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## Polanyi's Great Transformation and the concept of the embedded economy

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# Polanyi's Great Transformation and the Concept of the Embedded Economy

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IES Occasional Paper: 2/2011



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# Polanyi's Great Transformation and the Concept of the Embedded Economy

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## **Abstract:**

The paper proposes an interpretation of Polanyi's *Great Transformation* based on a distinction between two meanings contained in the concept of the embedded economy (and its opposite – the disembedded economy). Polanyi's thesis that the market economy is a disembedded economy in fact comprises two main statements: (1) disembeddedness means the predominance of transactions and social interactions that are not submerged in social relationships but are based on economic self-interest and (2) disembeddedness also means the absence of social control over the economic process of production and distribution. Polanyian literature however usually does not distinguish these two meanings of "disembeddedness". It is usually assumed that the concept may be used to summarize a larger sum of characteristics that distinguish a liberal market economy from other possible systems. As usually defined, the concept implies an antagonistic relationship between market and society, which provides a foundation for a particular "Polanyian" critique of the market economy. This assumption of an antagonistic relationship between the market and the society however contradicts the results of both economic sociology and institutional economics, which have extensively studied the ways in which markets and society become intertwined in modern society and the ways in which the regulatory framework of the welfare state has developed in a gradual manner within the market society. It is argued in this paper that the problematic assumption of an antagonistic relation between market and society is a consequence of the failure to distinguish the two meanings actually contained in the concept of "disembeddedness". When interpreting Polanyi, it is useful to distinguish between two meanings of "disembeddedness", calling one (1) "anthropological disembeddedness" and the other (2) "economic disembeddedness". When we separate the two meanings of disembeddedness, the following question can be posed: does anthropological disembeddedness always imply economic disembeddedness? Inversely, we can ask: in order to assure anthropological embeddedness, do we need economic

embeddedness? The paper argues that Polanyi's affirmative answer to this question was a part of a political argument justified only by the circumstances of a particular moment in history and, also, by his personal political preference for socialism. Polanyi's affirmative answer to this question was derived from a political choice and not from analysis and, therefore, if we want an analytical concept of "embeddedness", we cannot accept Polanyi's original formulation uncritically.

**Keywords:** Karl Polanyi, Ludwig von Mises, embeddedness, economic history, double movement

**JEL Classification:** B15, B25, B31

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## Introduction

According to Fred Block, Polanyi's work has acquired the status of a "classical work" and as a consequence, "it is vitally important that Polanyi's text [*The Great Transformation*] be subjected to the kind of close, critical scrutiny that scholars normally direct at classical works." (Block 2003) Such close scrutiny of "classical works" is justified by the influence that these works have due to their recurrence in scientific reflection and debate. The objective of this paper is to contribute to such "close scrutiny" by an attempt to clarify the logical structure of Polanyi's concept of embeddedness, especially with regard to his most important contribution to political economy – the book *The Great Transformation* (Polanyi 1944). This analysis of the central concept of Polanyi's thought will allow us to shed some light on the premises and of Polanyi's thought. The chief aim of the paper is not an exhaustive intellectual biography of Polanyi, but rather to contribute an analytical study of the major concept. Let us start by briefly summarizing the areas in which Polanyi's work is today influential.

Polanyi's work is influential in several areas. He is often quoted by critics of Neo-liberalism and globalization, for which he has been called the "patron saint of globalization's critics"<sup>1</sup>. There is a group that has been already called by a historian the group of "Neo-Polanyians", a group of thinkers, who develop an "engaged" reading of Polanyi's work in light of current issues of political economy.<sup>2</sup> On the other hand, Polanyi's concept of "embeddedness" (or "embedded economy") has had impact also on a more academic level, especially in the domains of economic sociology<sup>3</sup> and social and economic history<sup>4</sup>. Polanyi's work has been extensively analyzed from the perspective of its place in the history of economic thought.<sup>5</sup> The debate on Polanyi has grown to be quite extensive and it is now difficult to contribute

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<sup>1</sup> Brink Lindsey (2001) in the journal *Reason*, quoted by Polanyi-Levitt (2006). Lindsey lists George Soros, Dani Rodrik (Harvard) or John Gray (LSE) among those who use Polanyi's ideas in this context. We can add another globalisation critic Joseph Stiglitz, the author of the preface of the 2001 edition of the *Great Transformation*.

<sup>2</sup> Gareth Dale places in this group for example Jérôme Maucourant, Michele Cangiani or Fred Block (Dale 2011).

<sup>3</sup> For some remarks on the significance of Polanyi's contribution to economic sociology see Steiner (2007).

<sup>4</sup> An important work in labor history that has recently claimed affinity to Polanyi's historical analysis is Peter Swenson's *Capitalists against Markets*. Swenson sets out to show that corporatism and solidarism was not based on class conflict but on a cross-class interest in eliminating the market principle from the capital-labor relations. He recognizes the affinity between his own conclusions and those of Polanyi (Swenson 2002, pp. 320-322).

<sup>5</sup> Most recently in a series of articles and a book by Gareth Dale (Dale 2009, Dale 2010, and Dale 2011).

something truly original to this debate. However, the peculiar characteristic of the Polanyian literature is that it is almost in all cases written from the point of view of trying to “save” Polanyian ideas and isolate such elements of Polanyi’s thought that can serve as solid foundations for contributions to political economy.

This approach to Polanyi’s work has however the disadvantage that there is not very great interest in uncovering the weaknesses concealed in his central concepts. Although almost all authors identify a number of weaknesses of variable significance in Polanyi’s work, they usually try to work around these and do not focus systematically on deconstructing Polanyi’s arguments. It may be that it is this area of critical deconstruction, where there still remains scope for fruitful discussion of Polanyi’s work. This paper will focus primarily on one issue. This is the fact that Polanyi’s concept of “embeddedness” is used in the Polanyian literature as a single concept while it in reality conceals a quite complex mixture of ideas and it is not clear, whether we can even derive, from Polanyi’s work, a single coherent concept of “embeddedness”.

Let us first examine what Polanyi meant by the concept of the embedded economy. It will be argued here, that the concept embodies two meanings that can be clearly set apart. First of all, Polanyi develops an “anthropological” definition of embeddedness. One of the key ideas of Polanyi’s *Great Transformation* is his anthropological analysis of the relationship of man and society, of the place of man in society and in the economy at various times in social history. Polanyi comes to the conclusion that human nature requires that man’s actions be “embedded” in social relationships and that this is the normal condition of social existence throughout human history. The concept thus implies an opposition to any over-simplified view of man in society, especially an opposition to the view of man as propounded by economics in the utilitarian tradition. It states that the key aspect of human nature is not action based on the pursuit of subjective utility, but rather action based on a desire for a structure in one’s social environment or a system of institutions that embodies or reflects cultural values, which means, in western society Christian values. Here Polanyi places emphasis primarily on respect for fellow human beings or recognition of the individual. The central idea thus seems to be Polanyi’s conviction that quality of social relationships is a fundamental human need. To use an expression of Polanyi’s daughter Kari Polanyi-Levitt, we can say that the emphasis on “embeddedness” reflects “the fundamental need of people to be sustained by social relations of mutual respect” (Polanyi-Levitt 2006, p. 391). Another interesting way in which



the idea has been formulated is that proposed by N. Postel and R. Sobel who distinguish between the “choice of means” and the “choice of institutions” (Postel and Sobel 2008). Using this distinction to interpret Polanyi, the concept of embeddedness reflects the principle that that society should give fulfillment to man’s natural need to embody moral opinions into his institutional environment, i.e. in a “choice of institutions”.

An underlying motivation of Polanyi was also his belief that, from the point of view of Christian morality, it is not acceptable to rely on any impersonal and automatic mechanisms as a guarantor of social harmony. In other words, even if we accept the Smithian thesis about the ability of the market to coordinate actions of individuals, the ethical question still remains, whether it is “right” to rely on such an impersonal mechanism? As K. Polanyi-Levitt writes, “[t]here was a constant theme in his world of thought. It was his insistence that there are no impersonal forces which absolve us from personal responsibility for the fate of human beings.” (Polanyi-Levitt 2006, p. 380) Humans thus have, according to Polanyi, a moral duty to embody cultural values in the institutions of community or society.

As we have seen so far, Polanyi’s discussion of “embeddedness” embodied anthropological insights about human nature as well as insights from moral philosophy. The concept of embeddedness however has yet another important meaning in his work. This meaning is contained in Polanyi’s historical thesis that the market economy represents a historically unique form of economic organization, since production and distribution is not regulated by society or social institutions, but by the automatically operating price-mechanism. Here a quite different idea is expressed, which relates to a historical comparison forms of economic organization.

The anthropological level of analysis opposes the abstract concept of the “*homo economicus*” or the atomistic depiction of man used in economic models to the man discovered by anthropology in archaic societies and whose actions were tightly controlled by an institutional structure. Man’s action in archaic societies was “embedded” in social relationships. The “anthropological definition of embeddedness” embodies Polanyi’s conception of human nature based on his anthropology and on his convictions relating to ethics.

The second definition of embeddedness, which will be called here “economic embeddedness”, is defined on the level of “systems of economic organization”. This second concept allows

Polanyi to formulate the opposition between a self-regulating economy and an economy whose process of production and distribution is socially/collectively controlled and thus it allows to include the opposition between the market economy and the socialist economy (and archaic economies) as different systems of production and distribution.<sup>6</sup> This “economic definition of embeddedness” doesn’t necessarily imply anything about the relationship between the individual and social institutions, as long as we mean the analytical distinction between the opposed economic systems. It is related only to the question whether the crucial economic variables (production and distribution of material goods) are governed by automatic mechanisms or by a structure of social relationships.

It has been pointed out by Gareth Dale (as well as by others) that in the Soviet Union, the same process of “sociocultural corrosion and cultural deracination” took place as in the fastly developing market society of the 19<sup>th</sup> century and it was Polanyi’s error to have regarded the Soviet Union as an “embedded economy”. However, this interpretation supposes that the Polanyian concept of embeddedness is a single homogeneous concept. If we however deconstruct the concept into its component parts, we see that the Soviet Union was both an embedded and a disembedded economy. When Polanyi was calling for “embeddedness”, why should we assume that he always had in mind the same thing? To the extent that the centrally planned economy produced “sociocultural corrosion and cultural deracination”, it tended to produce “anthropological disembeddedness”. However, to the extent that it eliminated and suppressed self-regulating markets, it was without a doubt an “economically embedded” economy.

The aim of the paper is to propose an interpretation of Polanyi’s work along lines suggested by a distinction between the two different concepts of embeddedness. The aim is to provide a more “analytical” approach to reading Polanyi. It is hoped that such a reading allows us to isolate additional insights that could advance the debate on questions that are often raised with respect to Polanyi’s work. One of such questions is, whether we can regard Polanyi’s analysis of the market as an institutionalist approach. Another question relates to the antagonism between market and society that is implied in Polanyi’s analysis of markets as “dis-

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<sup>6</sup> Polanyi also develops this part of the concept of embeddedness on the basis of a study of archaic societies, it is however assumed here that there is a possibility that Polanyi was primarily motivated by the comparison market-socialism and he projected this dichotomy backwards to formulate a comparison of market and archaic economies. Polanyi sought in archaic economies “socialist” forms of economic organization in order to demonstrate that market is not universal.

embedded” form of economy. A major question is, to what extent is Polanyi’s *Great Transformation* tied to the political struggles of a particular historical epoch and to the socialist projects ante-dating World War II and what is the relevance of the work today, given that socialism has ceased to be a real alternative to the market economy? Finally, if we adhere to Polanyi’s analysis of human nature and his thesis that man’s primary need is “submergence in social relations”, i.e. “anthropological embeddedness”, what are the implications for economic organization in the absence of the socialist alternative that Polanyi envisaged?

