

The Social Embeddedness of Transnational Markets

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Abstract 1

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Polanyi's Theory of Public Policy

Embeddedness, Commodification and the Institutional Dynamism of the Welfare State*

The following exploration of Polanyian thought draws on this indication of its policy relevance in terms of institutionalist theorising on the welfare state. The transformation of welfare states towards a market-oriented setting has been diagnosed as a key component in a more comprehensive institutional reorientation of capitalist economies, involving a shift of political-economic governance structures. The theoretical framework of Polanyi's approach to comparative economic systems with its reconsideration of the embeddedness of market operations in non-market institutions provides arguments for perceiving this transformation of Western welfare states as a manifestation of an evolutionary process that redefines the historically variable demarcation of the market domain once again. Thus, an exploration of Polanyian thought may provide major insights regarding the prospects and limits of social policy in the institutional evolution of capitalist market economies. This suggestion underlines the need for reconstructing Polanyi's theory of public policy, which has remained a rather neglected topic in the intellectual reception of Polanyian ideas. Its institutional substance involves an active role of the state in market creation as well as in social regulation. Thus, the state provides a decisive terrain for societal conflicts that inform particular sets of public policies.

The paper proceeds as follows. First, the Polanyian perspective on the institutional evolution of the market society is taken to the fore with an emphasis on the notion of "the economy as instituted process", which addresses diverse patterns of social integration. Second, a conceptual clarification of the Polanyian concepts of embeddedness and commodification is put forward. It highlights a definition of embeddedness as a framework that addresses the shaping of economic activities by market and non-market institutions. Moreover, it elaborates on the need for combining the matter of embeddedness with a reconsideration of the commodity status of labour. Third, Polanyi's theory of public policy is examined by underlining the active role of government in the formation of the market system. This goes together with an outline of historical perspectives on the co-evolution of states and markets. Fourth, the Polanyian notion of the double movement of market expansion and social protection in the set-up of welfare regimes is discussed in relation with the problem of policy interventions that may destabilise the economy. Fifth, current debates on the institutional transformation of the welfare state are addressed from a Polanyian point of view, in particular drawing on Esping-Andersen's work on welfare capitalism. The ensuing exploration of the role of commodification in welfare reform leads to concluding remarks on Polanyian assessments of public policy in globalisation.

* Chapter 2 of *Governance und Public Policy, Habilitationsschrift*, Universität Erfurt, July 2008.