

# Governance und Public Policy

*Kumulative Habilitationsschrift*

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#### *4. The Intellectual Foundations of the Social Market Economy: Theory, Policy and Implications for European Integration*

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Polanyi's Theory of Public Policy:  
Embeddedness, Commodification and the Institutional Dynamism  
of the Welfare State

## **1. Introduction**

According to Gøsta Esping-Andersen's seminal work on welfare capitalism, the institutional approach to the theory of the welfare state is rooted in the work of the German Historical School with its inclinations towards a combined socio-economic and historical-ethical approach to the analysis of social integration. However, in theoretical terms, corresponding lines of institutionalist reasoning are best represented by Karl Polanyi's work on the problem of embedding the market system in social communities as a means for sustaining societal coherence. In this setting, social policy serves as a necessary condition for integrating politics, economy and society (Esping-Andersen 1990: 14-15). Indeed, Karl Polanyi, who was born in 1886 in Vienna and died in 1964 in Pickering, Ontario remains a most influential theoretical figure in the social sciences, in particular stimulating both analytical and policy-related concerns that are related with the new institutionalism in economics, sociology and political science. Polanyian insights on the political economy of economic development from an institutional perspective have persistently shaped a variety of discourses that range from the theory of the welfare state to research in comparative economic systems and economic anthropology.

Yet this outstanding influence on institutionalist reasoning goes together with controversies on its actual analytical implications. Thus, an assessment of Polanyi's work in the new institutional economics may be expected to be rather disparaging, given the latter's original attempts of applying a rational choice framework to historical analyses of institutional change, by doing so challenging Polyanian positions. Still, already during the formative periods of the new institutional economics, Polanyi's works have been addressed as a major stimulant. According to Douglass North, the contributions of Polanyi pose decisive questions on the evolution of markets in terms of their historical specificity, their institutional underpinnings and their relationship with the industrial revolution (North 1977: 703-704). The impression that Polanyi also provided fruitful answers to these questions is prevalent in those evolutionary strands of institutional economics that emphasise his role as an institutionalist theorist of the evolution of the market system (Rodrigues 2004: 191). Even more significant assessments are prevalent in institutionalist discussions of economic sociology and political economy, in which Polanyi is viewed as a paradigmatic reference concerning

the variety of institutional arrangements that are required for the coordination of commodity production and exchange in modern capitalism (Boyer 1997: 60-61). This goes well together with a reconsideration of the economic sociology of capitalism that draws upon Polanyi's stylisation of the diverse institutional modes of socio-economic integration (Swedberg 2005: 7-8). Perceived in policy terms, such a perspective also involves a reconsideration of industrial relations and welfare regimes in the regulation of markets (Boyer and Hollingsworth 1997: 476-477). Related to these assessments is the positioning of Polanyi as a theorist of the institutional transformation of the welfare state in the context of economic globalisation (Block 2001: xix).

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.

## **2. Theorising the Economy as an Instituted Process: The Polanyian Perspective**

Karl Polanyi's institutionalist reasoning theorises the co-evolutionary dynamism of economic development and social change. Accounting for this specific perspective requires a first reconsideration of Polanyi's vision of the character of socio-economic evolution. Polanyi actually rejects a conceptualisation of evolutionary change as synonymous with "unconscious growth" and "organic continuity", which is common with positions of evolutionary gradualism. Instead, he favours a conception of deliberate institutional change and developmental interventions (Polanyi 1977: liv). This particular view on the cultural evolution of socio-economic patterns allows for both non-intentional, spontaneous as well as for intentional, organised impulses. Yet in doing so it also underlines discontinuity and radical change as decisive features of the evolutionary process. The corresponding emphasis on the disruptive character of evolutionary change resembles a distinct line of institutional analysis that is well represented by Joseph Schumpeter's approach to innovation as the source of evolutionary discontinuity (Ebner 2006a: 503-505). Moreover, the reconsideration of both spontaneity and design resembles an institutionalist account of socio-economic evolution that may be well associated with the work of John R. Commons and its analytical differentiation of spontaneous change in customs and institutional design in legal rules (Rutherford 1994: 105-106).



Resounding these positions on the institutional dynamism of development and change, the key concern in Polanyi's comparative institutional analysis of economic systems is well represented by the notion of "the economy as instituted process", which serves as a leitmotif of his research programme. It means that an analysis of the institutional substance of economic processes is indispensable for understanding their social coherence and historical dynamism, which is derived from both economic and non-economic institutions that constitute a specific mode of social integration (Polanyi 1957b: 249-250). Polanyi contrasts this substantive perspective from the considerations of neoclassical economic theory, which is said to refer exclusively to the logic of choices on means-ends relationships that are marked by resource scarcity. In the Polanyian perspective of a substantive perception of economic life, interchanges with the natural and social environment for the means of material want satisfaction are taken to the fore, basically referring to subsistence constellations (Polanyi 1957b: 243-244). Only this substantive perspective approaches the economy in adequate terms as an instituted process of coherent interactions between society and natural environment (Polanyi 1957b: 248-250). The coherence of these interactions requires distinct institutional properties that allow for a particular set of integrative qualities (Polanyi 1977: 34):

- unity and stability through a definite location in time or space,
- structure through permanent points of reference,
- function through definite modes of action accounting for the social whole,
- policy relevance through the influence of societal goals.

All historically recorded types of economies are integrated through historically specific support structures that institutionalise the movement of goods and services as well as rights of disposal in the economic process. These institutional structures are denoted as reciprocity, redistribution and exchange, highlighting integrative patterns of interaction that are relatively independent from deliberate interventions of government or the variable ideals of cultural frameworks (Polanyi 1944/2001: 50-51; Polanyi 1977: 36-37):

- reciprocity accounts for the movement of goods and rights of disposal between corresponding points of a symmetrical arrangement, involving symmetrically placed social groups as exemplified by kinship-related types of gift exchange;
- redistribution addresses related movements towards and out of a centre, involving an established political-administrative centre as exemplified by a territorially centred storage system run by local authorities;
- exchange stands for movements between dispersed or random points in a system of interactions, involving the presence of a market mechanism.

Householding, as an additional principle, then contains the autarchic and self-sufficient production of a group. Yet its integrative function in more complex economic systems is of minor importance as compared with reciprocity, redistribution and exchange (Polanyi 1944/2001: 55).

At this point, the matter of embeddedness emerges as a major analytical device, for Polanyi claims that all historically recorded economic systems except of the market system submerge the economy in social relationships, framed by non-economic institutions. Production and distribution would not follow economic interests shaped by acquisitive motives, but rather resemble social interests, based on collectively shared norms and conventions. These may differ in diverse economic systems over time and space, involving small hunting communities as well as vast despotic societies, yet in all of these cases the economic systems were driven by non-economic motives (Polanyi 1944/2001: 48). This means for the individual economic actor: “He does not act as to safeguard his individual interest in the possession of material goods; he acts so as to safeguard his social standing, his social claims, his social assets” (Polanyi 1944/2001: 48). In primitive societies, thus, the pattern of embedding economic activity in non-economic institutions that integrate social relations may be derived from kinship aspects as well as from separate political-economic organisations preceding the institutional evolution of the modern state: “Since there is no separate economic organization and, instead, the economic system is embedded in social relations, there has to be an elaborate social organization to take care of such aspects of economic life as the division of labor, disposal of land, organization of work, inheritance, and so on” (Polanyi 1977: 53).

It is this specific pattern of relationships between economy and society, in particular relating to the political system, that defines the matter of embeddedness as a constitutive component in Polanyi's approach – although the concept itself is spelled out under different labels and rarely in direct terms throughout his published works. Regarding its intellectual underpinnings, next to Hegel's and Marx's analyses of state-society relations in commodity producing societies also Maine's sociological distinction between status and contract is accounted for, serving as a stimulus for the anthropological positions of Malinowski as well as for Tönnies' distinction between community and society (Polanyi 1957a: 68-69). According to this logic of embeddedness, the economic system was historically set to be a function of social organization – a pattern that remained intact until the rise of the market economy in the 19th century, which reversed relationships between economy and society as economic requirements would come to determine social structures. This would actually imply a disembedding of the economic sphere.

With intellectual reference to the approaches of Maine and Tönnies, then, this disembedding dynamism resembles a move from status to contract in terms of Maine, and from community to society in terms of Tönnies. Economic system are no more embedded in social relationships, as these are now embedded in the economic system, that is, they come to follow the commodity logic of the market (Polanyi 1947/1968: 70). Contract serves as the decisive feature of this disembedded economic sphere, in which legal aspects of exchange provide the institutional order of the market process. Status, in contrast to that, reflects the predominance of norms of reciprocity and redistribution which shape the embeddedness of production and consumption in societal institutions like family and kinship. The disembeddedness of the economic sphere is therefore analogous to the institutional separation of the market from social relationships apart from contractual exchange (Polanyi 1957a: 70-71). Accordingly, as the market becomes an institution in its own right that shapes the modern exchange economy, it coincides with legal concepts like the rule of law, which imply a reduction of social relations to the regulation of property and contract (Polanyi 1966: xvii).

As the resulting institutional order propels the disembedding of the economic domain from non-market modes of social integration, it also drives a separation of economy and society at large:

“It was characteristic of the economic system of the nineteenth century that it was institutionally distinct from the rest of society. In a market economy, the production and distribution of material goods is carried on through a self-regulating system of markets, governed by laws of its own, the so-called laws of supply and demand, motivated in the last resort by two simple incentives, fear of hunger and hope of gain. This institutional arrangement is thus separate from the noneconomic institutions of society: its kinship organization and its political and religious systems. Neither the blood tie, nor legal compulsion, nor religious obligation, nor fealty, nor magic created the sociologically defined situations that insured the participation of individuals in the system. They were, rather, the creation of institutions like private property in the means of production and the wage system operating on purely economic incentives” (Polanyi 1977: 47).