It is openly admitted that the interpretation of Polanyi’s *Great Transformation* proposed here does not do justice to all of the aspects and thoughts contained in the work and the author is aware that many objections to the interpretation that is proposed here could be legitimately raised. As an engaged political text, Polanyi’s work is assembled of a number of ideas and lines of argumentation and that many arguments are qualified by other arguments that point in different directions, producing a complex discourse that cannot be summarized in a set of simple theses. The present article however focuses on a narrow range of questions and it is therefore necessary to simplify to some extent. The method adopted here is an analytical approach, which attempts to identify certain lines of argumentation that are regarded as significant and these are isolated and presented in a crude form, without all of the qualifications that may be found in Polanyi’s work. The chosen approach is justified primarily by the critical focus of the paper, which attempts to identify the limitations of the central concept of embeddedness as well as the limitations for Polanyi’s general conclusions resulting from the logical structure and from his choice of assumptions. This should however not be interpreted as an attempt to deprecate Polanyi’s work or the work of his contemporary followers, but rather to contribute to our understanding of its place in the history of economic ideas, for which critical analysis is seen as a legitimate tool. In other words, this paper isn’t intended as a contribution to the politically engaged debate on Polanyi, but rather to the history of ideas.

The first part of the paper (*Part 1: An overview of the Great Transformation: Polanyi’s analysis of systemic transformations in western economic history*) contains a brief summary of Polanyi’s main observations on economic history that he develops in the *Great Transformation*. This part doesn’t attempt to follow the language used by Polanyi in order to provide a schematic reconstruction of his argument. The second part (*Part 2: Putting the elements together: the structure of the Great Transformation’s critique of the market*)

attempts to unravel the overall structure of the *Great Transformation*. It first identifies the motivations that underlay the writing of the *Great Transformation*, emphasizing the point that the book was intended as an advocacy of socialism. Polanyi's strategy is to develop a critique of the market society. The two lines of critique are examined: 1) the moral critique and 2) what is here called Polanyi's "impossibility thesis", i.e. Polanyi's version of the thesis that market society contains internal contradictions that lead inevitably to a collapse of the economy. Next, the distinction between two definitions of embeddedness is used to examine the structure of Polanyi's critique of the market society. This allows us to point out the importance of two key premises or starting points of Polanyi's argumentation: 1) the high importance that is accorded by him to economic liberalism and Neoclassical economics and 2) the importance of his analysis of the concept of "freedom".

## Part 1: An overview of the *Great Transformation*: Polanyi's analysis of systemic transformations in western economic history

### *The double movement*

Polanyi's *Great Transformation* stands out among books on the history of capitalism in that it was intended as an argument in support of a political program. In order to describe the nature of the ambition of Polanyi's book, it could be seen as taking a place among such histories of capitalism as those of Karl Marx, John R. Commons, or Douglass North.<sup>7</sup> All of these histories are not merely history pure and simple, but their authors "use" history in order to contribute strong normative arguments to the ongoing debate about the benefits and vices of the economic institutions of capitalism and in order to indicate the directions in which institutional reform should proceed. All of these works attempt to conceptualize and explain the history of capitalism through very "strong" theories, the ultimate intention of which is to

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<sup>7</sup> All of the three mentioned authors provide diametrically different accounts of western economic history with divergent normative implication. In particular North and Thomas (1973) and North (1977) provide what may be seen a view of economic history that is almost an anti-thesis of Polanyi's account. Commons provides a distinctly American account that also points in completely different directions than does that of Polanyi, rooted in the Central European experience. The contrast with Commons will be further developed below.

influence the dispute between the defenders of the market/capitalism on the one hand, and defenders of a greater degree of republican or communitarian control of the economy on the other hand. In short, Polanyi's "economic history" is in fact an engaged work of political economy.

In the first part of the paper, the main parts of Polanyi's analysis of the history of the market society will be summarized. The most important element of Polanyi's history is the hypothesis of the "double movement" used to explain the history of capitalism in the 19<sup>th</sup> century. The hypothesis of the double movement explains the history of the 19<sup>th</sup> century as an interaction (or clash) of two opposing historical tendencies or movements. The first movement began at the outset of the 19<sup>th</sup> century and consisted in the progressive implementation of the market principle as the organizing principle of the economy, which entailed a simultaneous reduction of "social control" over the economic processes. This movement that created the "market economy" and "market society" of the 19<sup>th</sup> century at the same time produced the disintegration of existing social structures. It has however been met by a "counter-movement" which meant a reversal of the process and a re-introduction of social control into the economy. This counter-movement is seen by Polanyi as a necessary reaction of the society, provoked by the effects of the first movement. According to Polanyi it resulted from the spontaneous desire of society at various levels to protect itself against the destabilizing effects of the first movement. Society, at various levels of political organization (community, state, church, industry) reacted against the "dislocations" and the disruption of traditional social institutions caused by the workings of the market system, which drove population from the countryside to the cities and gradually forced all participants of the economy to adapt their mode of action to the strict laws of the competitive markets and to its institutions, such as capitalist accounting and pecuniary calculation. (Polanyi 1944, pp. 130-134).

As Polanyi saw it, the double movement meant the clash of two opposed and incompatible principles. On the one hand was the principle of the market, on other hand was the desire of the society to impose its values on the process of production and distribution. It is to this contradiction that Polanyi attributed the series of crises of the inter-war period (Polanyi-Levitt 2006).

The first part of the double movement disrupted traditional forms of embeddedness of the economy in social institutions (guilds, community based charity, feudal organization, royal monopolies and privileges), the counter-movement was an attempt to re-install new forms of embeddedness of the more modern type (labor unions, minimum wage laws, and, finally, the welfare state).

### *The market system*

The market system, or the economy based on the principle of self-regulating markets (a concept that will be defined below), is not understood by Polanyi as a historical reality, but as a system of ideas formulated by Classical Economists and economic liberals. This ideal was, according to Polanyi a “utopia”, which means that it could not possibly be fully transformed into a reality because it by necessity provokes the “countermovement”. However, due to the degree to which the ideals of economic liberalism gained influence in politics, there was a very strong pressure for the principle of the market to increasingly become the governing principle of both the economy and the society. There thus never was a true “market economy”, there was only a “movement” that progressively introduced the institutions of such an economy, almost simultaneously facing reactions from society leading in the opposite direction.

The central principle of the market economy is the principle of the “self-regulating market” – a market economy exists to the degree that the economy is governed by the principle of the “self-regulating market”. This concept is central for Polanyi and thus it is desirable to identify precisely what it means. Attempting to find some hints in Polanyi’s work, we find that Polanyi links the definition primarily to the idea of an automatic mechanism of coordination based on information transmitted by prices:

“Market economy implies a self-regulating system of markets; in slightly more technical terms, it is an economy directed by market prices and nothing but market prices.” (Polanyi 1944, p. 43)

The system is governed by prices and nothing but prices, in other words, individuals receive signals from the markets in the form of prices and they act on the basis of these signals in a self-interested manner (if they would not act on the basis of pure self-interest in the sense of not taking into account the impact of their action on others, we could then not assert that the

system is regulated by market prices alone). Prices are the unique form of information that is transmitted and that coordinates the decentralized decisions of economic agents. It is not clear, from the above quotation, which economic theory was the basis of Polanyi's definition of the market. The quotation is however compatible both with the Austrian and the Neoclassical abstract models of the market economy, because both of these schools work with prices as the unique mode of transferring information to self-interested agents. On the other hand, the quotation excludes an institutionalist definition of the market, where coordination is determined not only by individual reactions to market prices, but also by what John R. Commons has called "collective action", which affects distributive relationships based on political agreements.

The creation of what Polanyi calls a "self-regulating market" implies that land, labor and even money must be subjected to the market principle, otherwise the domination of the market principle would not be complete. Land, labor and money must thus be transformed into commodities ("commodified"):

"But as we have already shown, a self-regulating market system implies something very different, namely, markets for the elements of production – labor, land, and money." (*Ibid.*, p. 201)

### *The institutions of the market system*

The market economy, as opposed to other types of economies, has minimal institutional requirements. Polanyi sees two institutions as fundamental: the liberal state and the institution of the gold standard. The fundamental institution – the liberal state – refers to the separation between the political and the economic spheres based on the "laissez-faire" ideology or the doctrine of the minimal ("night watchman" government) and the reduction of social relations to the simple rule of private property.

The separation between the economic and the political spheres is strengthened by the power of international markets – the laws of international trade and international competition (especially in the fixed exchange rates regime) and by powerful economic interests of corporations and the financial sector (especially the interest of bankers in international stability, honoring of debts and price stability). The domination of the international markets is

assured by the gold standard, which assures stability of exchanges and is seen by Polanyi in the *Great Transformation* as the one and only possible monetary arrangement that is compatible with the market economy, because money is here a commodity.<sup>8</sup>

The institutional foundations of the market are, according to Polanyi, minimalist, and, as will be discussed later, Polanyi will emphasize especially the opposition between the market principle and the concept of “social institutions”.

### *The individual in the market system*

The overall framework being guaranteed by the above institutions, the market economy also necessitates changes in human psychology, in particular it requires the transformation of man into “economic man”. In order to allow the laws of the market to operate, i.e. to allow coordination guaranteed uniquely by the interaction of the law of the diminishing demand and of profit maximization, men have to obey the economic logic, they have to act as rational economic beings.

A market economy, which implies that labor is a commodity, implies that labor must be somehow brought to the markets. In his analysis of the creation of the market for labor, Polanyi follows Marx in arguing that it was done forcibly when the original sources of livelihood were replaced by capitalist enterprise (he recounts especially the history of enclosures).<sup>9</sup> In short, by depriving individuals of traditional means of livelihood and exposing them to starvation, the market system transformed them in wage-seekers and economizers.

The market system transforms individuals into sellers of labor (or commodities) and buyers of other commodities:

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<sup>8</sup> Subsequent evolution of the international monetary system has shown that Polanyi may have overestimated the importance of the gold standard for the autonomy of the markets. The international system of free trade has proven its viability under floating exchange rate regimes, where the markets are no less autonomous, due to the limited ability of central banks to control exchange rates. In judging the importance of the gold standard, Polanyi was however describing one of the central pillars of the market self-regulation of his time (Block 2003), echoing the important attack on the gold standard by J. M. Keynes.

<sup>9</sup> Cf. for example Polanyi-Levitt 2006, p. 387 on a summary of the relation of Polanyi to Marx.



