to promote a withdrawal of the state from the regulated area of the market, whereas such an extension of property rights in fact also implies a parallel extension of state interventions due to the need for organising their enforcement.\textsuperscript{45} Yet Polanyi’s theory of public policy reaches beyond these limitations and instead takes its point of departure in the proposition that states are at the very beginning of market evolution by providing legal frameworks and enforcement mechanisms that are indispensable for procedures of disembedding commodification. In this sense, the Polanyian perspective is well aligned with those strands of institutionalist reasoning that view the state as a generative force of market exchange. In particular, Polanyian ideas may be directed against those variants of property rights theory, which assume the primacy of markets and derive the role of the state from its functions in maintaining the market process.

In Polanyi’s view, states serve as major driving forces in the evolution of markets, as they promote the political–administrative construction of markets and the regulation of market competition. Thus, the matter of public policy addresses the disembedding and re-embedding of market processes in both types of market and non-market institutions. In this sense, public policy fulfils a key function in the Polanyian account of the evolution of the market system. This is well illustrated by Polanyi’s general assessment of the role of the state in cultural evolution. The state is viewed as a decisive factor in organising the economic field by institutional means that involve the rule of law: according to Polanyi, ‘justice, law, and freedom, as institutionalized values, first make their appearance in the economic sphere as a result of state action.’\textsuperscript{46} Tribal relations in stateless societies highlighted custom and tradition as means for embedding economic affairs in the wider domain of social and political organisation and thus rather obstructed exchange transactions. In contrast to that, the emergence of territorial rule paved the way for their promotion, as market transactions needed to be made gainless in order to become acceptable as a generalised mode of exchange in a non-market setting. This would be typical of irrigational empires with their extensive infrastructures and regulations of vast territories as promoted by centralising rulers—

\textsuperscript{46} Polanyi, The Livelihood of Man (n 7) 16.
perceived as historical alternatives to the strictly regulated and limited transactions that remain typical for peasant communities and their pattern of market evolution.47

Indeed, according to Polanyi, the ruler—usually a god-king as in the ancient Mesopotamian states—provided basic supplies of goods for a community threatened by loosened kinship ties. Economic transactions were characterised by formalised equivalencies and thus became just and lawful, for they were made gainless through the actions of the ruler who would head the taxational and redistributational apparatus of the state and whose declaration of equivalencies could legitimise exchange behaviour—and accordingly act as a source of economic justice and formalised fairness in exchange. The rule of law evolved later on from trade regulations for guilds.48 Thus, according to Polanyi, the irrigational empires served as a crucial historical terrain for the formation of justice, law and freedom as creations of the state, while stimulating a trajectory of well administrated dispositional exchange.49 Even the taxation systems of modern states resemble redistribution as a principle of social integration that implies the collection and redistribution of resources from a political–administrative centre.50 State-building in archaic societies thus resembles a major secular force of economic organisation, fuelled by aspects like the provisioning of an expanding military through means of taxation. Perceiving the circulation of a currency as an instrument of taxation points to further efforts at standardisation and market-making, which are part of the state-building process, basically contributing to the replacement of status-orientation in transactions by statute law that evolved in the state sphere.51

Based on these assessments, Polanyi approaches the mercantilist promotion of market exchange as well as related efforts in protective regulation as a manifestation of moves and counter-moves in the evolution of the market system. While foreign trade had been largely a local phenomenon only, Polanyi claims that internal trade in Western Europe was created by interventions of the state, transposing the mechanism of municipal trade to a national level. The mercantilist state of the fifteenth and sixteenth century thus resembled a major ‘instrument of the “nationalization” of the market and the creator of internal commerce’ as it forced protectionist towns and principalities into nationwide market competition.52 In turn, implying a co-evolutionary pattern in the relationship between states and markets, the

47 ibid 73.
48 ibid 16–17, 61.
49 ibid 73–74.
50 ibid 41.
51 Polanyi, Dahomey and the Slave Trade (n 14) 186–87.
52 Polanyi, The Great Transformation (n 2) 68–69.
centralised state of the mercantile system was historically created by the Commercial Revolution that led to the economic dominance of the Western European countries since the fifteenth century, promoting state sovereignty over extended territories that became subject to political–cultural unification. Underlying administrative techniques of the public policies of central government were usually adapted from a diversity of municipal practices, thus shaping distinct national patterns in state-building.53