This institutional dynamism of market exchange relates to the aspect that the exchange motives of truck and barter, so vibrantly portrayed by Adam Smith, can not rely on established social institutions. These have to be created in the deliberate formation of markets (Polanyi 1944/2001: 60). The resulting type of market economy resembles a self-regulating system of markets. It is historically unique in its character as an economic system that is exclusively directed by market prices (Polanyi 1944/2001: 45). Market prices are indispensable for this kind of self-regulation: “A market economy is an economic system controlled, regulated, and directed by market prices; order in the production and distribution of goods is entrusted to this self-regulating mechanism” (Polanyi 1944/2001: 71).

Yet self-regulation through market prices also implies that all production factors, goods and services – decisively involving labour, land and money– are turned into commodities, bought and sold at market prices while generating a market income (Polanyi 1944/2001: 72). Subjecting labour to the self-regulation of markets and thus separating it from other societal domains, however, tends to annihilate the organic interdependencies of the social whole. The underlying freedom of contract eliminates non-contractual organisations such as kinship. Indeed, the contractual exchange mode of the labour market, ideologically legitimised through the notion of non-interference in the spontaneous order of the market process, radically interferes with social relationships that are based on non-contractual interactions (Polanyi 1944/2001: 171).

This tendency drives the formation of market society as an extended format of market principles beyond the economic domain.

Consequently, the differentiation of economic and political spheres becomes a historically unique trend in the evolution of market economies. While in preceding formations the economic order served as a function of the social order now these relationships are redefined, as the separate economic system of a market economy promotes the formation of a market society as a supporting device. The unfolding of the market pattern as the dominant system in the economy leads to the relegation of society as a mere adjunct to the market. The market society is thus adapted to the institutional pattern of the market economy:

“Instead of economy being embedded in social relations, social relations are embedded in the economic system. The vital importance of the economic factor to the existence of society precludes any other result. For once the economic system is organized in separate institutions, based on specific motives and conferring a special status, society must be shaped in such a manner as to allow that system to function according to its own laws” (Polanyi 1944/2001: 60).

However, this extension of the market sphere all over society breeds a basic structural contradiction. The essence of society is subordinated to the market mechanism, for labour and land as representations of the human substance and natural environment of society also become commodities. Together with money as a mere representation of purchasing power promoted by the state and the banking system they share the characteristic that they are actually not produced for sale. Their existence is not to be derived from a commercial rationale. Thus their characterisation as marketable commodities is fictitious. This commodity fiction becomes the organising principle of the market society (Polanyi 1944/2001: 75-76). Indeed, the rise of the market society is necessarily based on this commodity fiction involving labour, land and money (Polanyi 1977: 9-10). This implies that changes in the institutional status of labour as a substantial resource of economic activity actually suffice for differentiating economic systems in their historical evolution. Quite in accordance with the logic of embeddedness, these historically specific institutional qualities of labour involve kinship ties in tribal economies as well as ties of fealty in feudal systems, while underlining the transformation of labour into a commodity as a distinct feature of the

market system (Polanyi 1977: 43). Identifying socio-economic mechanisms that establish labour as a fictitious commodity, however, locates public policy as a decisive factor in processes of development and change that exhibit a high degree of historical variability.

Indeed, Polanyi outlines the actual historical process that leads to the formation of market economy and market society by highlighting two distinct settings, that is, the establishment of national markets in the mercantilist age of Western European development since the 15th century, followed by the social and technological disruptions commonly associated with the Industrial Revolution in Western Europe – and here primarily in England – since the early 19th century (Polanyi 1944/2001: 5-7). Decisively, the formation of the market system is not a spontaneous process as liberal theory may have it, but the politically administered result of artificial stimuli based on socio-economic constellations shaped by the likewise artificial phenomenon of the machine as a representation of disruptive technological change (Polanyi 1944/2001: 60). From the outset, the historical evidence for market patterns points at long-distance trade as the original domain of markets. It represents a commercial sphere that is external to socially embedded economic systems, fuelled by differences in local resource endowments. Local markets for trade between towns and countryside were allegedly less relevant. Nonetheless both highlighted the primacy of an exchange of complementary goods that was rather non-competitive (Polanyi 1944/2001: 61-63). Market competition only evolved with the emergence of internal markets for substitutable goods, historically constituted as national markets during the formation of modern states in the mercantilist era (Polanyi 1944/2001: 63). However, despite the drive for a national market order, mercantilism would not promote the transformation of labour, land and money into commodities. Thus, mercantilism with its combination of extended regulation and market-based commercialisation of the national economies viewed markets in a way most contrary to the liberal ideas of the self-regulating market system (Polanyi 1944/2001: 73).

In contrast to these early modern constellations, both the industrial dimension of the “machine age” and the commodity dimension of the market system characterised the socio-economic disruptions of the 19th century. The self-regulating market system served as an institutional adaptation induced by the factory system of the machine age

and its industrial civilisation – which was soon accompanied by a counter-movement for social self-protection that would give birth to the welfare state (Polanyi 1977: xlviii-1). The historical break of the Industrial Revolution thus combined technological and ideological factors. The technological factor was represented by the use of specialised machines, typical of industrial capitalism, that would require a steady flow of marketable resources in inputs and outputs. In order to keep the productive circuit running smoothly and to allow for the realisation of productive gain, then, labour, land and money were to be turned into commodities that would be readily available on demand. This is the technological source of the commodity fiction of the market economy: “Machine production in a commercial society involves, in effect, no less a transformation than that of the natural and human substance of society into commodities” (Polanyi 1944/2001: 44). The expansion of the commercial sphere, which transformed income into a compensation for marketable services, promoted the expansion of the market system that was self-regulated through market prices (Polanyi 1944/2001: 43-44).

Also economic motives needed to change, basically turning from subsistence to gain. Polanyi proposes that economic liberalism promoted the “utopian endeavour” of a self-regulating market system with a motivational emphasis on material gain, allowing for an institutional dominance that paralleled the homogenising intolerance of religious fanaticism (Polanyi 1944/2001: 31). Utilitarianism provided the backbone for market ideology as a sectarian creed that aimed at solving human problems through the provision of an unlimited amount of material commodities (Polanyi 1944/2001: 42). This assessment of course provides a pointed counter-position to Max Weber’s well established thesis of Protestant Ethics and the spirit of capitalism as a striving for rational acquisition in continuous business concerns. Rather, Polanyi’s argumentation resembles the Sombartian line of reasoning with its emphasis on the non-rational aspects of the capitalist spirit as a striving for unlimited acquisitive gain (Ebner 2005: 263-265).

However, in liberal ideology, the ensuing “separateness” of economic and political spheres was well reflected by policy demands for a retreat of the state from economic regulation: “Institutions, motives, and laws are specifically economic. The whole system can be imagined as working without the conscious intervention of human

authority, state, or government” (Polanyi 1977: 47). Accordingly, the formation of market society implies a reassessment of the state as a subordinate institutional feature that should comply with the self-regulation of the market system (Polanyi 1977: 12). Yet this constellation was short-lived, if ever realised in history, for society was soon endangered in its totality. In particular, the institutional status of labour as a commodity included real humans that would become socially exposed and dislocated objects of market volatility. Thus, for society at large, the need of protection arose as a condition in safeguarding the reproduction of its substantial components (Polanyi 1944/2001: 76-77). The extension of markets was actually paralleled by efforts in the self-protection of society, amounting to a “double movement” of market forces and social regulation: “Social history in the nineteenth century was thus the result of a double movement: the extension of the market organization in respect to genuine commodities was accompanied by its restriction in respect to fictitious ones. While on the one hand markets spread all over the globe and the amount of goods involved grew to unbelievable dimensions, on the other hand a network of measures and policies was integrated into powerful institutions designed to check the action of the market relative to labour, land, and money” (Polanyi 1944/2001: 79). What was to be observed was a double movement of distinct organisational principles in society, namely economic liberalism promoting self-regulating markets, socially based in the trading classes versus social protectionism as an effort to shield human and natural resources from the grip of the market forces through interventionist measures in legislation, administration and associative self-organisation, socially based primarily in the working and landed classes (Polanyi 1944/2001: 138-139).

Yet this interventionist countermovement against the expansion of markets and its underlying commodity fiction was incompatible with the working mechanism of the market itself, leading to a further intensification of institutional tensions (Polanyi 1944/2001: 136-137). Measures of social protectionism that lay the foundations for the welfare state since the 1860s obstructed price-based adjustments of labour markets by stabilising earnings beyond volatile market incomes as well as by regulating institutional features such as professional standards, thus reconstituting the human character of labour beyond the commodity fiction (Polanyi 1944/2001: 185-186). As the counter-movement and its protectionist stance came to disturb the self-regulation of the market system ever severely since the 1880s all over Western Europe, the national



domain became the decisive terrain for political identity – implying a drive for national rivalry. Economic and political crises then culminated in World War I, followed by a prolonged period of instability afterwards that would pave the way for totalitarian solutions to the prolonged crisis of the market system (Polanyi 1944/2001: 210-212). Accordingly, as market and state represent co-evolving institutional ensembles in Polanyi's view of socio-economic development, understanding Polanyi's theory of the market society requires a reconsideration of the corresponding theory of public policy. Yet before this topic is explored in more detail below, a further reconsideration of the controversial notion of embeddedness in recent debates on Polanyian thought is required. It pinpoints the need for viewing institutional embeddedness in relation with the commodification of labour as basic concerns of public policy. To this end, a further conceptual differentiation between the institutional order of markets and their societal embeddedness is to be taken to the fore.