“Under such a system we can not exist unless we buy commodities on the market with the help of incomes which we derive from selling other commodities on the market.” (Polanyi 1944, p. 97)

This in turn led to the development of a particular psychology of the market man, where specific motives became dominant: the accumulation motive on the part of the capitalists and the motive to earn wages in order to avoid starvation on the part of the working masses. The two types of motives are both a form of the general money-making motive that defines the psychology of the market man:

“Such a system can not fail to work as long as every member of the community has a valid motive which induces him to earn an income. Such a motive actually exists under the system: it is hunger, or the fear of it, which those who sell the use of their labour power, and gain with those who sell the use of capital, or land, or make profits on the sale of other commodities.” (*Ibid.*, p. 98)

Here again Polanyi echoes Marx and assumes that workers work in order to gain subsistence wages and not in order to maximize their welfare and gain an equivalent of their marginal productivity (which is what Neoclassical economics assumes). However, from a historical point of view, the assumption of subsistence wages is not entirely unreasonable when analyzing the effects of competitive labor markets.<sup>10</sup> The market economy, defined as an economy with unregulated labor markets, imposes one of the two motives mentioned above: either the worker’s fear of hunger, or the capitalist’s profit motive. The major implication is that the market forces individuals to become “selfish”, because their primary concern must become the pursuit of money-incomes.

The analysis of the motives that are imposed by the market economy is used by Polanyi to formulate a moral critique of the market economy much in the Aristotelian spirit.<sup>11</sup> The

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<sup>10</sup> Reviewing statistics of wages in the United States, J. R. Commons and J. B. Andrews concluded even in 1936 that “[i]t seems no exaggeration to say that the majority of low-skilled industrial workers in the United States receive wages too small for decent self-support.” (Commons and Andrews 1936, p. 47) With the exception of skilled unionized workers, “subsistence wages” were thus not an unreasonable assumption in competitive labor markets even at the time when Polanyi was writing the *Great Transformation*. Moving to the second half of the 20<sup>th</sup> century and to John K. Galbraith’s “affluent society”, the assumption of subsistence wages is of course unrealistic, therefore Polanyi’s analysis of the “market economy” clearly loses on validity in relation to current market economies. Affluent society may imply that, even in competitive labor markets, the money-making motive can play a subordinate role, when individuals regard their incomes as a mere means for personal development.

<sup>11</sup> Polanyi shows his inspiration by Aristotle’s critique of the market in the essay “Aristotle Discovers the Economy”, in Polanyi *et al.* (1957).

domination of the acquisitive motive makes the 19<sup>th</sup> century civilization abnormal when compared to earlier historical epochs:

“Nineteenth century civilization alone was economic in a different and distinctive sense, for it chose to base itself on a motive only rarely acknowledged as valid in the history of human societies, and certainly never before raised to the level of a justification of action and behavior in everyday life, namely, gain. The self-regulating market system was uniquely derived from this principle.” (*Op. cit.*, p. 30)

### *The market as a dis-embedded economy*

Polanyi formulates his probably best known argument in a comparison of the market economy of the 19<sup>th</sup> century with archaic economies. He states that the market economy is unique in that in it the economic system becomes independent of social and political institutions. This historical phenomenon of a separation between “economy” and “society” has many aspects and a general term that Polanyi proposes to describe the differences is the concept of “embeddedness”, since economic phenomena and actions are not “embedded” in social institutions. The market economy is thus said to be a “dis-embedded” form of economy. In the *Great Transformation* only sparingly, but in his later works with regularity, the concept appears as a summary of his views on the specific characteristics of the market economy.

The following passage illustrates the main intuition behind Polanyi’s argument that the market economy is dis-embedded:

“The outstanding discovery of recent historical and anthropological research is that man’s economy, as a rule, is *submerged in his social relationships*. He does not act so as to safeguard his individual interest in the possession of material goods; he acts so as to safeguard his sociological standing, his social claims, his social assets. He values material goods only in so far as they serve this end.” (*Ibid.*, p. 46)

Polanyi here formulates the idea that in archaic economies, the individual conforms his action to social values or socially imposed norms, he subordinates his economic (as well as any other actions) to social norms or institutions. When one takes care of the household, when one carries out any economic activity aimed at production of economic goods or services, these actions are guided primarily by social rules or by social values.

As Polanyi emphasizes, in archaic economies, economic relationships were regulated by social institutions. He discovers that redistribution and reciprocity played the leading role. Society generally controlled the economy in order to prevent starvation of individuals and grant basic economic security to its members. An example may be the hunting tribes, which, facing high uncertainty, relied on redistribution to ascertain the mentioned objectives:

“The members of a hunting tribe usually deliver the game to the headman for redistribution. It is in the nature of hunting that the output of game is irregular, besides being the result of a collective input. (...) [N]o other method of sharing is practicable if the group is not to break up after every hunt. Yet in all economies of kind a similar need exists, be the group ever so numerous.” (p. 49)

### *The counter-movement seen as restriction of the market*

The thesis of the countermovement, the second of the two historical forces that constitute the “double movement”, states that the wide and heterogeneous array of interventionist measures characterizing the period between 1870 and 1930 was a spontaneous and defensive reaction provoked by the disruptive effects that the workings of the market mechanism had on society:

“The classes and groups which intermittently took part in the general movement towards protectionism after 1870 did not do so primarily on account of their economic interests. (...) regulations requiring the cleaning of bakehouses with hot water and soap at least once in six months; or an Act making compulsory the testing of cables and anchors. Such measures simply responded to the needs of an industrial civilization with which market methods were unable to cope. The great majority of these interventions had no direct, and hardly more than an indirect, bearing on incomes. This was true practically of all laws relating to health and homesteads, public amenities and libraries, factory conditions, and social insurance. No less was it true of public utilities, education, transportation, and numberless other matters. (...) Almost invariably professional status, safety and security, the form of a man’s life, the breadth of his existence, the stability of his environment were in question.” (1944, p. 153)

Polanyi raises the important issue here that spontaneous operation of the markets can produce “social bads”<sup>12</sup>, which take the form of disruption of the stable structures that, in different ways, are the foundation of human existence.

A few pages later, Polanyi gives the suggestive example of the impact of colonization on indigenous communities in Africa. In the process of integration of indigenous communities in the global market “*labor and land are made into commodities, which, again, is only a short formula for the liquidation of every and any cultural institution in an organic society*”. This is an even more drastic variant of the process that European populations underwent in the early periods of the market economy. The dynamic effects of capitalism produced a cultural crisis similar to that produced in African communities upon contact with western civilization. This cultural crisis was in both cases “a direct result of the rapid and violent disruption of the basic institutions of the victim (...)” (Polanyi 1944, p. 159).

One other key event that Polanyi lists is the displacement of rural populations, in this respect the countermovement meant attempts to block this process:

“On the continent of Europe ... agrarian protectionism was a necessity. ... The protectionist countermovement actually succeeded in stabilizing the European countryside and in weakening that drift towards the towns which was the scourge of the time.” (Polanyi 1944, p. 185)

Polanyi concludes that the common underlying aim of the countermovement was to impair the freely operating markets in order to protect the “society”:

“Since the working of such markets threatens to destroy society, the self-preserving action of the community was meant to prevent their establishment or to interfere with their free functioning, once established.” (*Ibid.*, p. 201)

The regulatory or interventionist policies were of a widely heterogeneous nature, but Polanyi often employs the term “protectionism” (as in all of the quotations above). The fact that Polanyi emphasizes the “protectionist” nature of interventionism reveals that he underlines the anti-market nature of the regulations that were put in place. Protectionism is the word most hated by the economic liberals, because it means the deliberate inhibition of the tendencies of the market in the name of collectivist goals or group interests. Defining the countermovement

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<sup>12</sup> A term borrowed from Douglass North’s partly appreciative reaction to Polanyi (North 1977).

as protectionism plays an important role in the construction of Polanyi's argument, because it allows him to describe those interventionist policies as antagonistic to the principles of the market.<sup>13</sup> It allows him to formulate the thesis that the "movement" and the "countermovement" represented two directly opposed principles.

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<sup>13</sup> Polanyi does not reflect on the fact that many of the regulations were of the type that aim at providing public goods or correcting for "market failures". Such reforms are not necessarily aimed at impairing the effect of the operation of the market but may actually even improve the market. A good example was the slowly developing regulation of financial and capital markets, whose primary aim was to secure the operation of the markets not to undermine it. Polanyi adopts here the vision of the situation developed by his opponents – the economic liberals, who tended to regard all interventionism as an evil.

## Part 2: Putting the elements together: the structure of the *Great Transformation's* critique of the market

*The motivations for writing the Great Transformation – the need to make a choice between the market society and socialism*

In the introduction, Polanyi's central concept of the "embedded economy" was deconstructed into two underlying concepts. The second part of the paper will use the results of this analysis of the concept of embeddedness to examine the internal logical structure of the *Great Transformation*. The present section attempts to identify the broad motivations behind writing of the *Great Transformation*. The two sections that follow distinguish two different strategies of Polanyi in developing his critique of the market society: the moral critique and the historical argument about the "impossibility" of the market system. The fourth and fifth sections will overview the significance of the concept of embeddedness in the *Great Transformation*. Finally, two major premises of Polanyi's thought will be examined: the importance given to "economic liberalism" as Polanyi's intellectual foe and Polanyi's analysis of the concept of freedom.

As Block has pointed out, Polanyi wanted the *Great Transformation* to influence the discussion of the post-war settlements, which may be one of the reasons why the book was completed relatively quickly, not all of its internal contradictions being yet resolved (Block 2003, p. 284). Humphreys is explicit about the purpose of Polanyi's book, when he states that the main theme of the *Great Transformation* is an argument about "the need for a planned socialist economy" (Humphreys 1969, p. 172). Behind Polanyi's intellectual development in the late thirties was probably a radicalization of his views, as is suggested by the fact that he helped to found the Christian Left Auxiliary Movement together with intellectuals who felt close to communism (Dale 2010, p. 40). This "radicalization" may have been in part a result of the tragic experience of inter-war Austria, where the rise of fascism in many ways represented the final outcome of an exacerbated conflict between the moderate socialist party (Social Democratic Workers' Party of Austria) and the conservative parties, which became engaged in an alliance with Austrian fascist organizations (the Heimwehr) and which

ultimately chose to sacrifice democracy in the struggle against the socialists.<sup>14</sup> For many progressively-minded intellectuals in Hungary, Germany or Austria, the alliance between fascism and conservative parties implied that socialism is the only way to preserve democracy, although this is difficult to understand from today's point of view. Polanyi wrote the *Great Transformation* to influence a struggle that he presents as a struggle chiefly between socialism and fascism. In the struggle he wishes to lend his support to the socialist and democratic alternative.