Moreover, during the mercantilist epoch, interventionism was not only characteristic of government involvement in the formation of markets—due to the forced dissolution of potentially obstructive institutional constellations—but it also typified public policy in the maintenance and expansion of the institutional conditions of market exchange. State interventions in the formation of national markets would herald persistent regulations of the economy, coping with both the sustainability of competition and the ensuing problem of monopoly as a potential result of competition. Interventions were even extended over time, while markets remained submerged in social relations that were moulded by a mercantilist state whose authority over the institutional setting of society became ever stronger. Polanyi therefore suggests that ‘[t]he “freeing” of trade performed by mercantilism merely liberated trade from particularism, but at the same time extended the scope of regulation.’54 Markets that were absorbed into the social system would still thrive as they were subject to the control of the centralised public administration of the mercantilist regimes. It follows that ‘[r]egulation and markets, in effect, grew up together.’55 The actual role of government in the evolution of market systems thus contradicts liberal beliefs in the spontaneity of socio-economic development. Indeed, policy interventions tended to alter the rate of change by either speeding it up or slowing it down in accordance with well-articulated societal demands.56

Polanyi discusses these aspects by invoking the example of the Tudor and early Stuart regimes in England, which are said to have followed an adaptive and gradualist approach to structural change by slowing down the process of enclosures until the shift from arable land to pasture became socially bearable. Given an understanding of enclosures as a major institutional factor of industrialisation, which enabled the emergence of a competitive cotton industry endowed with mobile surplus labour, this implies that the mercantilist strategy of the

53 ibid 69.
54 ibid 70.
55 ibid 71.
56 ibid 39.
English Crown shaped institutional adjustments to new conditions brought about by the disruptive impact of economic development. Yet this type of government intervention was far from reactionary. Rather, it exercised leadership functions in innovatively managing socio-economic change. Indeed, at this point, Polanyi underlines the potentially innovative character of government:

Their chancelleries and courts of prerogative were anything but conservative in outlook; they represented the scientific spirit of the new statecraft, favoring the immigration of foreign craftsmen, eagerly implementing new techniques, adopting statistical methods and precise habits of reporting, flouting custom and tradition, opposing prescriptive rights, curtailing ecclesiastical prerogatives, ignoring Common Law. If innovation makes the revolutionary, they were the revolutionaries of the age.

According to Polanyi, then, the mercantilist state could exercise its leadership function in managing socio-economic change by creative as well as protective means in a coherent manner, because its political–administrative apparatus was relatively autonomous from the special interests of powerful social classes. This amounts to a distinction between ‘government of the Crown’ committed to general welfare and ‘government by a class’ committed to particular class interests. Despite the advantages of a relatively autonomous political–administrative apparatus, Polanyi suggests that the paternalism of mercantilist regulations was misplaced in the setting of an industrial economy. Still, its administration of labour and industry could be perceived as a model for the social administration of the emerging welfare state in the late nineteenth century that followed a brief interlude of liberal hegemony in English policy-making.

The heyday of liberal public policy hit England in the 1830s, carried by a liberal ideology which rejected any political–administrative measure that could obstruct the unimpeded flow of marketable resources and their self-regulation by market prices. Public policy was viewed as a supporting device for the self-regulation of markets, based on a strict separation of economic and political spheres. This ideological outlook contradicted the fact that the evolution of the market system and persistent interventionism were not exclusive, for

57 ibid 39–40.
58 ibid 40.
59 ibid 40–41.
60 ibid 41.
61 ibid 72.
the formation and maintenance of market institutions requires persistent interventions, involving antitrust regulations as well as union laws. Even violent means were applied in facilitating social and political conditions for promoting the market mechanism, at last also including the option of civil war as a means for dissolving obstructive social relationships and their institutional carriers.  

The establishment of markets is thus not the result of spontaneous institutional change; ‘[o]n the contrary, the market has been the outcome of a conscious and often violent intervention on the part of the government which imposed the market organization on society for noneconomic ends.’  

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 deregulated labour market and the commodification of labour, followed by the Bank Act in 1844 that established the gold standard for the self-regulation of the monetary sphere, whereas the repeal of the Corn Law in 1846 allowed for free trade in grain, thus promoting the transformation of land into a marketable commodity.