### **3. Embeddedness and Commodification: A Conceptual Clarification**

The notion of embeddedness is a key component in Polanyi's comparative institutional analysis of economic development – although the expression itself is used only rarely in his works. A long-standing interpretation of this notion of embeddedness in Polanyi refers to the non-market allocation of land and labour according to principles of social rights and values, involving kinship as well as political or religious affairs (Dalton 1968: xii-xiii). Accordingly, the notion of embeddedness in Polanyian terms addresses the economy as subordinated to social relations, culture and religion as well as to the political domain. With the advent of the self-regulating market and the commodification of labour, land and money, therefore, a disembedding procedure sets in, which is met by a countermovement for regaining social control of the economy, and thus for re-embedding its institutional rationale (Block 2001: xxiii-xxv). It follows that Polanyi's notion of embeddedness should serve as an antithesis to the conception of atomisation in market exchange, instead underlining the interrelatedness of economic actors in distinct social, political and cultural environments (Ibata-Arens, Dierkes and Zorn 2006: 2). There is thus a two-fold meaning of embeddedness in Polanyi: on the one hand as a representation of the connection of markets to the moral fabric of society, on the other hand as a political term that refers to social reform and the regulation of markets – in

particular regarding fictitious commodities (Beckert 2007: 8). Following an influential position in institutionalist theorising, this aspect of Polanyi's embeddedness framework may be interpreted in terms of the operation of a "logic of appropriateness", that is as an institutional principle which highlights societal relations based on status-related and context-specific concerns (March and Olsen 1989: 160-162). However, apart from the moral underpinnings of Polanyi's viewpoint, there is also a functional argument to be taken into account, which claims that markets for labour, land and money simply require governmental guidance, as their self-regulating adjustment would lead to disastrous social consequences. That is why market expansion usually implies a parallel expansion of rules and regulations that aim at social protection (Block 2001: xxv-xxvii). This distinction of the institutional order of markets and non-market types of embedding institutions requires further specifications.

A first problem in that regard refers to the institutional substance that is involved in the embedding of economic processes. Fred Block, in particular, argues that persistent efforts in the re-embedding of economic processes would allow for speaking of an "always embedded market economy", which Polanyi allegedly overlooked while he was coping with the drive for embedding market forces in social protectionist measures and the obstructive impact of these measures on the self-regulation of markets (Block 2003: 297-298). Block then claims that markets are always politically embedded in distinct legal rules and institutions. Yet they are also always morally embedded in specific values and norms that support rule compliance and trust (Krippner, Granovetter, Block et al. 2004: 118-119). This line of reasoning is summarised in the concept of ideational embeddedness, which suggests that markets are always embedded in rules and regulative institutional arrangements. Thus, there exists no disembedding of the market sphere but only its persistent re-embedding in different sets of institutions, including ideas, discourses and ideologies that are part of the normalisation of market processes (Somers and Block 2005: 263-264).

From this self-labelled Neo-Polanyian thesis follows that there cannot be fully disembedded markets, as markets always require some type of institutional underpinning to sustain their operation, which also shapes the varieties of market systems. An example of these mechanisms is provided by the regulation of labour markets (Block 2007: 5-6). Yet this reference completely neglects the role of labour

markets as a terrain for the commodification of labour. Thus, it already indicates that Block's perception of embeddedness rather tackles the institutional order of markets, that is the rules and norms that institutionalise market exchange, instead of addressing the embeddedness of economic operations in non-market modes of social integration. It is the latter aspect that allows for the de-commodification of fictitious commodities as a key aspect of embeddedness in Polanyian terms. This critical assessment is furthermore corroborated by Block's repeated references to John Ruggie's concept of "embedded liberalism", which has risen to prominence as an apparently Polanyian concept in international political economy. The underlying interpretation of the international economic order of the Bretton Woods system associates the embeddedness of market liberalism with a kind of multilateralism in trade and investment regulations that allows for domestic interventions and thus combines the drive for economic internationalisation with the formation of national welfare states (Ruggie 1982: 393). Again, such an identification of embeddedness with the rules and regulations of market exchange differs markedly from Polanyi's concern with commodification and de-commodification as key components of disembedding and re-embedding strategies and practices.

It is to be underlined that Polanyi acknowledges the need for positioning markets in an institutional order that allows for enforcement mechanisms of contractual arrangements, which accompany the allocative function of the price system in the self-regulation of markets. This market order addresses the rules and norms that provide the institutional substance of the market process – and as such it is indeed constitutive for every type of market exchange. Yet Polanyi addresses a different matter when he approaches the embeddedness of economic operations. Here, the differentiation between market order and market embeddedness is at stake. Indeed, the Polanyian concept of embeddedness is not associated with the rules of the market as such. Rather, it is the content of these rules with regard to the commodity character of labour itself that matters. A Polanyian viewpoint therefore implies an integrated perspective on embeddedness and commodification – for the former addresses the diverse types of social integration and the latter is concerned with the material substance of socio-economic reproduction. This specification is well illustrated by the case of labour markets. Rules that simply fulfil a market-enhancing function, for instance by reducing transaction costs and information asymmetries in the setting of wages, do not qualify as embedding rules. They still

support the rationale of commodification that follows the allocative rationale of market supply and demand. However, a set of rules that delegates some component of wage setting and related features of industrial relations to an institutional domain beyond the commodity logic of supply and demand qualifies as a feature in the embedding – or re-embedding – of markets. These sets of rules, which may refer to the inclusion of welfare arrangements in wage setting or to the participation of the workforce in management decisions, just like in German co-determination law, actively promote a de-commodification of labour, as they shield its reproductive conditions from market fluctuations and employer's market power.

Distinguishing between ordered markets and embedded markets is decisive for understanding the Polanyian concern with the historical coincidence of disembedding pressures in the commodification of labour during the formation of the market system. Thus, it also informs the policy-related distinction between disembedding liberal moves and re-embedding social protectionist counter-moves in the Polanyian development scheme. However, some of the mentioned misrepresentations of the concept of embeddedness may be traced back to shortcomings in Polanyi's own statements. Indeed, Polanyi tends to identify the rationale of the economy exclusively with market exchange, contractual arrangements and the profit motive. That is, the separation of a distinct economic sphere and the evolution of the market system are synonymous in Polanyi's thought. Paradoxically, it seems that Polanyi's view of the market as an universal principle of economic operations remained true to the framework of the Austrian School which had shaped his intellectual socialisation before and after World War I. And this may be a decisive reason, why Polanyi has major difficulties in abandoning his unfortunate characterisation of embeddedness as a constellation in which the economy is regulated predominantly by non-economic institutions. Certainly, also for Polanyi a clear-cut distinction between economic and non-economic institutions remains out of sight unless tautological references to the market process are put forward. More convincingly, thus, Polanyi's ideas on embeddedness are best reiterated with reference to the embedding of markets in non-market institutions involving non-contractual arrangements and non-commercial motivations, all of them subject to the impact of predominantly non-material incentives.

At this point, a second problem with the interpretation of Polanyi's notion of embeddedness comes into play, which is related to the characterisation of markets as void of social relationships. This interpretation is implicit in the claim that the integration modes of reciprocity and redistribution would differ from exchange in that they represent specific social relationships such as kinship or political-religious affiliation, whereas market exchange would stand out as a merely economic interaction among anonymous actors (Dalton 1968: xiv-xv). Given Polanyi's prevalent identification of market exchange with the procedures of competitive spot markets, such an interpretation may be legitimate. Yet this problematic account of the social structures of markets – or rather the lack thereof – has paved the way for further misconceptions in the understanding of embeddedness. As a landmark in the discourse of modern economic sociology, Mark Granovetter's notion of embeddedness, originally meant to confront Oliver E. Williamson's transaction cost approach to economic organisation, claims that economic institutions are always constrained by ongoing social relations. Despite these Polanyian motives, Granovetter also emphasises that non-market societies were less embedded and market societies less disembedded than claimed in Polanyi's substantivist account (Granovetter 1985: 481-482). From these qualifications follows an analytical focus on the pattern of personal relations which frame economic transactions, prominently accounting for networks of social relations (Granovetter 1985: 506-507). Granovetter's favoured empirical example for this identification of embeddedness with network interactions is the historical origin of trade in financial derivatives at the Chicago Board Options Exchange, based on interpersonal efforts in redefining a specific set of transactions and furthering a shared understanding of their business implications (Krippner, Granovetter, Block et al. 2004: 115-116). From a Polanyian perspective, the evolution of the market for financial derivatives rather qualifies as a component in the move for disembedding commodification. Yet in Granovetter's account the aspect of commodification remains out of the picture, as his view of embeddedness focuses on the social structure of markets in terms of network relations. Not surprisingly, this particular variant of embeddedness, which is stripped off some of the most decisive features of Polanyi's framework, has met some fierce criticism that invokes Polanyian ideas.

For instance, Greta Krippner insists that every market transaction is a social process that involves a history of struggle, contestation, understandings and rules, thus making state,

politics and culture inherent components of any market in a much richer institutional setting than addressed in Granovetter's network concept (Krippner, Granovetter, Block et al. 2004: 112). In other words, the diversity of social structures in the formation and maintenance of markets is ignored in Granovetter's network approach. Granovetter thus reduces embeddedness to the matter of network ties that serve as social envelopes for otherwise asocial markets (Krippner 2001: 777-778). A related criticism highlights the reduction of the empirically rich notion of embeddedness in Polanyi's approach to Granovetter's much more narrow consideration of social networks as embedding frameworks of economic action (Beckert 2007: 9-10). Summarising these points, it may be suggested with reference to Polanyi's scheme of social integration that Granovetter's network approach focuses on reciprocity in relation with exchange and by doing so neglects redistribution as primary domain of public policy. This argumentation also applies to Richard Swedberg's model of capitalism as a set of several sectors, each following a particular rationale of economic processes in Polanyian terms, involving redistribution, reciprocity and exchange. According to Swedberg's scheme, only the exchange sector is dominated by the profit motive, which is modelled as the source of a feedbacks from consumption into the production sphere (Swedberg 2005: 8-9). Thus, the commodification of labour as a key component of the Polanyian perspective is ignored once again. Such a reduction of Polanyi's positions on the complexity of social integration to a mere consideration of the social structures of markets loses most of the specific content that provides the analytical edge of the Polanyian notion of embeddedness.