Polanyi's attachment to the ideal of socialism was however linked to a sentiment of dissatisfaction with the liberal society, which lasted throughout his life. He expressed this sentiment in a letter written shortly before his death, quoted by K. Polanyi-Levitt: "The heart of the feudal nation was privilege; the heart of the bourgeois nation was property; the heart of the socialist nation is the people, where collective existence is the enjoyment of a community culture. I myself never lived in such a society."<sup>15</sup> This quote is particularly interesting, because it reveals Polanyi's idealistic attitude toward socialism and also his attitude to western societies of the 20<sup>th</sup> century – he regarded them as having fallen short of the socialist ideal, in spite of the rise of the welfare state and the increasing size of the public sector. He clearly wanted more than just the welfare state and Keynesian policies. We can say that Polanyi was a socialist of an "old school" – referring to the epoch preceding the Cold War, when European Social Democratic parties regarded public ownership of capital and direct regulation of production as a necessary part of the "socialist" political program.

Polanyi's anthropological argument is that man's primary need is not for the improvement of one's individual well-being, but for the improvement and preservation of the system of institutions and social relations. The question is then legitimately raised by Polanyi – does the market system allow us to satisfy this primary need in the best possible way? Polanyi's answer was negative and here socialism comes into play as the model that Polanyi regarded as

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<sup>14</sup> The tragic aspects of the history of the Austrian labor movement have been well described by Charles Gulick (Gulick 1948). Austria was characterized by perhaps the most progressive socialist movement in all of Europe. At the same time however, it suffered from also the most pointed social conflict between the left and right, in which the conservative parties (the Christian Social party in particular) associated with the fascist Heimwehr and which culminated in a particularly bitter defeat of the socialists in a civil war in 1934. This event was characteristic that the defeat of socialism was simultaneously a defeat of democracy in Austria. This has probably had important influence on Polanyi and, in fact, many of the ideas of the *Great Transformation* fit particularly well with the Austrian experience.

<sup>15</sup> From a letter to Rudolf Schlesinger, editor of the journal *Co-existence* founded by Karl Polanyi in 1964, quoted by Kari Polanyi-Levitt (2006, p. 381).

the necessary solution to the inability of the market economy to guarantee the fundamental needs of man. Polanyi probably believed, as is suggested by the letter quoted by K. Polanyi-Levitt, that only a socialist society can satisfy the primary requirements of human nature, while a market economy is unable to do so.

Do we have indications of what were the contours of the future socialist system that Polanyi hoped for? According to Polanyi-Levitt (2006), Polanyi favored a “functional form of guild socialism”, was inspired by the ideas of the Austrian socialist Otto Bauer and the English historian G. D. H. Cole, but also by the success of Social Democracy in the “Red Vienna” of the 1920s. In the *Great Transformation*, socialism implies primarily the idea that the dominating principle in regulation of the economy must not be the self-regulation of the markets, but rather “direct” regulation of production with only a subordinate role of the market:

“Socialism is, essentially, the tendency inherent in an industrial civilization to transcend the self-regulating market by consciously subordinating it to a democratic society. It is the solution natural to the industrial workers who *see no reason why production should not be regulated directly* and why markets should be more than a useful but subordinate trait in a free society. From the point of view of the community as a whole, socialism is merely the continuation of that endeavor to make society a distinctively human relationship of persons which in Western Europe was always associated with Christian traditions.” (Polanyi 1944, p. 234)

This direct regulation of the economy should be guided by the principle that society should be a “distinctively human relationship of persons” as follows from our Christian tradition. In their subordinate role, the markets should:

“continue, in various fashions, to ensure the freedom of the consumer, to indicate the shifting of demand, to influence producers’ income, and to serve as an instrument of accountancy, while ceasing altogether to be an organ of economic self-regulation.” (*Ibid.*, p. 252)

From the above, it is clear that Polanyi avoids revealing the precise meaning of the “socialism” that he advocates in the book. An important clue is Polanyi’s suggestion that a “middle road” between a market economy and socialism is not possible. This means that in Polanyi’s “socialist society”, no power would be left to spontaneous market forces in



coordinating production and distribution.<sup>16</sup> One of the central arguments of the *Great Transformation* is that the regulations introduced in the “countermovement” undermined the market and brought about its crisis (*Ibid.*, pp. 233-236). Polanyi thus seems to accept the tenet of liberal economists, such as Mises<sup>17</sup>, who held that interventionism in the free workings of the market economy can only deepen the problems that it is intended to solve. This makes it clear that Polanyi was skeptical about the possibility of an economy where production is to be governed partially by the markets and partially by regulatory restrictions.

Other clues about what Polanyi meant by socialism in the *Great Transformation* may be sought in his earlier writings on socialist accounting. In an article published in 1922<sup>18</sup>, as a part of his polemic with Ludwig von Mises that was carried on in the journal *Archiv für Sozialwissenschaft und Sozialpolitik*, Polanyi attempted to formulate the basic principles of accounting for a socialist economy. He saw such a system of accounting the first step necessary for the development of a positive economic theory of socialism and went thus against Mises’ opinion position that rational calculation and accounting cannot take place in socialism. Polanyi argues that the unique objective in capitalism is “private profit” and that the socialist economy presupposes two objectives, which are 1) maximization of production 2) a system of distribution that satisfies “social rights”. A system of accounting for the socialist economy must thus be built around these objectives. A socialist system of accounting must serve as a tool that will make it possible to *collectively* determine both the “orientation” of production and the overall distribution. Polanyi doesn’t say how exactly the objectives mentioned above are to be implemented, but the realization of such collective or holistic economic aims of socialism would necessitate a collectively controlled economy, thus more or less suppressing decentralized and autonomous enterprise. Polanyi’s affinity to functional guild socialism would imply that he envisaged the economy as governed by a network of collectively organized industries or sectors.

*First aspect of Polanyi’s critique of the market economy: the moral critique of the market*

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<sup>16</sup> This of course doesn’t preclude the possibility of regulated retail markets as these existed even in the centrally planned economies.

<sup>17</sup> Polemic with Mises, the most prominent representative of economic liberalism in Austria at the time, has probably had decisive influence on Polanyi’s thought.

<sup>18</sup> Karl Polanyi (1922), „Sozialistische Rechnungslehre“, *Archiv für Sozialwissenschaft und Sozialpolitik*, II, n°2, 1922, pp. 377 – 420

Unlike some of his earlier defenses of socialism, which were based on an attempt to develop a positive theory of socialism, in the *Great Transformation*, Polanyi presents his defense of socialism in the form of a “negative” argument, i.e. in the form of a critique of the market system. The first type of critique of the market that Polanyi presents is based on a moral argument, underlining the impact of the market system on the individual and on society. The heart of this moral critique of the market lies in the argument that the dis-embedding of the economy produced a transformation in the relationships between men in society, which were in violation of the most basic aspects of the nature of man.

This line of moral critique, which is developed by Polanyi in greater depth in a later article *On the Belief in Economic Determinism* (Polanyi 1947), starts from a universalist conception of human nature. Polanyi argues that the basic aspects of human nature are universal and unchanging throughout history. The fundamental hierarchy of human values does not change, the highest values being the social ones, while individualist values play a subordinate role. However, although human needs and values do not change, motivations must adapt to the environment in which humans live. The objective reality of the market society imposed, in violation of human nature, a hierarchy of motives dominated by the motive of monetary acquisition – this becomes the dominant motive in everyday action of man in the market society. Although man is primarily a social being, he is forced, in the market society, to care only for his own pecuniary profit, otherwise he would either starve or be driven out of business. This contradiction between human nature and life in a market society is the basis of Polanyi’s moral critique of the market<sup>19</sup>.

*Second aspect of Polanyi’s critique of the market economy: the “impossibility thesis”*

The moral critique is however overshadowed, in the *Great Transformation*, by a critique built on the basis of a history of the institutions of the market, as it is outlined in the first part of this paper. On the basis of that history, Polanyi formulates an argument that will be called here the “impossibility thesis”, or the thesis that the market economy was a system that could not be maintained in the long term, because of internal contradictions that eventually

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<sup>19</sup> Polanyi found support for his ideas in Aristotle. In his interpretation of Aristotle, Polanyi emphasizes the critical attitude of the Greeks to the market exchange relationship as such. It was the element of antagonism between individuals, the “haggling-haggling”, inherent in bargaining that provoked the aversion of ancient communities to freely operating markets. Humphreys however believes that Polanyi exaggerated Aristotle’s aversion to markets (Humphreys 1969, p. 189).

provoked both an economic and a political crisis. Polanyi's argument is based on the thesis of the double movement as it has been sketched in the first part of this paper. The following summary of Polanyi's critical argument attempts to underline its internal logic.

In order to interpret the double movement, let distinguish two meanings of the Polanyian concept of "embeddedness": economic embeddedness and anthropological embeddedness. The distinction that has been outlined in the introduction allows us to propose a reading of the logical structure of the *Great Transformation* as follows. The first historical "movement" is the progressive introduction of the "self-regulating market" and thus of an economy that is "dis-embedded" in the economic meaning of the term. However, economic dis-embeddedness gradually leads to the disruption of anthropological embeddedness (i.e. of man's submergence in such social relationships as correspond to cultural values). In other words, the introduction of an economic system that was not controlled by any social institutions or by collective action led to gradual disruption of social relationships to which individuals could attach their approval. The individual was forced by the forces of the "economic system" to become an atom in the market mechanism and, as a consequence, he was forced to become an atom in society as well. Economic disembeddedness tended to produce anthropological disembeddedness.

Such disruption provokes uncoordinated reactions of the society taking the form of various forms of protectionism. This is the second part of the "double movement" – the "countermovement". The countermovement means a re-introduction of embeddedness in the two same two stages, but in a reversed order. The first stage is the step by step reintroduction economic embeddedness in order to create economic security and stability. However, the ultimate cause of this was in various ways anthropological embeddedness. Leaving aside protectionism driven by business interests, the primary motive of the "regulators" was to bind individuals by ethically justifiable relationships and to eliminate relationships that seemed unacceptable from an ethical point of view, such as excessive exploitation of labor, economic coercion of the weak, excessive economic insecurity, the failure to provide subsistence to the unemployed or sick, etc. The most important motives lay at the level of "anthropological embeddedness".

Polanyi however argues that the self-protective attempt of the society to reform the market was problematic, since a regulated market system is an impossibility. The principle of the

self-regulating market cannot be limited in its functioning without destroying its power to coordinate the economy. Echoing the arguments of Mises and other economic liberals, Polanyi argues that protectionism has destructive consequences for the market economy, leading to the deepening of the economic cycle. The argument that a middle road is not possible rests on Polanyi's definition of a market system as an economy based on the "self-regulating market", which is defined as a system regulated by prices only, i.e. it is an automatic mechanism. This view of the market tends to support the Misesian view that any intervention is likely to lead to a downward spiral leading to an ever-deepening crisis of the market system until it is either replaced by socialism or brought back to the former unregulated state.

The economic crisis resulting from the conflict between the two movements (market and protectionism) finally undermines political stability and makes the continuation of the market system impossible. In the closing paragraphs of the *Great Transformation*, only two ways out of the crisis of the market society are regarded as practically feasible: fascism or socialism. Both of them present a possible solution, because they both have the capacity to repair the fundamental defect of the market society, which was its reliance on the "utopia" of the self-regulating market and the ignorance of the "reality of society"<sup>20</sup>. While fascism maintains private control of corporations, it sacrifices competition, democracy and civil freedoms. Polanyi leaves it to the reader to conclude that the preferable alternative is socialism. Socialism is the only alternative that allows us to preserve democracy, albeit at the cost of sacrificing the market system and the ideal of free enterprise. Thus the key conclusion of the *Great Transformation* is without ambiguity: in order to preserve individual freedom, one of the primary Christian values, we have no other choice but socialism.