During the same period of liberal restructuring, the contradiction between the formation of markets and political democratisation became apparent. While the Chartists demanded universal suffrage, which could potentially empower those strata of society that were to be turned to wage labourers, the separation between an economic and political sphere became decisive for upholding the market system under democratic conditions. Liberal ideas of constitutionalism, which were originally directed against the danger of the confiscation of private property through despotic rulers, were now reinterpreted for safeguarding private property against the impoverished masses. In particular the United States Constitution represents such a type of ‘legally grounded market society’ with its separation of powers that could hold voters relatively powerless against the interests of owners.  

At this point, the political dimension of the co-evolution of states and markets becomes crucial once again, as it addresses both the prospects and limits of public policy in coordinating the drive for a market system and parallel efforts in social regulation. The double movement of market liberalisation and social protectionism is thus accompanied by increasing difficulties with the effective implementation and democratic legitimisation of policy interventions. In consequence, the institutional stability of the market system is at stake.

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62 ibid 155–56.
63 ibid 258.
64 Polanyi, ‘Our Obsolete Market Mentality’ (n 12) 67–68.
65 Polanyi, The Great Transformation (n 2) 233–34.
IV. The Double Movement and the Problem of Policy Intervention

Polanyi outlines two paradoxical aspects in the co-evolution of market and state that contradict liberal ideologies of the market system. First, as the English example illustrates, laissez-faire principles were historically enforced by the state and did not evolve spontaneously in a natural market order. Even utilitarian liberalism of the Benthamite creed would favour strong government as the most indispensable agency of knowledge and power needed to make markets work. In practice, as the expansion of markets required a massive restructuring of social affairs, particularly in the public treatment of poverty, it was paralleled by an extension of interventions and regulations that eventually fuelled a bureaucratisation of government, endowed with extended powers for social control: in Polanyi’s words, ‘[t]he road to the free market was opened and kept open by an enormous increase in continuous, centrally organized and controlled interventionism.’ Second, while the establishment of the laissez-faire economy was the product of deliberate state action, the political counter-movement in England since the 1860s resulted from spontaneous activities scattered all over society, pragmatically assembling diverse social interests and political ideologies ranging from socialism to conservatism. It follows that ‘[l]aissez faire was planned; planning was not.’

This claim is rooted in Polanyi’s thesis that the counter-move against the expansion of markets resulted not from the impact of distinct social forces and ideologically fuelled political movements but from the cumulative increase of insights into the problems of socially disembedding market forces. Accordingly, Polanyi rejects an analytical emphasis on the particular interests of social groups and classes in the political assessment of the counter-movement, for the latter would reflect a general interest that spans diverse social classes, based on insights on the required maintenance of the human and natural substance of society and thus highlighting broader social interests that are not to be defined in terms of narrow economic interests. This rather idealistic depiction of the counter-move as a project of societal enlightenment against the market society resembles a Hegelian idealism that points to

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66 ibid 145–46.  
67 ibid 146.  
68 ibid 147.  
69 ibid 156.  
70 ibid 160–62.
cumulative insights into the laws of motion of society—and indeed it has been criticised as such. Decisively, it is claimed that Polanyi provides an apolitical theory of the welfare state, viewing it as a societal response in the spontaneous counter-movement against a market society, which is not subject to particular interest group interventions.71 These problematic aspects in Polanyi’s approach imply that society is perceived as having a reality of its own, seemingly acting as a self-conscious entity.72

Still, the impact of social forces in the formation and crisis of the market society does not remain uncovered at all. This is well exemplified by Polanyi’s discussion of the persistent influence of feudal culture and landed interests in the drive for the market society, which is explained by their protective functions in the restriction of disembedding processes. The fixing of human resources in a particular place is typical for the feudal mode of life, contradicting mobility and adaptation that become typical for the market system. The corresponding drive for a spatial fix also explains the territorial character of sovereignty in the modern nation-state.73 Furthermore, feudal sentiment and agrarian protectionism contributed decisively to the containment of the commodification of land in Western Europe, although in a rather accidental manner that served common social interest non-purposefully. In their general outlook, these sentiments preceded progressive projects in socio-economic regulation like Roosevelt’s Tennessee Valley Authority during the New Deal. Indeed, while landed interests on the European Continent rejected liberal ideas, they would promote social protectionist approaches, as implemented in Germany during Bismarck’s Chancellorship.74 This is in line with the basic observation that social protectionist measures that should limit the expansion of the market society were promoted by rather broad social and political coalitions, involving both landed and working classes.75 Nonetheless, during political turmoil, the involved landed interests would rather defend the market system than side with the labour movement, primarily due to the pressing question of private property and its political defence that would split landed and labour interests.76