A more promising way forward would rather distinguish diverse modes of embeddedness according to the specific institutional dimensions they are related to. For instance, Zukin and DiMaggio have used the notion of embeddedness as a reference to the contingent nature of economic action, to be differentiated according to the domains of cognition, culture, social structure and political institutions. Cognitive embeddedness then refers to structured regularities in mental processes that bind economic reasoning whereas cultural embeddedness highlights the corresponding role of shared collective understandings. Directly referring to Granovetter's position is the notion of structural embeddedness that addresses the contextualisation of exchange activities in interpersonal relations. Finally, political embeddedness is associated with the shaping of economic institutions and decisions by power struggles involving non-market

institutions like the state and social classes (Zukin and DiMaggio 1990: 15-20). This latter type of political embeddedness is evidently closest to the Polanyian line of reasoning, involving the redistributive impact of public policy. A related strategy of differentiating types of embeddedness addresses the levels of interpersonal relations and inter-organisational relations that may be distinguished from the societal embeddedness of functionally differentiated institutional orders in a complex society – and here Polanyi's approach would be most relevant (Jessop 2001: 223-224). Such a specification is highly compatible with a categorisation of embeddedness as a top-down processes by which higher level entities such as institutional mechanisms of interaction shape the properties of lower level entities (Coriat and Dosi 1998: 23). After all, such a categorisation points again to the domain of public policy as a major factor in the sustainable embedding of market processes (Adaman, Devine and Ozkaynak 2003: 357-358).

Beyond these categorisations, a combination of the concepts of embeddedness and commodification remains decisive for reconstructing the Polanyian framework with its socio-economic concerns. As outlined above, a crucial problem with Polanyi's notion of embeddedness is its ill-conceived representation of the economy as a domain of exchange, contract and profit, subject to material incentives. Acknowledging that problem by specifying embeddedness in terms of market and non-market components even accentuates Polanyi's original concerns with diverse modes of social integration. It allows for an understanding of the economy as a set of diverse institutional constellations that transcend the monoculture of market exchange. Thus, the notion of embeddedness may be useful in distinguishing the aspect of rule-based market order with its exchange rationale from the social structure of markets, involving the reciprocity of networks, as well as from other non-market modes of integration that highlight the redistributive role of the state. With reference to recent advances in institutionalist theorising such an acknowledgement of institutional variety may be supported by concepts like the impurity principle of systems theory, which maintains that each functional system contains impurities which are not typical of the whole, but which are nevertheless necessary for the reproduction of that particular system. Socio-economic systems then represent diversified pluralities with a dominant structure that is accompanied by a variety of multi-faceted and inter-penetrating components (Hodgson 1988: 167-168). It follows that the evolutionary potential of systemic combinations may

generate the specific diversity of institutional forms and modes of interactions that is constitutive for the reproductive capacity of capitalist market economies (Hodgson 1996: 419). In the context of the Polanyian perspective on comparative economic systems, then, this setting involves a corresponding variety of embeddedness patterns in combination with various forms and degrees of commodification. An illustration of these regimes of embeddedness and commodification is outlined in table 1.

***Table 1: Polanyian Regimes of Embeddedness and Commodification***

	<i>Commodification</i>	<i>De-Commodification</i>
<i>Embeddedness</i>	Business Networks (strong reciprocity and exchange)	Welfare Services (strong redistribution and reciprocity)
<i>Disembeddedness</i>	Competitive Markets (strong exchange)	Forced Labour (strong redistribution)

The decisive point in this recombination of embeddedness and commodification is derived from the aspect that Polanyian embeddedness derives its integrative quality from the status of labour as the substantial type of fictitious commodity in capitalist market economies. In this Polanyian framework, embeddedness addresses the shaping of market operations by non-market modes of social integration, whereas commodification denotes the exposure of production and consumption to commercial



principles and incentives. In this context, the commodity status of labour plays a decisive role. In outlining the spectrum of embeddedness-commodification combinations, four major variants may be taken to the fore, always containing certain strengths in social integration. Embeddedness and commodification reflect an integrative pattern of strong reciprocity and exchange, as exemplified by family business networks and their specific social structures which may be associated with the cases of regional family businesses in the Italian Emilia Romagna or Overseas Chinese business networks in Southeast Asia. Embeddedness and de-commodification is well represented by the service profile of traditional welfare states that allow for strong redistribution and reciprocity. In this setting, the welfare state becomes a decisive carrier of income transfers that are set apart from wage labour. Recent liberal reforms of the welfare state, as discussed further below, accordingly involve a shift from embedding de-commodification to disembedding commodification. They approach the combination of disembeddedness and commodification typified by competitive markets and their integrative strength in market exchange. To complete the picture, the constellation of disembeddedness and de-commodification may be reflected by forced labour with strong redistribution effects, as witnessed especially during early phases of industrialisation. The shift from one constellation to another involves major efforts in the domain of public policy. The following exploration of the analytical substance of Polanyi's theory of public policy thus addresses states and markets as co-evolving institutional ensembles that are set in a continuum of embeddedness and commodification.

#### **4. States, Markets, and the Rationale of Public Policy**

The theory of public policy is concerned with the motivations, governance modes and effects of government activity in the design and implementation of distinct policies (Parsons 1995: XV). Polanyi's approach to the evolution of economic systems actually entails a specific theory of public policy, based on a portrayal of the state as an indispensable factor in regulating the complex affairs of modern society (Polanyi 1947/1968: 73). In acknowledging this often neglected aspect of Polanyi's thought, however, recent institutionalist interpretations have focused almost exclusively on the matter of state interventions in regulating market processes (Hodgson 2003: 389). An

underlying argument suggests that the Coasean solution to the externalities problem is misconceived, for its emphasis on the introduction of property rights is meant to promote a withdrawal of the state from the regulated area of the market, whereas such an extension of property rights in fact also implies a parallel extension of state interventions due to the need for organising their enforcement (Hodgson 1988: 152-153). Yet Polanyi's theory of public policy reaches beyond these limitations and instead takes its point of departure in the proposition that states are at the very beginning of market evolution by providing legal frameworks and enforcement mechanisms that are indispensable for procedures of disembedding commodification. In this sense, the Polanyian perspective is well aligned with those strands of institutionalist reasoning that view the state as a generative force of market exchange. In particular, Polanyian ideas may be directed against those variants of property rights theory, which assume the primacy of markets and derive the role of the state from its functions in maintaining the market process.

In Polanyi's view, states serve as major driving forces in the evolution of markets, as they promote the political-administrative construction of markets and the regulation of market competition. Thus, the matter of public policy addresses the disembedding and re-embedding of market processes in both type of market and non-market institutions. In this sense, public policy fulfils a key function in the Polanyian account of the evolution of the market system. This is well illustrated by Polanyi's general assessment of the role of the state in cultural evolution. The state is viewed as a decisive factor in organising the economic field by institutional means that involve the rule of law: "Actually, justice, law, and freedom, as institutionalized values, first make their appearance in the economic sphere as a result of state action" (Polanyi 1977: 16). Tribal relations in stateless societies highlighted custom and tradition as means for embedding economic affairs in the wider domain of social and political organisation and thus rather obstructed exchange transactions. In contrast to that, the emergence of territorial rule paved the way for their promotion, as market transactions needed to be made gainless in order to become acceptable as a generalised mode of exchange in a non-market setting typical of irrigational empires – as an alternative to strictly regulated and limited transactions that remain typical for peasant communities and their pattern of market evolution (Polanyi 1977: 73).

Indeed, the ruler – usually a god-king as in the ancient Mesopotamian states – provided basic supplies of goods for a community threatened by loosened kinship ties. Economic transactions were characterised by formalised equivalencies and thus became just and lawful, for they were made gainless through the actions of the ruler who would head the taxational and redistributive apparatus of the state and whose declaration of equivalencies could legitimise exchange behaviour – and accordingly act as a source of economic justice and formalised fairness in exchange. The rule of law evolved later on from trade regulations for guilds (Polanyi 1977: 16-17, 61). Thus, according to Polanyi, the irrigational empires served as a crucial historical terrain for the formation of justice, law and freedom as creations of the state, while stimulating a trajectory of well administrated dispositional exchange (Polanyi 1977: 73-74). Even the taxation systems of modern states resemble redistribution as a principle of social integration that implies the collection and redistribution of resources from a political-administrative centre (Polanyi 1977: 41). State-building in archaic societies thus resembles a major secular force of economic organisation, fuelled by aspects like the provisioning of an expanding military through means of taxation. Perceiving the circulation of a currency as an instrument of taxation points to further efforts at standardisation and market-making, which are part of the state-building process, basically contributing to the replacement of status-orientation in transactions by statute law that evolved in the state sphere (Polanyi 1966: 186-187). The modern state is thus viewed as a “tax state” with redistributive functions that account for the disintegration of pre-modern social relationships – an argument that had been elaborated most promisingly in Joseph Schumpeter’s approach to fiscal sociology (Ebner 2006a: 507-509).

Based on these assessments, Polanyi approaches the mercantilist promotion of market exchange as well as related efforts in protective regulation as a manifestation of moves and counter-moves in the evolution of the market system. While foreign trade had been largely a local phenomenon only, Polanyi claims that internal trade in Western Europe was created by interventions of the state, transposing the mechanism of municipal trade to a national level. The mercantilist state of the 15th and 16th century thus resembled a major “instrument of the ‘nationalization’ of the market and the creator of internal commerce” as it forced protectionist towns and principalities into nationwide market competition (Polanyi 1944/2001: 68-69). In turn, implying a co-evolutionary pattern in the relationship between states and markets, the centralised state of the mercantile

system was historically created by the Commercial Revolution that led to the economic dominance of the Western European countries since the 15th century, promoting state sovereignty over extended territories that became subject to political-cultural unification. Underlying administrative techniques of the public policies of central government were usually adapted from a diversity of municipal practices, thus shaping distinct national patterns in state-building (Polanyi 1944/2001: 69). At this point, it is remarkable that Polanyi refers affirmatively to the analysis of the liberalising efforts of mercantilism put forward by Gustav Schmoller, the figure head of the German Historical School (Polanyi 1944/2001: 284). In this regard much of Polanyi's reasoning may be associated with the Schmollerian agenda of an ethical and evolutionary approach to the analysis of economic development in the "machine age" of industrial civilisation (Ebner 2006b: 208-210).