*Some of the controversies surrounding Polanyi's concept of the disembedded economy and the distinction of the two concepts of embeddedness*

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<sup>20</sup> The reality of society has been, according to Polanyi, revealed by the experience of the industrial revolution. Men became aware of the reality of society at the moment when its existence was threatened, when the social tissue was disrupted by the working of the market economy.

The aim of this section is to suggest how the distinction of the two meanings of embeddedness may contribute to a discussion of some of the controversial aspects of the *Great Transformation*. An interesting controversy has been revealed by Kari Polanyi-Levitt's critique of Fred Block's article on Polanyi from 2003. The controversy turned around the question, whether we should regard Polanyi's book as a "mainstream" institutionalist work (Block's view) or rather as a quite radical critique of an unregulated market system (Kari Polanyi-Levitt's view). Block (2003) writes that the use of the concept of embeddedness in the *Great Transformation* problematic, because there is a contradiction between two different general lines of analysis developed by Polanyi. According to Block, it is apparent from Polanyi's methodological criticisms of economic liberalism that he regards economic phenomena as "always embedded". Polanyi could thus be described as an institutionalist as defined as an economist who accepts the methodological that economies are always "institutionalized". At the same time, however, the *Great Transformation* can also be read as arguing that the market economy of the 19<sup>th</sup> century was "disembedded". This would imply a negation of the methodological principle of institutionalism. Block believes that this contradiction results from the evolution that Polanyi's ideas underwent over the course of writing the *Great Transformation*. Polanyi's initial point of departure was within Marxist thought, however, he then began to incline towards institutionalism. A methodological shift thus occurred, which was not properly dealt with but that is clearly visible when we compare Polanyi's writings from before and after World War II. Block concludes that Polanyi did not have enough time to deal with these contradictions due to his intention to publish the work before the end of the war. The result of Block's analysis thus is that the concept of a "disembedded economy" is merely a residue of Polanyi's older adherence to Marxism and thus should not be given primary importance. Polanyi should thus be seen as an "institutionalist", a historian, who develops the analysis of economies as systems embedded within institutional structures. The concept of "embeddedness" would thus have mainly the heuristical meaning, a suggestion that we must look for "forms of embeddedness".

Block's interpretation was however criticized by Kari Polanyi-Levitt in 2006. Polanyi-Levitt argues that there is no evidence of a shift in Polanyi's thinking during the writing of the *Great Transformation* (Polanyi-Levitt 2006). She argues that the concept of a disembedded economy plays a central role in the critical part of Polanyi's argument against the market society and it thus cannot be shifted aside without eliminating the central part of Polanyi's argument. Therefore the apparent "contradictions" in the *Great Transformation* are no

contradictions at all but rather a way to express the contradictions that exist in the market system. Polanyi argues that the disembodied economy is impossible and utopian, and at the same time he argues that it was implemented in practice. Is this a contradiction? Not really, the utopian project was of course implemented with a variable degree of success. It ultimately failed, because the idea of a disembodied economy is unrealistic. We however need both concepts in order to describe the historical process. The contradiction reflects a tension that Polanyi saw in the real world – the tension between liberal ideology and spontaneous forces in the society. It is because the market society was ultimately impossible that its implementation had to result in crisis and failure. Thus the “contradiction” that Block tried to shift aside must be regarded as an integral part of Polanyi’s thesis.

The distinction between the two concepts of embeddedness that has been introduced in this paper suggests a minor addition to this debate. The question, whether Polanyi is a “mainstream institutionalist” can be answered more easily, when we deconstruct the concept of embeddedness into its two parts. As was argued above, Polanyi’s institutionalism is related primarily to his “anthropological embeddedness” concept. It is here that Polanyi argues that man is fundamentally social, i.e. he conforms and wishes to conform his actions to institutions that arrange relationships in society according to his moral beliefs. On the other hand, when analyzing the spatial or macroeconomic aspects of economic systems, Polanyi’s ideas are derived from economic orthodoxy. The “economic embeddedness” concept is much less institutionalist than it is a combination of Austrian, Walrasian and generally Neoclassical views. A market mechanism is described by Polanyi as a system regulated exclusively by prices, not institutions. It is disembodied, because it governs itself and escapes domination from institutions or society, the underlying concept of the market is not institutionalist. In a similar way, neither is the concept of the productive and distributive principles of the socialist economy institutionalist, since the latter is mainly imagined as an anti-thesis to the market. The concepts that Polanyi develops in order to compare the market system and socialism thus do not constitute an institutionalist paradigm, since they are no different than the comparative concepts of orthodox economics. Orthodox economics opposes coordination by “direction/management” to coordination by the “market”, which is, more or less the opposition that Polanyi employs to construct the concept of “economic embeddedness”.

It is precisely the fact that Polanyi is not an institutionalist, when studying the market system that allows him to describe the radical contradiction between the market and society. In

describing human needs and values, he is definitely institutionalist. However, describing the markets, he is clearly mechanistic and orthodox. Polanyi basically argues that individuals never stop applying moral self-restraint and they never cease to seek institutional structures into which they embody social values. This part of his argument is institutionalist. As a part of this idea, Polanyi decisively rejects the very concept of the “*homo oeconomicus*” and he criticizes the universalism of such a premise along Weberian lines. As a consequence, the countermovement is a spontaneous reflection of human nature.

On the other hand, in order to describe the market economy as an economic system in its entirety, Polanyi uses a combination of the Misesian and Walrasian economics. His thought is thus developed on two levels of analysis, which must be clearly separated (the level of the individual vs. the level of the system). Once we see this, we also see that the market society as described by Polanyi is defined on two ontological levels: at the higher level of “system” and on the lower level of the “individual”. On a lower level individuals are constantly trying to embed economic processes around them. In this they encounter opposition from the higher level, where institutional control is absent. It is in this conceptual setting that Polanyi’s argument can be cleared of contradictions: what he is describing is an opposition or tension between phenomena that are defined on the two separate ontological levels.

*A reinterpretation of the Polanyian thesis on the basis of the distinction between economic and anthropological embeddedness*

The really important question is not whether Polanyi is institutionalist or not, but whether we can accept the idea of an antagonism between market and society that is implied in Polanyi’s work. The problem has been recently underlined by Philippe Steiner. Analyzing the work of the economic sociologist Viviane Zelizer, Steiner points out that contemporary research in economic sociology suggests that Polanyi’s “fatal antagonism between market and society” is not supported by analysis of real world markets (Steiner 2007, p. 271). Market does not need to disrupt social institutions, because society has an ability to absorb new markets and indeed, any form of market is inseparably intertwined with a complex web of institutions and social relationships (*Ibid.*, p. 269). In general, economic sociology studies institutions that develop “inside” the economic domain and it argues that markets cannot exist without such an internal institutional structure.

The distinction between the two meanings of embeddedness proposed here suggests a way in which the question related to the antagonism market-society can be dealt with. The solution consists in deconstructing Polanyi's argumentation into its main building blocks, three such blocks are here identified. First, there is a rich analysis of human nature and moral philosophy that has been here identified as Polanyi's "anthropological definition of embeddedness". Second, there is the concept of "economic definition of embeddedness", which refers to the way in which Polanyi construes the opposition between the market system (an economic system regulated by an impersonal mechanism) and the directly regulated systems (defined primarily in a negative manner as systems "not governed by an impersonal mechanism"). Finally, the central thesis of the *Great Transformation* states that there is a relationship of causality (or a complex system of such relationships) between the two concepts embeddedness on the two different ontological levels. This causal thesis states that economic disembeddedness (the market system) is incompatible with anthropological embeddedness and no middle road exists. For the sake of clarity, the three main elements of Polanyi's argumentation can be summarized as follows:

- 1) The formulation of the anthropological definition of embeddedness. Here "embeddedness" is in not related necessarily to any form of economic organization, but to the relationship between the individual and institutions. Polanyi rejects the analytical premise of orthodox economics that man can be regarded as an isolated and self-interested decision-maker. Normatively, his moral philosophy regards it as imperative that individuals in society strive to transform their social values into institutional structures, i.e. that they become engaged in a "choice of institutions" leading to an ethical society.
- 2) The formulation of the economic definition of embeddedness. Here Polanyi's main argument is that the market system is "disembedded" because it is coordinated exclusively by the impersonal price mechanism. Other economies are, however, subject to various forms of "overview"<sup>21</sup>.
- 3) The causal thesis that there is a mutual implication between the two forms of disembeddedness – *economic disembeddedness* always and necessarily tends to create

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<sup>21</sup> According to Dale, in the course of his participation in the socialist calculation debate of the 1920s, Polanyi develops the concept of "overview" as a key normative concept – the key task of socialist economic institutions must be to re-create "the sort of overview that existed in the household (oikos) economies of the past" (Dale 2010, p. 28). The concept implies the idea that individuals need to have a "transparent view" of the real costs associated with the economic process in order to make ethically justifiable choices. (Dale 2010, pp. 20-31)



*anthropological disembeddedness*. A crisis results, because the middle road that is sought by the spontaneously arising countermovement is not possible.

The first two building blocks are Polanyi's famous concept of "embeddedness". The central premise of this paper is that Polanyi, in developing his comparative analysis of economic systems in fact develops not one but two concepts of embeddedness – the anthropological and the economic. However, the aim of this paper is to use this strategy of deconstruction in order to shed better light on Polanyi's truly central thesis, which is point 3 above. The thesis is built on an argument about the relationship between the two concepts of embeddedness, defined on the different ontological levels. Without the distinction of the two concepts, the thesis thus cannot be interpreted with sufficient clarity.

*Does Polanyi exaggerate the importance of economic liberalism?*

Polanyi's *Great Transformation* (point 3 above) rests on the two mentioned concepts of "embeddedness" but also on further premises that will be explored here. One of such premises is the importance that Polanyi assigns to the ideology of economic liberalism and the related paradigms of economics – Classical and Neoclassical economics. In this section, the question is posed, why "economic liberalism" occupies such a prominent position in Polanyi's work.

Polanyi's analysis of the market society is strongly influenced by the fact that he formulates his argument as a criticism of economic liberalism, in particular its more modern version that rested on marginal economics and was represented for Polanyi primarily by Ludwig von Mises. The doctrines of these modern economic liberals (Mises or Lippman) play, for Polanyi, the double role of an intellectual enemy and, in some ways, the starting point of his analysis. This was in part a consequence of the fact that, when he came to Vienna in 1919, his study of economics was influenced by the Austrians<sup>22</sup> and he probably was led to recognize the validity of many of their contentions against, in particular, the Marxist ideology. His attempt to formulate a new critique of the market society was motivated by the need to revise the foundations of socialist thought in light of marginalist economics. In many ways, marginalist economics both strengthened the case for markets, and weakened the ideological foundations of socialism in Marx.

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<sup>22</sup> Cf. Polanyi-Levitt 2006.