73 Polanyi, The Great Transformation (n 2) 192–93.
74 ibid 194–95.
75 ibid 138–39.
76 ibid 200.
This societal divergence of political orientations regarding the transformation of the market system points already at the political and economic instability that resulted from protectionist disturbances, furthered by the counter-movement against the market system in Western Europe since the 1880s. Paralleling this advance of protectionism, the nation-state became the decisive terrain for political identity. Ensuing patterns of national rivalry together with prolonged economic and political crises culminated in World War I, followed by unsteadiness and reorientation afterwards. Polanyi explains this permanence of instability by referring to the interconnectedness of the separated political, social and economic domains that would become subject to protectionist policies. As protectionism encouraged the monopolisation of market structures, interventions in support of a competitive order became ubiquitous, leading to an increasingly bureaucratic and corporatist setting that persistently distorted prices and prolonged recessions. The institutional separation of economic and political spheres intensified the disruptions emanating from destabilised markets. Thus, the transformation of the market system towards an authoritarian solution following World War I was not driven by new economic motives, but by new institutional mechanisms in coping with the market civilisation.

Due to the actual interconnectedness of societal domains, market strains would affect other institutional zones such as national government and thus even affect international politics:

Each field was comparatively independent from the other and tended toward an equilibrium of its own; whenever this balance was not achieved, the imbalance spread over into the other spheres. It was the relative autonomy of these spheres that caused the strain to accumulate and to generate tensions which eventually exploded in more or less stereotyped forms.

Policy interventions into the market system escalate a socio-economic destabilisation that leads to the ‘great transformation’ of the market society with the option of an authoritarian solution. This perspective is informed by Polanyi’s belief in the socially disruptive yet economically equilibrating capacities of markets that are unhampered by policy interventions; a position which contradicts contemporary Keynesian ideas on the endogenous instability of

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77 ibid 210–12.
78 ibid 227–28.
79 ibid 220.
markets. Indeed, with regard to the self-stabilisation of markets, Polanyi remains close to the positions of the Austrian School in the manner of Mises and Hayek and their rejection of policy interventions into market processes. In other words, Polanyi is overdoing the case of market distortion by policy interventions, as he seemingly relies on an ideal type of flawless market process. Yet Polanyi’s reconsideration of structural tensions arising from the separateness as well as connectedness of the diverse domains of economy, polity and other spheres of society which follow a distinct functional logic may also be interpreted in terms of systems theory. The market system is accordingly viewed as an autopoietic system which functions according to its own rules and logics that conflict with the alien rationale of those systems from which outside interventions emerge.

For Polanyi follows from the consideration of failed policy interventions that tensions arising from the protective regulation of the market system have consistently fuelled a transformation of the liberal bourgeois civilisation that had become prominent during the nineteenth century, leading to an upsurge of socialism and fascism as conflicting solutions to the turmoil of the 1920s. Socialism represents an inherent tendency of industrial civilisation towards a conscious subordination of the market to democratic principles by means of adequate public policies, basically confronting private efforts in achieving monetary gain as an exclusive motivation for productive activity, while abolishing private property of the means of production. Fascism, however, as a non-socialist response to the failure of the market society resembles an interventionist reform of the market economy on the condition of eliminating democratic institutions in economy and polity. Polanyi’s own normative position highlights the socialist option, yet amended in terms of safeguarding ‘freedom in a complex society’ that would restore the ‘habitation’ of society through a democratically regulated industrial system. Moral freedom and independence of mind would represent values of the market economy and its system of private enterprise that should be preserved, set in a different context that fosters the common good while confronting bureaucratisation.

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80 Dalton (n 38) xxv.
81 Hejeebu and McCloskey (n 71) 302.
83 Polanyi, The Great Transformation (n 2) 242.
84 ibid 245.
85 ibid 257.
86 ibid 263–64.
Indeed, markets for goods and services would persist as allocative mechanisms for signalling consumer choices, while remaining framed by the regulations of non-market institutions.\(^{87}\)

This reference to a mixed economy with democratic planning in a setting of industrial associations has been prevalent with Polanyi’s thought ever since his first major publication addressed the socialist accounting debate in the theoretical discourse of the Austrian School, stimulated by Mises, among others, in response to the socialist advance after World War I.\(^{88}\)