Moreover, in the mercantilist epoch, interventionism was not only characteristic of government involvement in the formation of markets – due to the forced dissolution of potentially obstructive institutional constellations – but it also typified public policy in the maintenance and expansion of the institutional conditions of market exchange. State interventions in the formation of national markets would herald persistent regulations of the economy, coping with both the sustainability of competition and the ensuing problem of monopoly as a potential result of competition. Interventions were even extended over time, while markets remained submerged in social relations that were moulded by a mercantilist state whose authority over the institutional setting of society became ever stronger. Polanyi therefore suggests: "The 'freeing' of trade performed by mercantilism merely liberated trade from particularism, but at the same time extended the scope of regulation" (Polanyi 1944/2001: 70). Markets that were absorbed into the social system would still thrive as they were subject to the control of the centralised public administration of the mercantilist regimes. It follows: "Regulation and markets, in effect, grew up together" (Polanyi 1944/2001: 71). The actual role of government in the evolution of market systems thus contradicts liberal beliefs in the spontaneity of socio-economic development. Indeed, policy interventions tended to alter the rate of change by either speeding it up or slowing it down in accordance with well articulated societal demands (Polanyi 1944/2001: 39).

Polanyi discusses these aspects by invoking the example of the Tudor and early Stuart regimes in England, who are said to have followed an adaptive and gradualist approach to structural change by slowing down the process of enclosures until the shift from arable land to pasture became socially bearable. Given an understanding of enclosures as a major institutional factor of industrialisation, which enabled the emergence of a competitive cotton industry endowed with mobile surplus labour, this implies that the mercantilist strategy of the English Crown shaped institutional adjustments to new conditions brought about by the disruptive impact of economic development (Polanyi 1944/2001: 39-40). Yet this type of government intervention was far from reactionary. Rather, it exercised leadership functions in innovatively managing socio-economic change:

“Their chancelleries and courts of prerogative were anything but conservative in outlook; they represented the scientific spirit of the new statecraft, favoring the immigration of foreign craftsmen, eagerly implementing new techniques, adopting statistical methods and precise habits of reporting, flouting custom and tradition, opposing prescriptive rights, curtailing ecclesiastical prerogatives, ignoring Common Law. If innovation makes the revolutionary, they were the revolutionaries of the age” (Polanyi 1944/2001: 40).

Again, and most remarkably, this argumentation resembles Schumpeterian theses on the entrepreneurial function of the state as an agent exercising innovative leadership in industrial evolution – with mercantilist policies as a primary example (Ebner 2006a: 509-510).

Following Polanyi, the mercantilist state could exercise its leadership function in managing socio-economic change by creative as well as protective means in a coherent manner, because its political-administrative apparatus was relatively autonomous from the special interests of powerful social classes. This amounts to a distinction between “government of the Crown” committed to general welfare and “government by a class” committed to particular class interests (Polanyi 1944/2001: 40-41). Despite the advantages of a relatively autonomous political-administrative apparatus, Polanyi suggests that the paternalism of mercantilist regulations was misplaced in the setting of an industrial economy. Still, its administration of labour and industry could be perceived as a model for the social administration of the emerging welfare state in the

late 19th century that followed a brief interlude of liberal hegemony in English policy-making (Polanyi 1944/2001: 41).

The heyday of liberal public policy hit England in the 1830s, carried by a liberal ideology which rejected any political-administrative measure that could obstruct the unimpeded flow of marketable resources and their self-regulation by market prices. Public policy was viewed as a supporting device for the self-regulation of markets, based on a strict separation of economic and political spheres (Polanyi 1944/2001: 72). This ideological outlook contradicted the fact that the evolution of the market system and persistent interventionism were not exclusive, for the formation and maintenance of market institutions requires persistent interventions, involving antitrust regulations as well as union laws. Even violent means were applied in facilitating social and political conditions for promoting the market mechanism, at last also including the option of civil war as a means for dissolving obstructive social relationships and their institutional carriers (Polanyi 1944/2001: 155-156). The establishment of markets is thus not the result of spontaneous institutional change: “On the contrary, the market has been the outcome of a conscious and often violent intervention on the part of the government which imposed the market organization on society for noneconomic ends” (Polanyi 1944/2001: 258). Indeed, when viewed as a historical sequence, the institutional design of the market system in England during the first half the 19th century proceeded primarily through legal instruments. The Poor Law reform of 1834 promoted a deregulated labour market and the commodification of labour, followed by the Bank Act in 1844 that established the gold standard for the self-regulation of the monetary sphere, whereas the repeal of the Corn Law in 1846 allowed for free trade in grain, thus promoting the transformation of land into a marketable commodity (Polanyi 1947/1968: 67-68).

These changes in legal rule and regulations would also produce new categories of legal subjects that were held in accordance with the principles of the market process. This is again well illustrated by reference to the liberal interventions in social affairs. For instance, the origin of the legal category of the unemployed is related with the elimination of the Speenhamland system of a guaranteed minimum income in England, following the Poor Law Amendment of 1834. As the category of the “poor” was abolished, now the differentiation between physically incapable pauper and independent

worker as wage labourer was affirmed, then also highlighting the category of the unemployed, who was not to be relieved by means of income compensation as he was to be subjected to the working mechanism of wage adjustments in the labour market. Basically, this meant establishing the alternative between physical hunger and wage labour at a given market rate: “The perversion of cruelty consisted precisely in emancipating the laborer for the avowed purpose of making the threat of destruction through hunger effective” (Polanyi 1944/2001: 232-233).

During the same period of liberal restructuring, the contradiction between the formation of markets and political democratisation became apparent. While the Chartists demanded universal suffrage, which could potentially empower those strata of society that were to be turned to wage labourers, the separation between economic and political sphere became decisive for upholding the market system under democratic conditions. Liberal ideas of constitutionalism, which were originally directed against the danger of the confiscation of private property through despotic rulers, were now reinterpreted for safeguarding private property against the impoverished masses. In particular the US-American constitution represents such a type of “legally grounded market society” with its separation of powers that could hold voters relatively powerless against the interests of owners (Polanyi 1944/2001: 233-234). At this point, the political dimension of the co-evolution of states and markets becomes crucial once again, as it addresses both the prospects and limits of public policy in coordinating the drive for a market system and parallel efforts in social regulation. The double movement of market liberalisation and social protectionism is thus accompanied by increasing difficulties with the effective implementation and democratic legitimisation of policy interventions. In consequence, the institutional stability of the market system is at stake.

## **5. The Double Movement and the Problem of Policy Intervention**

Polanyi outlines two paradoxical aspects in the co-evolution of market and state that contradict liberal ideologies of the market system. First, as the English example illustrates, laissez faire principles were historically enforced by the state and did not evolve spontaneously in a natural market order. Indeed, even utilitarian liberalism of the Benthamite creed would favour strong government as the most indispensable agency of knowledge and power needed to make markets work (Polanyi 1944/2001: 145-146). In

practice, as the expansion of markets required a massive restructuring of social affairs, particularly relevant regarding the public treatment of poverty, it was paralleled by an extension of interventions and regulations that eventually fuelled a bureaucratisation of government, endowed with extended powers for social control: “The road to the free market was opened and kept open by an enormous increase in continuous, centrally organized and controlled interventionism” (Polanyi 1944/2001: 146). Second, while the establishment of the *laissez faire* economy was the product of deliberate state action, the political counter-movement that organised its resistance in England since the 1860s resulted from spontaneous activities scattered all over society, pragmatically assembling diverse social interests and political ideologies ranging from socialism to conservatism. It follows: “*Laissez faire* was planned; planning was not” (Polanyi 1944/2001: 147). Obviously, the latter assessment represents a pointed counter-position to liberal worldviews, as represented most prominently in Hayekian reasoning on the spontaneous order of the market. Polanyi contradicts Hayek’s notion of the rationalist utopia of planning by deliberate interventions as he claims that it is in fact the market system, which is the product of an utopian rationalism that manifests itself in coordinated government interventions to disembed the market sphere from non-market modes of social integration, whereas efforts in re-embedding regulation would proceed in the ad-hoc manner of diverse spontaneous moves for social protection (Holmwood 2000: 34-35).

This claim is rooted in Polanyi’s thesis that the countermove against the expansion of markets resulted not from the impact of distinct social forces and ideologically fuelled political movements but from the cumulative increase of insights into the problems of socially disembedding market forces, that is, “a result of the increasing realization of the nature of the problem in question” (Polanyi 1944/2001: 156). Accordingly, Polanyi rejects an analytical emphasis on the particular interests of social groups and classes in the political assessment of the counter-movement, for the latter would reflect a general interest that spans diverse social classes, based on insights on the required maintenance of the human and natural substance of society and thus highlighting broader social interests that are not to be defined in terms of narrow economic interests (Polanyi 1944/2001: 160-162). This rather idealistic depiction of the counter-move as a project of societal enlightenment against the market society resembles a Hegelian idealism that points to cumulative insights into the laws of motion of society – and indeed it has been



criticised as such. Decisively, it is claimed that Polanyi provides an apolitical theory of the welfare state, viewing it as a societal response in the spontaneous counter-movement against the market society, which is not subject to particular interest group interventions (Hejeebu and McCloskey 1999: 295). These problematic aspects of political considerations in Polanyi's approach imply that society is perceived as having a reality of its own, acting on its own behalf as an active, self-conscious entity (Burawoy 2003: 189-199).

Still, the impact of social forces in the formation and crisis of the market society does not remain uncovered at all. This is well exemplified by Polanyi's discussion of the persistent influence of feudal culture and landed interests in the drive for the market society, which is explained by their protective functions in the restriction of disembedding processes. The fixing of human resources in a particular place is typical for the feudal mode of life, contradicting mobility and adaptation that become typical for the market system. The corresponding drive for a spatial fix also explains the territorial character of sovereignty in the modern nation-state (Polanyi 1944/2001: 192-193). Furthermore, feudal sentiment and agrarian protectionism contributed decisively to the containment of the commodification of land in Western Europe, although in a rather accidental manner that served common social interest non-purposefully. In their general outlook, these sentiments preceded progressive projects in socio-economic regulation like Roosevelt's Tennessee Valley Authority during the New Deal. Indeed, while landed interests on the European Continent rejected liberal ideas, they would promote social protectionist approaches, as implemented in Germany during Bismarck's Chancellorship (Polanyi 1944/2001: 194-195). Nonetheless, during political turmoil, these landed interests would rather defend the market system than siding with the labour movement in promoting its abolishment, primarily due to the question of private property and its political defence (Polanyi 1944/2001: 200).