However, the main reason, why economic liberalism plays this basic role for Polanyi is that he saw it as the ideological foundation of the market society. Polanyi regards economic liberalism of the early 19<sup>th</sup> century as the ideology that was behind the rise of the “market system” – the economic system of the 19<sup>th</sup> century. He begins a chapter entitled “Birth of the liberal creed” with the following words:

“Economic liberalism was the organizing principle of a society engaged in creating a market system.” (1944, p. 135)

For Polanyi, the “liberal creed” is represented by economic liberalism with its three classical tenets:

“that labor should find its price on the market; that the creation of money should be subject to an automatic mechanism; that goods should be free to flow from country to country without hindrance or preference; in short, for a labor market, the gold standard, and free trade.” (1944, p. 135)

Or elsewhere:

“Strictly, economic liberalism is the organizing principle of a society in which industry is based on the institution of a self-regulating market.” (1944, p. 149)

For Polanyi, economic liberalism and the market system are two sides of the same coin, the second being an embodiment of the ideas formulated by the first. It is true that Polanyi finds many faults with the scientific foundations of economic liberalism, but those are related rather to their analysis of human nature than of the laws governing the market economy. The identification of the market system with the principles of economic liberalism plays a central role in Polanyi’s overall critique of the market. Because he links economic liberalism and the market system as two sides of the same coin, he is able to attack both with the same set of arguments: his critique of the defects of the ideology of economic liberalism largely coincides with his critique of the market society. The arguments mobilized against the one can be extended as critique of the other. The arguments used to criticize the empirically observable impacts of the markets can be joined with arguments used to criticize the economic conception of man of the liberals, in order to develop Polanyi’s critique of the market society.

Just as Marx, Polanyi considers the market society and liberal political economy to be inseparable parts of a single whole although the causal relationship is reversed in Polanyi’s account: it is not the economy that gives rise to ideology as a secondary superstructure, but it

is rather the ideology that gives rise to the economic system. Polanyi's critique of the market system has thus this much in common with Marx: that it is a critique of a system containing both an ideology and an economic system in the sociological sense. Unlike Marx, however, Polanyi regards ideology as the primary cause of historical change, which has mainly the consequence that his normative system, rather than presenting socialism as a historical necessity, presents it as a "better choice" in light of the alternatives that we have (the main realistic alternative being some form of fascism). The choice of system is likely to be determined, for Polanyi, primarily by the dominant economic ideology, which is why he places much more emphasis on a critique economic liberalism, arguing about the deficiencies of its assumptions.

Polanyi's inculcation of economic liberalism however hinges on the assumption that, in the 19<sup>th</sup> century, older liberal philosophy no longer had influence on the formation of the institutions of the market society. According to Polanyi, the political liberalism of John Locke was a matter of the past in the 19<sup>th</sup> century: "Locke's vision did not transcend the limits of landed and commercial property, and aimed merely at excluding high-handed acts of the Crown (...)". However, "a hundred years later, not commercial but industrial property was to be protected, and not against the Crown but against the people." (1944, p. 225) Polanyi warns that 17<sup>th</sup> century meanings cannot be applied to 19<sup>th</sup> century situations. In his view, the liberal movement has undergone a transformation.

The central values of the new economic liberals were different. Liberty was no longer a supreme political value, rather than around the ideals of republicanism and democracy, the new doctrine was based on the utilitarian logic. Polanyi points out that the new economic liberals were not friends of democracy: "(...) from Macaulay to Mises, from Spencer to Sumner, there was not a militant liberal who did not express his conviction that popular democracy was a danger to capitalism." (1944, p. 226) Economic liberalism wanting not "liberty" but "market", not democracy but unregulated property and freedom of contract, thus becomes the dominant ideology of the 19<sup>th</sup> century. Polanyi does not see traditional liberalism and economic liberalism as two different currents within liberal thought, but rather he considers the first to have been wholly succeeded by the second, the two being successive stages in a single tradition of liberal thought.

Polanyi extends this analysis even to the American case. The American constitutional system is interpreted as being an arrangement reflecting the doctrines of economic liberalism: “The American constitution (...) created the only legally grounded market society in the world. In spite of universal suffrage, American voters were powerless against owners.” (*Ibid.*, p, 226)<sup>23</sup>

For the new liberals, the value of liberty or “freedom of contract” became subordinated to the construction of the self-regulating market. Legislation aimed at suppression of trusts and trade unions was a case in point:

“Theoretically, laissez-faire or freedom of contract implied the freedom of workers to withhold their labor either individually or jointly, if they so decided; it implied also the freedom of businessmen to concert on selling prices irrespective of the wishes of the consumers. But in practice such freedom conflicted with the institution of a self-regulating market, and in such a conflict the self-regulating market was invariably accorded precedence. In other words, if the needs of a self-regulating market proved incompatible with the demands of laissez-faire, the economic liberal turned against laissez-faire and preferred – as any antiliberal would have done – the so-called collectivist methods of regulation and restriction. Trade union law as well as antitrust legislation sprang from this attitude.” (1944, p. 148)

It was thus also an intellectual fascination with the “market mechanism” that stood at the origin of economic liberalism and of the market society.

Polanyi’s inculcation of economic liberalism plays a major role in the *Great Transformation*. It is the basis of at least four of the major themes of the book: 1) the assertion that the market economy is based on the principle of the self-regulating market, 2) the assertion that a market economy is disembedded in the economic/strong sense, 3) the tendency to accept the liberal interpretation of all regulation of market (the “countermovement”) as a kind of “protectionism” and 4) the implicit assumption that a middle road between a market economy and a socialist economy is not possible.

The impossibility of a middle road is very likely a point taken over by Polanyi from his most important ideological foe, Ludwig von Mises. Some aspects of the *Great Transformation*

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<sup>23</sup> Polanyi does not discuss some of the crucial differences between the American and the European cases. As Herbert Hovenkamp points out, American economic liberalism followed a different path of development, since it remained more strongly rooted in the 18<sup>th</sup> century tradition (and its religious connotations) than its utilitarian English counterpart (Hovenkamp 1988).

seem quite compatible Mises' views. The concept of countermovement as defined by Polanyi is not so much different from the way the sway of interventionism was interpreted by Mises. For both Mises and Polanyi regulation tends to be seen as interference with the price mechanism. The idea of the impossibility of a middle road between capitalism and socialism was one of Mises' central positions. Mises argued at length that, as soon as government fixes the price of any single commodity, and forces producers to sell at that price, it will become eventually necessary to fix all of the remaining prices. Mises concludes that any attempt to regulate the market economy is a self-defeating and absurd enterprise.

“There is simply no other choice than this: either to abstain from interference in the free play of the market, or to delegate the entire management of production and distribution to the government. *Either capitalism or socialism: there exists no middle way.*” (Mises 1927, p. 79)

From the point of view of a socialist critic, such as Polanyi, it was strategically advantageous to accept the most robust parts of Mises' analysis. Mises' economics were strongly supported by the academic reputation of the Austrian school and by the outcomes of the inter-war debates on the feasibility of socialistic calculation and on the efficiency of the markets.

Probably partly because of this robustness of marginalism, Polanyi chooses not to attack the liberal analysis of the market, and, instead, focuses his critique on the liberal “conspiracy theory”, which blamed the regulatory countermovement on a conspiracy of socialist interventionists. In opposition to this, Polanyi formulates his own analysis of the endogenous (and spontaneous) character of the protectionist countermovement. For Polanyi, the countermovement is, from a sociological point of view, indeed an inevitable and necessary consequence of the market economy. Regulation does have destructive consequences for the market, but it is the market economy itself that has set in motion the regulatory countermovement.

Both the liberals and their critics saw crises as a threat to political stability. The question was, who was to blame for the crises? In a way, Polanyi here accepts the liberal argument that it is “regulation” that is to blame. However, he goes farther back, and sociologically links the regulatory countermovement to the market itself. Therefore, ultimately, it is the market itself that is to blame for crises and the resulting political instability. Bringing the sociological

analysis of the countermovement into play, Polanyi thus shifts the blame back to the defenders and architects of the self-regulating market.

What is important is that Mises' radicalism was very convenient for his own socialist critics. It in fact invited socialist critics, such as Polanyi, to build their critique on the very ideas of their opponents – the liberals. The liberals, by their tendency to simplify and purify their ideology, created the ground into which the socialist critics could plant their own doctrine. The Misesian argument that only the two extremes are possible is also of significant help for the socialist critics. Mises made it quite easy for Polanyi: It was sufficient for him to demonstrate that the market, in the pure form described by the liberals, is contrary to human nature and needs. If the only two alternatives are market and socialism, it is then clear which of the two we must choose.

The answer to the question, which of the two extremes should we prefer, is provided by Polanyi's "anthropological" analysis of "embeddedness". It seems that it is precisely human psychology and anthropology that is Mises' weak point and Polanyi's strong point. Mises' psychology is limited by his adoption of a strongly reductionist psychology or rather "philosophy" of human action. His conception of human action was based on the rationalist Neokantian philosophy and, perhaps, on Husserl's phenomenology. His anthropology was, in accordance with these philosophical paradigms, strongly rationalist and socio-centric, unable to conceptualize the relationship between human behavior and its institutional determinants. Polanyi however belongs to a later generation, which began to develop richer conceptions of human mind, influenced by psychology but also anthropology.

That his view of human psychology was the weak aspect of Mises' theory is underlined by the fact that his most important disciple, F. A. Hayek, later decidedly criticized Mises' "rationalism" and shifted to an evolutionary view of man, man as a less rational being, shaped by custom, acquired skills, and tradition. Polanyi was in fact an "institutionalist" in this Hayekian sense much more than in the sense of American institutionalism: Polanyi's institutionalism represents an attack on Misesian liberalism in its failure to analyze adequately the institutional determinants of human behavior rather than the Commonsian idea that market transactions are a form of institutionalized regulated process.

When we accept Polanyi's richer conception of human nature, we find the conspiracy doctrine quite superfluous, since we are obliged to agree with Polanyi, that no conspiracy is needed to drive man to revolt against the self-regulating markets. Because Polanyi came with a richer conception of human nature, that could be described as his anthropological analysis of embeddedness, he did not need to attack and falsify the analytical aspects of economic liberalism. Therefore, it was strategically advantageous for Polanyi to embrace the strong analytical foundation of economic liberalism. He accepted the analytical foundations, and even raised economic liberalism to an elevated position by naming it the "architect" of the 19<sup>th</sup> century economic system.

Economic liberalism, at least its analysis of the market economy, is in fact the analytical foundation of Polanyi's critique of the market system. To what degree can we however agree with Polanyi that economic liberalism was really the architect of 19<sup>th</sup> century civilization? It is clear that Polanyi's emphasis of the importance of economic liberalism is largely an arbitrary and strategic choice. In the history of political philosophy, one could find abundant proof that "classical political liberalism" of the 17<sup>th</sup> and 18<sup>th</sup> century continued to play an important role, particularly in the United States, where economic liberalism was very late in coming.<sup>24</sup> Besides, while some institutions were defended and developed on the basis of economic liberalism – such as free trade, enclosures, or the gold standard – others continued to be defended by references to classical political liberalism – mainly the fundamental principles of constitutional government, the protection of minorities, or the rule of law. The idea that 19<sup>th</sup> century liberalism was predominantly utilitarian and economic is largely a prejudice fostered by critics of economic liberalism, who over-emphasize its importance because, as in the case of Polanyi, this plays some important rhetorical role in the structure of their argument.<sup>25</sup>

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<sup>24</sup> Cf. Hovenkamp (1988), who argues that American political thought absorbed utilitarian economic liberalism very reluctantly, its protestant tradition making Smith's liberalism preferable. Also quite illustrative is the fact that American political thought splits into two traditions: the Lockean liberalism and the Benthamian legal positivism. The true liberals are, in America, the Lockeans, thus liberalism is represented primarily by the classical political liberalism of the 17th century. This division of the American political thought may be found for example in Adelstein (1999).