While acknowledging the infeasibility of accounting in a socialist command economy, Polanyi proposes a decentralised model of guild socialism that should combine elements of market supply and demand with socio-political regulations, thus satisfying the diverse needs of society as articulated by industrial associations and consumers. According to Polanyi, the differentiation between capitalism and socialism should not be reduced to the dichotomy between market and plan, for it is rather to be associated with aspects of social productivity and the societal character of production and distribution at large, meant to benefit the common good.\(^{89}\)

Polanyi’s advocated type of guild socialism thus resembles a corporatist system of industrial democracy with communal property of the means of production that is governed by industrial associations and consumer organisations. Wages and prices are regulated in terms of social values, subject to bargaining arrangements among the involved associations.\(^{90}\)

In accordance with these political leanings, also Polanyi’s early German comments on Roosevelt’s New Deal highlight the indispensability of participative and transparent democratic procedures.\(^{91}\)

Indeed, Polanyi is persistently sensitive to the danger of an insulation of the state from society that would parallel the separation of market system and political sphere, resembling the evolution of a ‘self-regulating state’ that combines the political power of a welfare bureaucracy with extended social control and undemocratic authoritarianism.\(^{92}\)

\(^{87}\) ibid 260.


\(^{89}\) Karl Polanyi, ‘Sozialistische Rechnungslegung’ (1922) 49 Archiv für Sozialwissenschaft und Sozialpolitik 377, 378–79.

\(^{90}\) ibid 403–05.


The formation of the welfare state is thus a decisive component in Polanyi’s approach to comparative economic systems, as it directly affects the status of labour—the crucial characteristic for specifying the rationale of an economic system. The actual modes of ending the self-regulating market system may vary over time, involving both authoritarianism and democracy, yet 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.93

The social counter-movement that accompanied the evolution of the market economy since the mid-nineteenth century thus advanced a self-protection of society that promoted welfare states combined with a democratisation of industry. In particular, Polanyi suggests that the formation of the welfare state represents a protective venture that would offer workers ‘the mixed motives of status, security of income, teamwork, and a creative role in industry.’94 Historically, these endeavours are most positively associated with the experience of ‘Red Vienna’, that is the socialist municipality of Vienna after World War I with its extended welfare programmes. As a major cultural achievement, it differed from the reactionary Speenhamland system due to the efforts of the Viennese socialists in transcending capitalism while retaining positive effects of the industrial system of labour and technology.95

However, Polanyi’s policy proposals reach well beyond the domain of the welfare state, for they challenge industrial civilisation at large, that is, the ‘Machine Age’:

The search for industrial democracy is not merely the search for a solution to the problems of capitalism, as most people imagine. It is a search for an answer to industry itself. Here lies the concrete problem of our civilization.96

93 Polanyi, The Great Transformation (n 2) 259.
94 Polanyi, The Livelihood of Man (n 7) 1.
95 Polanyi, The Great Transformation (n 2) 298–99.
96 Polanyi, ‘Our Obsolete Market Mentality’ (n 12) 59–60.
Again, this line of reasoning points to the persistent relevance of Polanyi’s normative concerns regarding the fundamental question of how to organise the societal provision with material means of life in a sustained manner that allows for both social and ecological concerns. In this manner, Polanyi does not provide a simple market failure argument in outlining the logic of market regulation. Rather, he stresses that markets should be fenced off from certain societal domains. The double character of the state then contains the facilitating of market exchange through adequate rules and enforcement procedures as well as the mitigating of the most disruptive consequences of markets by promoting welfare supports.

Yet this consideration should not be perceived as an unconditional appraisal of the welfare state and its social protectionist measures that have become prominent in various types of welfare regimes. First of all, from a Polanyian viewpoint, social disruptions caused by the commodification of labour exhibit a cultural dimension of degradation, divisiveness, and potential loss of self-respect. Certain types of social protectionism have the potential to even aggravate these cultural disturbances. Indeed, Polanyi’s fierce critique of the pre-industrial Speenhamland system of social benefits refers to its paternalism and the ensuing spread of passivity and immobility among the beneficiaries that would come to decompose collective action for social reform. Polanyi’s concept of the double movement thus allows for highlighting the cultural dimension of socio-economic change by pinpointing the variability of social needs and their articulation. Accordingly, the double movement may be viewed as a conflict between the market system and the welfare state in terms of a clash of specific cultural systems, involving ideological and motivational patterns that strive for institutional hegemony. These arguments underline the appropriateness of the suggestion that a Polanyian perspective on comparative institutional analysis needs to address the aspects of power and politics in historically specific cultural settings.