This societal divergence of political orientations regarding the transformation of the market system points already at the political and economic instability that resulted from protectionist disturbances, furthered by the counter-movement against the market system in Western Europe since the 1880s. Paralleling this advance of protectionism, the nation-state became the decisive terrain for political identity. Ensuing patterns of national rivalry together with prolonged economic and political crises culminated in

World War I, followed by unsteadiness and reorientation afterwards (Polanyi 1944/2001: 210-212). Polanyi explains this permanence of instability by referring to the interconnectedness of the separated political, social and economic domains that would become subject to protectionist policies. As protectionism encouraged the monopolisation of market structures, interventions in support of a competitive order became ubiquitous, leading to an increasingly bureaucratic and corporatist setting that persistently distorted prices and prolonged recessions. The institutional separation of economic and political spheres intensified the disruptions emanating from destabilised markets. Thus, the transformation of the market system towards an authoritarian solution following World War I was not driven by new economic motives, but by new institutional mechanisms in coping with the market civilisation (Polanyi 1944/2001: 227-228).

Due to the interconnectedness between the separated societal domains, market strains would affect other institutional zones such as national government and thus even affect international politics: “Each field was comparatively independent from the other and tended toward an equilibrium of its own; whenever this balance was not achieved, the imbalance spread over into the other spheres. It was the relative autonomy of these spheres that caused the strain to accumulate and to generate tensions which eventually exploded in more or less stereotyped forms” (Polanyi 1944/2001: 220). Policy interventions into the market system therefore escalate a socio-economic destabilisation that leads to the “great transformation” of the market society with the option of an authoritarian solution. Underlying the controversial impact of these theses is Polanyi’s belief in the socially disruptive yet economically equilibrating capacities of markets that are unhampered by policy interventions. Thus, in Polanyi’s account, also business cycles are basically derived from policy interventions; a position which radically contradicts contemporary Keynesian ideas on the endogenous instability of markets (Dalon 1968: xxv). Indeed, with regard to the self-stabilisation of markets, Polanyi remains close to the positions of the Austrian School of Mises and Hayek with their monetary theory of the business cycle. Polanyi’s positions thus remain paradoxically close to the Viennese milieu of their origin, in particular shaped by Mises’s rejection of policy interventions into market processes. In other words, Polanyi is overdoing the case of market distortion by policy interventions, as he seemingly relies on a type of flawless market process that should become most prominent with general equilibrium

theory (Hejeebu and McCloskey 1999: 302). Yet Polanyi's reconsideration of structural tensions arising from the separateness as well as connectedness of the diverse domains of economy, polity and other spheres of society which follow a distinct functional logic has also invited sympathetic interpretations in terms of systems theory. The market system is accordingly viewed as an autopoietic system which functions according to its own rules and logics that conflict with the alien rationale of those systems from which outside interventions emerge (Jessop 2001: 222-223).

For Polanyi follows from the consideration of policy interventions that the tensions arising from the protective regulation of the market system have consistently fuelled a transformation of the liberal bourgeois civilisation that had become prominent during the 19th century, leading to an upsurge of socialism and fascism as conflicting solutions to the turmoil of the 1920s. Socialism represents an inherent tendency of industrial civilisation towards a conscious subordination of the market to democratic principles by means of adequate public policies, basically confronting private efforts in achieving monetary gain as an exclusive motivation for productive activity, while abolishing private property of the means of production (Polanyi 1944/2001: 242). Fascism, however, as a non-socialist response to the failure of the market society resembles an interventionist reform of the market economy on the condition of eliminating democratic institutions in economy and polity (Polanyi 1944/2001: 245). Polanyi's own normative position highlights the socialist option, yet amended in terms of safeguarding "freedom in a complex society" that would restore the "habitation" of society through a democratically regulated industrial system (Polanyi 1944/2001: 257). Moral freedom and independence of mind would represent values of the market economy and its system of private enterprise that should be preserved, set in a different context that fosters the common good while confronting bureaucratisation (Polanyi 1944/2001: 263-264). Indeed, markets for goods and services would persist as allocative mechanisms for signalling consumer's choices, while remaining framed by the regulations of non-market institutions (Polanyi 1944/2001: 260).

This reference to a mixed economy with democratic planning in a setting of industrial associations has been prevalent with Polanyi's thought ever since his first major publication addressed the socialist accounting debate in the theoretical discourse of the Austrian School, fuelled by Mises and his companions in response to the socialist

advance after World War I (Mendell 1989: 577-578). While acknowledging the infeasibility of accounting in a socialist command economy, Polanyi proposes a decentralised model of guild socialism that should combine elements of market supply and demand with socio-political regulations, thus satisfying the diverse needs of society as articulated by industrial associations and consumers. According to Polanyi, the differentiation between capitalism and socialism should not be reduced to the dichotomy between market and plan, for it is rather to be associated with aspects of social productivity and the societal character of production and distribution at large, meant to benefit the common good (Polanyi 1922: 378-379). Polanyi's advocated type of guild socialism thus resembles a corporatist system of industrial democracy with communal property of the means of production that is governed by industrial associations and consumer organisations. Wages and prices are regulated in terms of social values, subject to bargaining arrangements among the involved associations (Polanyi 1922: 403-405). In accordance with these political leanings, also Polanyi's early German comments on Roosevelt's New Deal highlight the indispensability of participative and transparent democratic procedures (Polanyi 1935: 763-765). Indeed, Polanyi is persistently sensitive to the danger of an insulation of the state from society that would parallel the separation of market system and political sphere, resembling the evolution of a "self-regulating state" that combines the political power of a welfare bureaucracy with extended social control and undemocratic authoritarianism (Godbout 1991: 128-129).

The formation of the welfare state is thus a decisive component in Polanyi's approach to comparative economic systems, as it directly affects the status of labour – the crucial characteristic for specifying the rationale of an economic system. The political tendency of a restoration of the primacy of society over the economic system then implies the abolition of the commodity fiction of labour, land and money. The actual modes of ending the self-regulating market system may vary over time, involving both authoritarianism and democracy, yet in any case, the status of labour as a fictitious commodity is abolished with far-reaching consequences for society at large: "To take labor out of the market means a transformation as radical as was the establishment of a competitive labor market. The wage contract ceases to be a private contract except on subordinate and accessory points. Not only conditions in the factory, hours of work, and modalities of contract, but the basic wage itself, are determined outside the market"

(Polanyi 1944/2001: 259). The social counter-movement that accompanied the evolution of the market economy since the mid-19th century thus advanced a self-protection of society that promoted welfare states combined with the struggle for a democratisation of industry. Indeed, as Polanyi suggests, the formation of the welfare state represents a protective venture that would offer workers “the mixed motives of status, security of income, teamwork, and a creative role in industry” (Polanyi 1977: 1). Historically, these endeavours are most positively associated with the experience of “Red Vienna”, that is the socialist municipality of Vienna after World War I with its extended welfare programmes. As a major cultural achievement it differed from the reactionary Speenhamland system due to the efforts of the Viennese socialists in transcending capitalism while retaining the positive effects of the industrial system of labour and technology (Polanyi 1944/2001: 298-299). Thus, in the Polanyian perspective, the distributive function of the welfare state is not to be separated from its impact on the democratisation of the labour process with all of its various political implications.

Yet Polanyi’s policy proposals reach well beyond the domain of the welfare state. Indeed, accounting for his theoretical positions on the primacy of technological requirements in the institutional evolution of the market system implies also that reform attempts reach beyond the institutional grounds of capitalism with its primacy of material gain and rather challenge the set up of modern industrial civilisation at large, that is, the Machine Age in Polanyian terms: “The search for industrial democracy is not merely the search for a solution to the problems of capitalism, as most people imagine. It is a search for an answer to industry itself. Here lies the concrete problem of our civilization” (Polanyi 1947/1968: 59-60). Crucially, it is this problem of the technological civilisation that is ignored by liberals like Hayek in their defence of the market system, whereas democratic interventions of producers and consumers hold the key to freedom in a complex society (Polanyi 1947/1968: 75-77). Again, this line of reasoning points at the persistent relevance of Polanyi’s normative concerns regarding a re-integration of economic and political spheres in the setting of a democratic type of public policy.

In summary, the Polanyian line of reasoning on the institutional foundations of public policy is well reflected by invoking a scheme of co-evolving states and markets. Both

domains rest on historically variable patterns of social integration, that is, reciprocity, redistribution and exchange. Decisively, the state is not only active in the embedding social regulation of established market processes but already in the formation of markets, containing disembedding procedures that promote the institutional and social conditions of market exchange. The underlying historical perspective on the evolution of welfare states is in line with those types of reasoning that account for the correspondence of state building and market formation from an institutionalist point of view. Such a type of reasoning associates the prehistory of the welfare state with poor law legislation in mercantilism and its early state building efforts that were extended in absolutism and thus prepared the establishment of more comprehensive welfare programmes that set in with the advent of mass democracy, which articulated increasing socio-economic demands for equality and security – as related with the industrial dynamism of capitalist development since the 19th century (Flora and Heidenheimer 1982: 22-23). Despite an inherent functionalism that goes together with the perspective of modernisation, still the acknowledgement of persistent social conflict rings a Polanyian tone. This applies also to Stein Rokkan's theory of political evolution. Here, state formation is historically based on the formation of organisations for resource mobilisation in fiscal and military terms. This stage is followed by nation-building, involving standardisation in education, law, religion and language. As mass democracies promote growing political participation, the redistribution efforts of welfare states meet demands for the equalisation of economic and social conditions (Flora and Alber 1981: 45).