<sup>25</sup> The strategy of developing a critique of capitalism by linking the 19<sup>th</sup> century to an ideology or an ethical system that is obviously "bad" is a quite common strategy of historians, who criticize the market society. Richard Tawney (1920), for example rested his critique on the argument that the market society is associated with moral decadence and that the protestant ethic of the 19<sup>th</sup> century had become essentially a materialist ethic of self-interest. Louis Dumont (1985), a French sociologist-historian, influenced by Polanyi, has linked the market society to extreme individualism that implied a denial of society and of the very principle of ethical or socially-oriented behavior. The strategy that is used by Dumont is to categorically associate the mature market system with an ideology or ethic that is morally perverse because it lacks a social dimension. A fundamental step taken by authors who follow this type of strategy, and also by Polanyi, is to argue that there is a sharp ideological

### *The concept of freedom in the Great Transformation*

Another important premise of the *Great Transformation* is Polanyi's analysis of the concept of freedom, which is a crucial concept of his moral philosophy. In the *Great Transformation*, Polanyi devotes the last chapter to the question of freedom. The question is posed, how can we maintain and expand our freedoms in a society of the future, which, as we understand, is to be a socialist society. This issue is particularly important for the solidity of Polanyi's argument because of the complexity of the question, how can freedom be maintained in a socialist society, i.e. a society that largely eliminates free choice in the economic domain.

The conflict between the socialist ideal and the classical liberal concept of political liberty arises from the basic premise of the socialist economy, which is the elimination of free enterprise. In a socialist economy, most citizens become employees of the single employer – the state or of agencies linked to it in various ways. Not only that, the employer, in such a state, has at its disposition the instruments of force. Borrowing concepts proposed by J. R. Commons, we can interpret this by saying that bargaining transactions are replaced by managerial transactions, where all contracts are being concluded with only a single employer, who is a legal superior rather than a legally equal bargaining party.

Commons, who was perhaps the most prominent American historian of labor relations of his time, described the essential difference between a bargaining type of transaction and a managerial type of transaction (1934, p. 69): while a bargaining transaction occurs between legal equals, a managerial transaction occurs between a legal superior and a legal subordinate. The distinction is based on the lack of autonomy in latter type of transaction. The employee is paid for “obeying orders” during a given period of time and thus he is paid for giving up his autonomy. If the orders of the employer can be legally enforced, then the employee becomes a

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divide between the 19<sup>th</sup> century and what existed before. It is this step that makes it possible to link the market to a specific ideology or ethical system. Once market is thus defined, it is possible to build a critique of the market on the basis of a critique of such an ideology (Polanyi), constellation of values (Dumont), system of ethics (Tawney). The basis of this strategy is that the contradictions that are found in the ideology of the market society can be thus presented as contradictions of the market itself. The question may be posed, whether the Polanyian/Dumontian thesis of ideological discontinuity between the 18<sup>th</sup> and the 19<sup>th</sup> centuries is not exaggerated and whether it is not the consequence of a choice made on the level of rhetorical strategy. Since, in order to make the market society susceptible to an ideological or moral critique, it is desirable to exaggerate ideological discontinuity.



“legal subordinate” in the sense that he is obliged, even by law, to take orders and thus to sacrifice ability to make autonomous decisions.

In a modern market economy, legal superiority of the employer is replaced by superiority of economic power, unless the bargaining powers are not equalized through regulation or unionization. This is Commons’s analysis. However, even in the absence of unions, the autonomy of the employee is partially protected by the possibility to terminate the contract and change the employer. Nevertheless, in a socialist economy, such a possibility does not exist because one cannot cease to be the employee of the universal employer, the state (and thus of those who hold political power). In the socialist economy, individual “autonomy” can at most be replaced by “freedom” in the republican meaning of equal political rights of citizens. It is this positive freedom that Polanyi defends as the freedom that we should seek.

Because of the incompatibility between individual autonomy and the socialist economy, an advocate of socialism must explain why we should give up autonomy in favor of “freedom” in the above sense. Polanyi rejects autonomy as a part of his global rejection of the liberal utopia. In the economic sphere, autonomy implies for Polanyi the atomism and uncontrolled automatism of the market:

“The true criticism of market society is not that it was based on economics – in a sense, every and any society must be based on it – but that its economy was based on self-interest.” (Polanyi 1944, p. 249)

In a market economy, decentralized individual choices, aggregated only by impersonal mechanisms, are what determines the economic outcomes, it is thus based on autonomy. Polanyi connects autonomy to the market system and autonomy must thus be rejected together with the domination of the market economy.

The liberal concept of liberty as autonomy is in fact largely absent from Polanyi’s thought, with the exception of the places where he criticizes it. He links the concepts of “freedom” and “free institutions” to the continental democratic tradition. In a brief article entitled “*Conflicting Philosophies in Europe*” (Polanyi 1937), he discusses the differences between the Britannic and the continental versions of democracy. Polanyi rejects the “liberal democracy” embodied in the Anglo-Saxon constitutional system. He regards it as an institutionalization of the separation between the economy and the political disguised behind the legal protection of liberty. He adheres to the continental tradition that has “equality” and

the “rule of the majority” as its fundamental principles<sup>26</sup>. Polanyi thus adheres to the republican tradition in political philosophy that links political freedom to idea of representative democracy.

The concept of freedom is thus brought into harmony with the socialist program mainly by shifting from “negative liberty” (autonomy) to “positive freedom”. The concept of “autonomy” is not relevant for defining “freedom”. Polanyi’s use of the concept of freedom in the *Great Transformation* illustrates the way in which negative liberty simply ceases to be relevant:

“On the institutional level, regulation both extends and restricts freedom; only the balance of the freedoms lost and won is significant. This is true of juridical and actual freedoms alike. The comfortable classes enjoy the freedom provided by leisure in security; they are naturally less anxious to extend freedom in society than those who for lack of income must rest content with a minimum of it. (...) Initially, there may have to be reduction in their own leisure and security, and, consequently, their freedom so that the level of freedom throughout the land shall be raised. But such a shifting, reshaping and enlarging of freedoms should offer no ground whatsoever for the assertion that the new condition must necessarily be less free than was the old.” (Polanyi 1944, p. 254)

When Polanyi discusses “freedom” in the above passage, we can read between the lines that he means “positive freedom” and not freedom in the classical liberal sense of “autonomy”<sup>27</sup>. When talking about “freedoms lost and won”, about “freedom provided by leisure in security”, or about “shifting, reshaping and enlarging of freedoms”, it is clearly “positive freedom” in the sense of the sphere of individual action that is carved out for the individual by his political rights that is meant.

Polanyi’s positive definition of freedom rest on his interpretation of Christian ethics. Near the end of the *Great Transformation*, he links the concept of freedom to the theology of Christianity. The three constitutive facts in the consciousness of Western man are, according

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<sup>26</sup> Polanyi indicates in that article that it is a matter of deliberate choice to concentrate on the continental tradition which is held to be more relevant to the problem at hand which is the imminent danger of fascism.

<sup>27</sup> In the classical liberal tradition, as represented by the line of thought going from John Locke to J. S. Mill in England and from Immanuel Kant to Max Weber in Continental Europe, freedom in the sense of “autonomy” means: *freedom to act on the basis of one’s own will*. On the legal or political plane, the concept of “autonomy” expresses the principle that the individual isn’t subject to the orders of a superior but acts on the basis of his own free judgment and on the basis of willfully adopted ends within given rules. In the liberal tradition, this political concept of liberty as autonomy derives from the philosophical concept of autonomy as defined by I. Kant or J. S. Mill.

to Polanyi: “knowledge of death, knowledge of freedom, knowledge of society.” (1944, p. 258) The knowledge of society was given to man by the experience of the industrial revolution. The tissue of the society was invisible, before it was revealed by the contact with the machine, in other words, before the industrial revolution disrupted the stable institutions of the society and provoked institutional crisis<sup>28</sup>. As to the “knowledge of freedom”, it “was revealed through the discovery of the uniqueness of the person in the teachings of Jesus as recorded in the New Testament.” (*Ibid.*, p. 258)

Polanyi developed this subject in greater depth in an older article about *Christianity and Economic Life* (Polanyi 1935). Christianity is concerned, according to Polanyi, fundamentally with the relationship between man and God. The revelation of man’s freedom, or the “knowledge of freedom” of the modern man, is thus related to the Christian self-consciousness of the individual and to the importance given to the individual in Christian moral philosophy. What Polanyi emphasizes in his construction the concept of freedom is the absolute value of every individual. As such it implies primarily respect for others – we cannot ignore our fellow human beings and we cannot act without the moral reference to our co-existence with others. Christianity understands society as “community”, i.e. as separate and complete individuals standing in mutual relationships to each other. As Polanyi points out, this Christian consciousness of society is obviously abstract and a-historical. It contains no consciousness of the positive existence of society, of its institutions or of its history. Positive knowledge of society is a product of the modern history of the industrial revolution. As a result of the industrial revolution, we must now re-think what Christianity actually implies for the structure of relationships in society.

As Polanyi wrote in 1957, in a complex society, it is illusory to believe that we can achieve personal liberty without any reference to our personal participation in the society itself (Polanyi 1957a). Ultimately, the implication derived by Polanyi from this necessity to recognize the society is the necessity of socialism. The market economy implies an abdication of individuals on moral evaluation of the consequences of their actions. Only a socialist economy satisfies the Christian imperative of respect for others, since collectively, individuals can oversee the consequences of economic actions. As Gareth Dale noted, Polanyi saw the

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<sup>28</sup> Polanyi discussed this in more detail in an article entitled *The Machine and the Discovery of the Society*, 1957

main task of socialist institutions in providing “overview” that makes it possible to judge the consequences of actions.<sup>29</sup>

The need to maintain freedom in a socialist society means, for Polanyi, the need to create the space for the individual within a holist social structure, confidence is placed in the principles of democracy and republicanism. This however means a partial sacrifice on the part of liberties – the new system obviously cannot guarantee “autonomy” as a supreme value in the way that this was so in the market society. Socialism can, however, guarantee “positive freedom” in the sense of equal opportunity or equal political rights for all within the limits circumscribed by the requirements of the system of economic organization. Polanyi’s argument is that freedom is not at all incompatible with a socialist society, because socialism is not incompatible with democracy, which is in fact the proper definition of freedom as “positive freedom”.