100 Dalton (n 38) xx–xxi.
101 Burawoy (n 72) 218–19.
In consequence, the double movement is to be understood as a clash of social principles resulting from the contradiction between the market system and the persistence of modes of social integration beyond market exchange and commodification. A frictionless harmonisation of market system and policy interventions thus remains out of sight.\(^{104}\) Indeed, the notion of the double movement rather resembles a perception of the economy as a loosely coupled system, in which no pre-stabilising forces exist, although buffer components and backup mechanisms may provide temporary coherence in the face of developmental uncertainty.\(^{105}\) Depending on the actual historical context, market expansion may be followed by reaction or withdrawal, that is, by a great transformation or a great involution of society with far-reaching consequences for the social fabric and its political articulation at large.\(^{106}\) As the state provides a decisive terrain for these conflicts, the double movement is reflected within the state apparatus itself, shaping the overall profile of public policy. Policy implications that may be distilled from Polanyian considerations then highlight a reflexive, dialogical mode of governance as the solution to a sustained co-existence between market economy and the wider social and ecological system.\(^{107}\) What enters as a key component in these undetermined evolutionary processes is the impact of discourses on the social construction of market liberal moves and social protectionist counter-moves. This contributes to the specification of the ‘Polanyi problem’ which has been singled out recently, asking how the globalisation of the market system as a disembedding process is to be reconciled with re-embedding moves that aim at the provision of social security and cohesion in the face of the uncertainty related to international markets.\(^{108}\) In effect, all of these issues contribute to an evolutionary understanding of the Polanyian approach to the regulation of markets, quite in line with recent institutionalist reasoning on the institutional evolution of capitalist market economies.\(^{109}\)

Current reasoning on the matter of regulation and governance highlight transnational affairs that transcend the domain of nation-state. Indeed, quite in line with Polanyian reasoning on the institutional mechanisms of re-embedding markets in non-market modes of coordination, these argumentations on transnational governance reconsider the transformation


\(^{105}\) Block (n 34) 7.

\(^{106}\) Burawoy (n 72) 243.

\(^{107}\) Jessop (n 82) 228–29.


of state capacity to the benefit of an extended private sector and multiple civil society organs, which is said to be mediated by both hard and soft law in a setting of transnational interactions. Accordingly, applied to key areas of regulation that cope with the uncertainty of market economies such as the area of transnational risk regulation, Polanyian reasoning would accentuate that transnational governance mechanisms involve a complex diversity of actors from all domains across society. The steering capacity of the nation-state needs to be enhanced by specific kinds of transnational governance mechanisms that combine local, national and transnational aspects of risk regulation. All of this resembles a regulatory strategy that would allow for a re-embedding of market interactions, by doing so redefining the relationship between market economy, polity and civil society at large.

V. Conclusion

Polanyi’s reconsideration of the embeddedness of market operations in non-market institutions provides arguments for perceiving the regulation of markets as a persistently contested process that involves the organisation of the market system and its demarcation with societal spheres of non-market coordination. Therefore, according to Polanyi, it is not the failure of markets to function in line with the ideal of perfect competition that requires regulation, as claimed by neoclassical economics. Rather, the impact of market competition on social areas that are decomposed by the market mechanism itself should be the primary domain of regulatory efforts. However, these regulatory efforts are bound to fail under conditions of an institutional separation of political and economic affairs. Accordingly, the regulation of markets may be explored in terms of co-evolving states and markets. Decisively, the state is not only concerned with embedding types of market regulation but also in the constitution of markets by means of disembedding procedures that promote the institutional and social conditions of market exchange. Therefore, it is a key Polanyian insight that the regulation of markets is intimately related with the institutional range of market competition in society at large. Applied to the matter of transnational risk regulation, a Polanyian view would clearly need to accentuate the multi-level and multi-actor character of regulation.

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perceived in terms of transnational governance mechanisms that include not only government but also diverse economic and social actors with their particular interests and claims. In this manner, the regulation of risk and the reduction of uncertainty might be realised by means of a re-embedding of the market process in non-market schemes of economic, social and political interaction. Thus, transnational risk regulation resembles a re-embedding governance procedure that redefines the relationship between the market economy, polity and civil society at large.