Adding the persistence of societal conflicts in the continuum of disembedding commodification and embedding de-commodification allows for an evolutionary conceptualisation of the Polanyian account of economic development. This involves an acknowledgement of simultaneity in the move of market liberalisation and the counter-move of social protection. Both sides of the Polanyian double movement proceed as a couple, although they are subject to a sequencing of hegemonic constellations in policy terms. Again, it is this parallel processing of market expansion and social regulation that drives the co-evolution of states and markets in terms of a persistent institutional transformation. This implies an inherently contested character of embeddedness and commodification. While a sustainable market society requires the partial embeddedness of economic and social affairs in non-market relations, involving the persistence of non-

commodity domains in the wider sphere of commodity production, still the relationship between the diverse modes of social integration remains subject to conflict and change. It is this contested interdependence between exchange, reciprocity and redistribution that endows the co-evolution of states and markets with transformative qualities in the evolution of the capitalist market system.

Historical evidence speaks for that interpretation of the Polanyian scheme of the double movement, particularly with regard to the basic continuity in the formation of welfare states. Already during late mercantilism specified welfare provisions were at hand, as illustrated by the formation of welfare systems in England, France and Prussia during the 18th century. This was accompanied by attempts at deregulation and liberalisation that were implemented by absolutist governments to promote their domestic tax base, by doing so propelling the persistence of feudal forms in economic organisation (Halperin 2004: 277-279). Building on these institutional foundations, then, a social protectionist counter-move could be observed already during the liberal epoch of disembedding commodification in England during the 1830s. Thus, the commodification of labour was accompanied by re-embedding social regulations already at the developmental peak of liberal hegemony (Block 2003: 289). Moreover, European states remained interventionist in most areas of the economic system also during the second half of the 19th century. Free trade as a key component of the liberal project was basically restricted to the brief period between 1860 and 1875, paralleled by massive social conflicts on a domestic scale (Halperin 2004: 271-272). The underlying relationship between the commodification of labour and its social regulation was of course country-specific, depending on the actual constellations of socio-economic forces and their political articulation. Indeed, late nation-building in Continental Europe allowed for a stronger standing and interest representation of organised labour and its drive for social regulation as compared with the pioneering case of England (Burawoy 2003: 237-238). This historical specificity of the Polanyian double movement points once again at the role of the welfare state as a framing condition of market expansion, which is not to be separated from parallel efforts in disembedding procedures (Rieger and Leibfried 2003: 61-62). It may be added, therefore, that the ensuing types of welfare states promoted the partial embeddedness of markets as a temporarily stable solution to the problem of reconciling industrial development and social cohesion.

**Table 2: The Historical Evolution of the Double Movement**

	<i>Commodification: Market Liberal Move</i>	<i>De-Commodification: Social Protectionist Counter-Move</i>
<i>Pre-Industrial Capitalism: Mercantilism</i>	Commercial formation of national markets	Social regulation and traditional standards
<i>Industrial Capitalism: Machine Age</i>	New poor law and expansion of labour markets	Welfare services and assistance programmes
<i>Post-Industrial Capitalism: Globalisation</i>	Deregulation of national welfare regimes	Entrenched welfare state and global standards

In line with these historical considerations, the evolution of the double movement in Polanyian terms is sketched in table 2. Pre-industrial capitalism in its mercantilist shape is marked by a market liberal move for commodification that involves the commercial formation of national markets, subject to state interventions in the socio-economic domain. De-commodification tendencies of the social protectionist counter-move



provide a wide range of social regulations that are in line with traditional standards of a pre-capitalist type of moral economy. The machine age of industrial capitalism witnesses the peak influence of liberal ideas and practices which are nonetheless met by counter-tendencies from early on. The market liberal move that is associated with the introduction of a new poor law and the expansion of labour markets is thus confronted with the social protectionist counter-move of an evolving welfare state with social assistance programmes. This leads to the current phase of post-industrial capitalism and its predominant pattern of economic globalisation. While the market liberal move towards a deregulation of welfare states under the leitmotif of competitiveness has been shaping policy agendas since the late 1980s, still a parallel counter-move of de-commodification and social protectionism remains decisive. The political-economic entrenchment of the welfare state that is accompanied by transnational efforts in regulation, as exemplified by the matter of global social standards. Accordingly, the Polanyian approach has the capacity for providing further insights to the institutional transformation of the welfare state. Again, the evolutionary logic of disembedding commodification and embedding de-commodification applies.

## **6. The Institutional Transformation of the Welfare State: Polanyian Insights**

Recent assessments of Polanyi's theory of comparative economic systems have repeatedly underlined its analytical value for explorations of the institutional transformation of the welfare state, hinting at the matter of national varieties of capitalist market economies and the impact of globalisation on these (Randles 2001: 15-16). Basically, the welfare state stands for the social protectionist and redistributive move in Polanyi's terms, involving the social right of a minimum level of income and the corresponding allocation of benefits and payments according to non-market criteria (Dalton 1968: xxvi). Yet Polanyi does not provide a simple market failure argument. Rather, he stresses that markets should be fenced off from certain societal domains – and indeed this logic applies primarily to the formation of the welfare state, which promotes a decoupling of the access to basic goods and services from the market process (Nelson 2005: 19). The double character of the state then contains the facilitating of market exchange through adequate rules and enforcement procedures as well as the mitigating of the most disruptive consequences of markets by promoting

welfare supports. It is the latter aspect which has been eroding in recent years all over the Western world (Ibata-Arens, Dierkes and Zorn 2006: 3). This recent transformation of welfare regimes in the direction of an extension of market principles and related material incentives is well described in the Polanyian terms of a re-commodification of labour.

Yet this consideration should not be perceived as an unconditional appraisal of the welfare state and its social protectionist measures that have become prominent in various types of welfare regimes. First of all, from a Polanyian viewpoint, social disruptions caused by the commodification of labour exhibit a cultural dimension of degradation, divisiveness, and potential loss of self-respect (Dalton 1968: xx-xxi). In this regard, Polanyi's notion of the double movement resembles Marxian concerns with the dialectics of labour in commodity production, in particular regarding the aspect of alienation and reification. Certain types of social protectionism have the potential to even aggravate these cultural disturbances. Indeed, Polanyi's fierce critique of the pre-industrial Speenhamland system of social benefits refers to its paternalism and the ensuing spread of passivity and immobility among the beneficiaries that would come to decompose collective action for social reform (Burawoy 2003: 218-219). Polanyi's concept of the double movement thus allows for highlighting the cultural dimension of socio-economic change by pinpointing the variability of social needs and their articulation (Mayhew 1989: 560-561). Accordingly, the double movement may be viewed as a conflict between the market system and the welfare state in terms of a clash of specific cultural systems, involving ideological and motivational patterns that strive for institutional hegemony. However, much more than the liberal move for the market system, the counter-move of the welfare state always struggled with problems of legitimacy (McClintock and Stanfield 1991: 58-59). These arguments underline the appropriateness of the suggestion that a Polanyian perspective on comparative institutional analysis needs to address the aspects of power and politics in historically specific cultural settings (Harriss 2003: 347-348).

In this context, it is noteworthy that even the notion of the welfare state itself entails a mixed history in different countries. Rather pejoratively used in Germany, where the concept of the *Sozialstaat* has been more prominent due to its allegedly less interventionist connotations, it was in Great Britain, where the notion of the welfare

state was mobilised against the fascist warfare states of the axis powers during World War II (Flora and Heidenheimer 1981: 19-20). Quite in line with the underlying nexus between political democracy and social protection, then, a most prominent definition of the welfare state is associated with Thomas H. Marshall's notion of social citizenship, which involves social rights that need to exhibit the same status as property rights in that they should be legally inviolable and enforceable. Marshall's notion of social citizenship refers to a set of equal rights and duties in an established community. It expands individual freedom and political participation, related to civil and political citizenship, by introducing a social right to a minimum level of welfare and security (Marshall 1965: 84).

These considerations have stimulated Gøsta Esping-Andersen's seminal work on the institutional varieties of welfare capitalism, which draws decisively on Polanyi's concept of commodification. Esping-Andersen's central claim is that the unalienable social rights described by T.H. Marshall, which are derived from citizenship not performance, contribute to a process in which individuals as carriers of marketable labour are potentially de-commodified, that is, their material reproduction may not be contingent upon the sale of their labour power anymore (Esping-Andersen 1990: 21). Polanyi's notion of commodification thus informs the basic logic of social policy and welfare state formation. This quality of de-commodification rests upon the combination of social welfare assistance with an emancipation of individuals from market dependence: "De-commodification occurs when a service is rendered as a matter of right, and when a person can maintain a livelihood without resilience on the market" (Esping-Andersen 1990: 21-22). However, this definition also acknowledges that de-commodification resembles an institutional tendency regarding the strength, scope and quality of social rights, which outlines the actual degrees to which various actors can uphold a socially acceptable living standard independently of their participation in the labour market. Thus, the marketability of labour becomes less pressing in competitive terms. In the last instance, then, complete de-commodification would amount to de-proletarianisation, as the choice to work replaces work compulsion both in a material and ideal sense (Esping-Andersen 1990: 37).

Thus, welfare states may differ regarding their de-commodifying quality. Components such as needs-tests in the Anglo-Saxon countries, the reconsideration of work

performance and professional status in the traditional German system or a general level of assistance below market wages which has been characteristic for the Beveridge-type of welfare system do influence a basic aspect of de-commodification, namely the possibility of temporarily opting out of work without loss of job or income (Esping-Andersen 1990: 22-23). Esping-Andersen therefore constructs three types of welfare regimes that follow a continuum of de-commodification effects: namely the liberal, corporatist-statist and social democratic variants. Liberal regimes such as the US-American system contain means-tested assistance with a modest level of transfers, framed by a work ethic that promotes the primacy of market-generated incomes over any kind of de-commodification. Corporatist regimes such as the traditional German welfare state combine the granting of de-commodifying social rights with a professional status orientation and a major role for family relations in terms of social subsidiarity. Social democratic regimes such as the traditional Swedish welfare state stand out in extending the de-commodifying impact of social rights also to the middle class, in consequence making it a society-wide option that integrates voluminous welfare transfers with a policy commitment to full-employment (Esping-Andersen 1990: 26-28).