Polanyi’s discussion of freedom/liberty is however incomplete in that it avoids a direct confrontation with classical political liberalism by making the assumption, as mentioned earlier, that it is economic liberalism of the Misesian type, and not classical political liberalism, that is “culpable” for creating the market society. Concentrating exclusively on economic liberalism allows Polanyi to make the criticism of negative liberty much easier, since economic liberals provide only a significantly reduced advocacy of negative liberty. In fact, the latter do not defend negative liberty as a supreme value. This is apparent in Mises, who defends liberty on the basis of a utilitarian argument. Liberty has allowed the system of private enterprise and free labor, which are necessary conditions of material progress:

“We liberals do not assert that god or Nature meant all men to be free, because we are not instructed in the designs of God and of Nature, and we avoid, on principle, drawing God and Nature into a dispute over mundane questions. What we maintain is only that a system based on freedom for all workers warrants the greatest productivity of human labor and is therefore in the interest of all the inhabitants of the earth.” (Mises 1927, p. 22)

Mises’s approach to the question of liberty is thus utilitarian – the constitutional protections of private property and liberty are justified as a necessary condition for a functioning market system, to which we owe the degree of our economic well-being. For economic liberalism, autonomy of the individual no longer occupies the place of the supreme value of political

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<sup>29</sup> Dale (2010), pp. 20-31.

philosophy. What matters to economic liberals is not, in fact liberty, but rather welfare. Therefore, by concentrating on economic liberals, Polanyi avoids the arguments that can be raised in defense of negative liberty for example on the grounds of protestant ethics – the arguments that were developed by such “classical” liberals as John Locke and that continue to be present to various extent in the Anglo-Saxon tradition of “negative liberty”. It can thus be concluded, that in his argument for socialism, and the socialist conception of freedom, he relies to a significant extent on one fundamental premise – that we accept the thesis that the market society stands on the value foundation provided by economic liberalism. Again, connecting the market society with “economic liberalism” as an ideology with very specific implications has decisive consequences.

## Conclusion

An important consequence of the distinction between the two definitions of embeddedness is that Polanyi's analysis of human nature does not need to be regarded as inseparably connected to his analysis of economic organization. It has been pointed out above that Polanyi defines his concept of the "embedded economy" on two different ontological levels: the level of individual psychology and the level of the spatial or material characteristics of systems of production and distribution.

Separating the two meanings of embeddedness allowed us to re-examine Polanyi's thesis that market and society are in an antagonistic relationship. We see that the question can be posed in a more precise way. The question really is whether "anthropological embeddedness" necessitates "economic embeddedness" (the "necessity thesis"). If the answer is positive, then we have antagonism between market and society. However, if it could be shown that market economy can be combined with anthropological embeddedness, then there would be no such antagonism. Therefore, the distinction of the two definitions of embeddedness re-poses the question about the validity of Polanyi's conclusions.

The distinction between two meanings of embeddedness is helpful in understanding the relationship of Polanyi to institutionalism. The economic definition of embeddedness excludes an institutionalist approach. Economic embeddedness is not defined on the basis of an institutionalist analysis, but it is defined negatively, as a logical negation of the Neoclassical model of the market economy. When using that definition, Polanyi is remaining within the discourse on the "possibility of socialism". This discourse is defined by the polemic between Ludwig von Mises and the defenders of various forms of socialism. In establishing that definition, Polanyi deliberately remains within the field of debate given by Austrian and Neoclassical economics, where "socialism" is defined negatively as a mode of production and distribution not allowed to be governed by the automatic forces of the markets. In other words, the economic definition of embeddedness has been developed by Polanyi independently of what would be regarded as an institutionalist analysis of the market, in the sense of Old American Institutionalism.

Therefore, a preliminary answer can be proposed to the question, whether Polanyi was right in formulating his “necessity thesis” (see above). If we accept the definition of the market economy of economic liberalism, then the necessity thesis is correct. However, if we accept one of the heterodox definitions of the market economy (institutionalist definition, or one derived from economic sociology), then the validity of the thesis would have to be reexamined.

The same issue is decisive also for the validity of Polanyi’s conclusion that the market economy is not viable and that socialism is the best alternative. It is only because Polanyi asserts that economic disembeddedness (the market system) is always and by necessity associated with anthropological disembeddedness (the economic self-interested man) that he can argue that the market principle must be rejected. The necessity thesis allows him to exclude market as a possibility, thus leaving socialism, the opposite of the market, as the only ethical solution (fascism is another technical possibility, because it also replaces the market by social control).

Socialism implies, in the *Great Transformation*, an economy in which the economy “*should ... be regulated directly*” and at the same time socialism is an “endeavor to make society *a distinctively human relationship of persons* which in Western Europe was always associated with Christian traditions.” (Polanyi 1944, p. 234) Socialism is thus described by Polanyi as a combination of embeddedness in the two meanings. On the other hand, the market society excludes both types of embeddedness – not only the economy is not regulated directly, but, because any stabilizing reforms are ultimately self-defeating, the market society cannot become a “distinctively human relationship of persons”. The defense of socialism in the *Great Transformation* however stands and falls with the historical thesis that correlates the market with anthropological disembeddedness.

Polanyi was able to develop his particular critique of the market system, because he embraces the definition of the market of the economic liberals. However, an Institutionalist definition necessarily leads to a different vision. The definition of the market based on the idea of the “bargaining transaction”, as formulated by John R. Commons, implies that the foundation of the market economy is not the impersonal price mechanism, but that a market economy is one that consists of a multitude of bargaining transactions. Market implies bargaining, but it does not always imply a smoothly operating mechanism driven by the laws of competition. This

definition of the market has two major implications: 1) A bargaining transaction is fundamentally an institutionalized phenomenon, since there can be no transaction without a framework of rules that “regulates” distribution between the parties. Regulation of distribution is thus achieved, in all market economies, in part by institutions<sup>30</sup> and in part by supply and demand. 2) Even an economy, in which prices are completely the result of “collective action”, can still be a market economy, as long as bargaining between the collective parties takes place. A bargain between an association of consumers and a monopolist is entirely the product of collective action, yet it is a market transaction. This paradigm of the market clearly makes it difficult to sustain the thesis that the “market” always implies “anthropological disembeddedness”. In short, Polanyi’s account defines the concept of the market quite narrowly, because he embraces the Neoclassical and liberal definition. It is this narrow definition that allows him to formulate the “necessity thesis” (as defined above). Market economy eliminates anthropological embeddedness, because it is defined, in line with the Neoclassical model, so as to be empty of “collective action”.

Another problem dealt with in this paper was Polanyi’s choice to associate the institutional reforms leading to the 19<sup>th</sup> century market society with the value-base of economic liberalism and to exclude classical liberalism from consideration<sup>31</sup>. The conspicuous characteristic of the *Great Transformation* is that it is an attack exclusively on 19<sup>th</sup> century economic liberalism whereas a critique of, for example, 18<sup>th</sup> century natural law theories, is not deemed important. By avoiding a polemic with classical liberalism, Polanyi eludes some issues that have gained increasing importance in late 20<sup>th</sup> century with a new series of political revolutions.<sup>32</sup> Polanyi thus doesn’t address all of the ideological supports of the market system.

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<sup>30</sup> The most significant way in which regulation always regulates distribution in markets is by means of the support or restriction of „market power“. Anti-trust law, applied both to employers’ and employees’ organizations, either expands or restricts the bargaining power of the participants in markets and therefore distributive relationships. This was the central focus of John R. Commons, who went as far as to say that prices in a market economy are always a result of “collective action” that regulates the relative bargaining power of parties on the basis of the criterion of “reasonable values”.

<sup>31</sup> Cf. for example Hovenkamp (1988). Richard Adelstein argues that the chief dispute in American political philosophy was always based around an opposition between Lockean political liberalism and utilitarian conception of public good. (Adelstein 1999)

<sup>32</sup> From the perspective of the latest political revolutions, classical liberalism again becomes incontournable, since all of the political revolutions of 1989 as well as those of 2011 were based not only on the “economic liberalism” of Ludwig von Mises and Friedrich A. Hayek with their emphasis on the utilitarian benefits of markets, but also on the political liberalism of John Locke with the emphasis on political liberty.



The chief characteristic of the *Great Transformation* as an appeal for a transition from market to socialism implies that the work has important limitations in its applicability to current problems. Kari Polanyi-Levitt has more clearly than others underlined the meaning of the *Great Transformation* as a politically engaged text intended as a critique of the market system. However, she also attempts to link the critical framework of Polanyi's *Great Transformation* to contemporary problems such as the transition in post-communist countries. How can the Polanyian argument for a transition market-socialism be applied to the inverse transition socialism-market?

Kari Polanyi-Levitt suggests that the failure of the "Washington consensus" model of transition can be seen as a demonstration of the continuing validity of the Polanyian critique of that ideology. She writes:

"The disastrous consequences of the attempt to introduce instant market capitalism in Russia in the absence of legal and social institutions of civil society, or even basic guarantees of personal security, have drawn attention to the importance of institutional pre-requisites for a functioning capitalist market economy."  
(Polanyi-Levitt 2006, p. 386)

It is however not clear whether associating Polanyi's *Great Transformation* with the problems of transition does not lead to a confusion with respect to the true historical significance of Polanyi's work. In a way, the nature of the problem of transition is almost the opposite of the problem that Polanyi was dealing with. Most analysts of the transition tend to see the main problems in the weakness of institutions, but all of these institutions fall within the liberal definition of the night watchman state. Therefore, it is not surprising that some of the most vociferous criticism of institutional laxity came, in the Czech Republic, from a Hayekian liberal.<sup>33</sup> The Central European post-communist countries are culturally advanced European countries that made a deliberate choice to establish an economy based on the market and a "liberal state", which they wished to establish not on the basis of a primitive market ideology, but on an advanced conception of "constitutional democracy". It is likely that many of the reformers in the countries of the former Soviet Union aspired to a similar model. Therefore, most of the debates were developed in a framework that raises very few of the issues that are involved in a Polanyian critique of the market system.

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<sup>33</sup> This Hayekian liberal was the former minister of privatization Tomáš Ježek, one of the authors of the privatization. He especially criticized the absence of regulation of investment funds and failure to create a security exchange commission. Cf. for example Ježek (2007).

While Polanyi's thoughts are in general extremely fruitful when applied to development economics, Polanyi-Levitt's attempt to extend the Polanyian critique of economic liberalism to the problems of transition may stretch the significance of the *Great Transformation* beyond its original purpose. These remarks are intended merely to suggest that it is probably reasonable to regard Polanyi's work as having been written for a particular historical epoch, and for societies that find themselves in a particular stage of socio-economic development. This historical stage for which Polanyi wrote the *Great Transformation* was characterized especially by the fact that socialism in the true meaning of the word was a real political project with broad support.

Separating the two meanings of embeddedness allows us to argue that while one half of the concept of embeddedness is linked to the historically contingent part of Polanyi's argument, the other has timeless significance. The anthropological analysis of embeddedness as a chief social value is the part that can be regarded as Polanyi's permanent contribution, however, in light of historical facts, the "necessity thesis" about the relationship between economic dis-embeddedness (which is a necessary characteristic of the market economy) and anthropological dis-embeddedness need not to be maintained at all cost.

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