Critical responses to Esping-Andersen's concept of de-commodification as a mechanism that allows recipients to maintain living standards despite an interruption of market earnings tend to invoke the underlying problem of an exclusive focus on the consumptive dimension that neglects aspects of self-creation and self-development (Room 2000: 333-334). Indeed, more recently, Esping-Andersen has somewhat altered the analytical specification and policy relevance of his concept of de-commodification. Activation in terms of the availability of resources and the motivation to work becomes decisive as a rationale of welfare policies. In this sense, productive activation resembles individual empowerment to participate in the workforce. The Scandinavian approach of social-democratic activation policies is said to combine individual employability with structural policies for full employment. It differs thus from liberal variants such as the US-American system, which stresses the conditionality of welfare transfers on the acceptance of job offers in a setting of workfare mechanisms (Esping-Andersen 1999: 80-81). Generally, increasing employment rates are viewed as a solution to the fiscal crisis of the welfare state with its rising costs of service provision and decreasing tax revenues. In consequence, high employability becomes a third goal of social policy next

to low inequality and high living standards under conditions of demographic change and economic globalisation (Kenworthy 2004: 3-4). The underlying integration of employment policy and social policy has been already indicated by the support of employability for the female workforce in earlier programmes of activation that have made the welfare state a major factor in the clearing of the labour market (Esping-Andersen 1990: 148-149). As de-commodification by welfare services is said to be most relevant for a core segment of a prime age male workforce, the employment perspectives of single mothers become even more relevant (Esping-Andersen 2000: 355-356).

Yet apart from this gender aspect, the ubiquitous rhetoric of the reform of welfare regimes addresses comprehensive societal changes that are most intensely debated under the heading of the knowledge-based economy (Esping-Andersen 2002: 1-3). In this discourse, learning capabilities become a key component of welfare regimes that are subject to demographic changes and competitive pressures in globalisation, as Esping-Andersen claims programmatically: “Our human capital constitutes the single most important resource that we must mobilise in order to ensure a dynamic and competitive knowledge economy” (Esping-Andersen 2002: 3). At first sight, de-commodification and the related regulation of competitive pressures may become a strategic instrument in the socio-economic drive for maintaining international competitiveness. However, together with Esping-Andersen’s reconsideration of employability as a key feature of an integrated policy approach to welfare services, this emphasis on education and training instead points to a policy shift towards the re-commodification of labour.

Corresponding efforts in the restructuring of welfare regimes reflect a transformation of Western welfare states that is endemic at least since the 1990s. It is based on a move away from an entitlement-oriented approach to social welfare towards a work-based support system that focuses on conditional assistance, which aims at the employability of welfare recipients. In the United States, the Personal Responsibility and Work Opportunity Reconciliation Act that was introduced by the Clinton administration replaced needs-based assistance with a temporary assistance scheme that was coupled with work requirements. Paralleling these efforts, the Blair government in Great Britain implemented its New Deal programme of welfare reform, which also moved away from

the idea of social citizenship by substituting it with an approach that would highlight employability as a condition for reintegration into the labour market (Beem and Mead 2005: 1-2). It is this matter of employability combined with workfare mechanism of self-entrepreneurship in competitive labour markets that constitute the commodification aspect of welfare reform. Not surprisingly, when viewed in a historical context, similar ideological mechanisms are at work in all liberal moves against welfare provision. This is well exemplified by discourses on the breeding of irresponsibly antisocial behaviour through welfare transfers in England during the 1830s as compared with US-American debates on behavioural impact of welfare benefits in the 1990s (Somers and Block 2005: 260-261). In reflecting the hegemonic character of these ideas that go together with the liberal move for disembedding commodification, also the European Union proceeds with an activation paradigm in its integrated employment and social policies. In this setting, the governance mechanism of the open method of coordination should serve a decentralised adaptation of welfare regimes (Van Berkel and Roche 2002: 202-203). Also in this case, activating social policies that involve a reduction in welfare benefits or a strengthening of their conditionality contribute to a re-commodification of labour (Van Berkel and Møller 2002: 52).

All of this may be related to a liberal, or for that matter neoliberal ideology, defined as follows: “Neoliberalism is in the first instance a theory of political economic practices that proposes that human well-being can best be advanced by liberating individual entrepreneurial freedoms and skills within an institutional framework characterized by strong private property rights, free markets, and free trade” (Harvey 2005: 2). Applied to the reform of welfare regimes, it underscores the values of flexibility, individualisation, and individual responsibility for material well-being in the setting of competitive market processes. The underlying retreat of the state from welfare provisions is paralleled by an extension of cooperative interaction between public and private sector in a new mode of political-economic governance (Harvey 2005: 75-77). According to the Polanyian account of Bob Jessop, then, all of these commodification tendencies of recent liberalisation and deregulation efforts in the OECD countries exhibit a specific dynamism: First, an extension of the commodity logic of self-valuation to labour, land and money, in particular highlighting the role of employability in the form of wage labour. Second, a commercial reframing of non-commercial operations in terms of a provision of public goods according to the cost-benefit

calculations that are usually associated with private sector business. Third, a strengthening of the institutional asymmetry of the market system, which favours the capacity of mobile capital over immobile factors labour and land. Fourth, a hegemonic position of political-economic projects that address competitiveness as a societal imperative (Jessop 2001: 219-220).

Reform measures in the ongoing liberal transformation of the welfare state thus promote the disembedding commodification of an institutional setting that had originally emerged from the counter-move against the market system. Indeed, the current transformation of the welfare state involves an institutional adaptation to the requirements of the market process. Welfare services come to safeguard the commodity character of labour on an individual level of competitive marketisation. The activating policies of the transformed welfare state become a factor in the reconstitution of labour markets at large. In other words, the transformed welfare state supplies the institutional means for providing commodified inputs to the labour market. Any counter-move against these tendencies needs to cope with the hegemonic rationale of competitiveness as the primary concern of policy interventions. In conclusion, public policy becomes an integral factor in the reproduction of the market system. Perceiving these tendencies in the context of an evolving knowledge-based economy, as proposed among others by Esping-Andersen, then points to the role of knowledge as a factor that is set to augment labour and thus may turn from a fictitious into a real commodity, becoming subject to property rights and commercial reproduction criteria (Jessop 2007: 15). The double movement in the knowledge economy then involves a liberal move for the commodification of knowledge which is met by a social protectionist counter-move that accounts for non-market dimensions of knowledge with its formal and implicit facets (Ó Riain 2006: 523-524).

In consequence, the double movement is to be understood as a clash of social principles resulting from the contradiction between the market system and the persistence of modes of social integration beyond market exchange and commodification. A frictionless harmonisation of market system and policy interventions thus remains out of sight (Polanyi Levitt 2006: 162-163). Indeed, the notion of the double movement rather resembles a perception of the economy as a loosely coupled system, in which no pre-stabilising forces exist, although buffer components and backup mechanisms may

provide temporary coherence in the face of developmental uncertainty (Block 2007: 7). Depending on the actual historical context, market expansion may be followed by reaction or withdrawal, that is, by a great transformation or a great involution of society (Burawoy 2003: 243). What enters as a key component in these undetermined evolutionary processes is the impact of discourses on the social construction of market liberal moves and social protectionist counter-moves (Munck 2004: 253-254). Regarding the political economy of welfare reform these discourses may shape the dynamism of path dependence in the co-evolution of states and markets. For instance, the political character of welfare state formation arguably differs from the politics of retrenchment, as the complexity of interest groups and their particular stakes has been increasing enormously over time, thus leading to institutional resilience in the roll-back of welfare programmes (Pierson 1996: 143-144). Moreover, welfare retrenchment is characterised by corridor effects in the convergence of fiscal patterns and governance modes that coincide with the transformation of the nation-state in globalisation (Rothgang, Obinger and Leibfried 2006: 261-262). All of this adds to the complexity of the Polanyian double movement in its current phase of political-economic articulation.

## **7. Conclusion**

The preceding reconstruction of the Polanyian approach to public policy has taken its point of departure in the argument that the co-evolution of states and markets highlights historical variations of embedding and disembedding factors in the contested commodification of labour as the decisive feature of the market system. The corresponding institutional tension in the setting of public policy is said to reflect a double movement of market liberalism and social protectionism, which is reflected in regulative patterns and policy strategies. It involves an elementary role of the state in market creation through the imposition of commercial rules and norms as well as in social regulation through the maintenance of non-market means of allocation and distribution. While a sustainable market society requires the partial embeddedness of economic and social affairs in non-market relations, still the actual relationship between exchange, reciprocity and redistribution as fundamental modes of social integration remains subject to conflict and change. It is this contested interdependence between the diverse modes of social integration that endows the co-evolution of states and markets



with its specific transformative qualities that characterise the development process of capitalist market economies.

Even more essentially, in its normative concerns, Polanyi's approach addresses the fundamental question how to organise the societal provision with material means of life in a sustained manner that allows for both social and ecological concerns (Latham 1997: 58). In current discussions on the future perspectives of national welfare regimes, therefore, a specific "Polanyi problem" has been singled out, asking how the globalisation of the market system as a disembedding process is to be reconciled with re-embedding moves aiming at social security and cohesion (Munck 2004: 251-252). This problem corresponds with Polanyi's fear of a degeneration of the liberal project into political authoritarianism on a national scale, framed by economic pressures emanating from international rivalry (Harvey 2005: 70). As such a perception of the demise of liberal capitalism belongs to the set of ideas that are shared by both Karl Polanyi and Max Weber, it also highlights tendencies of a widespread underestimation of the reproductive capacity of the market system (Roth 2003: 276-277). In this manner, globalisation represents a specific institutional constellation in the historically rooted co-evolution of states and markets.

Supposedly, a Polanyian diagnosis of globalisation would denounce global finance for undermining the coherence of national economies while spreading Polanyi's false utopia of self-regulating markets (Polanyi Levitt 2006: 152-153). Such a Polanyian view might consider financial deregulation as an economic trend that is cultivated by state action, meeting the counter-movement of efforts that aim at bringing global finance under social control, particularly in a transnational setting of rules and regulations (Helleiner 2000: 12-13). Indeed, a major difference between the liberal international economic order of the 19th century and the recent drive for globalisation is associated with the steering capacity of the nation-state. In the former case, nation-building was accompanied by the evolution of welfare states, whereas in the latter constellation the national regulatory framework for social protection is weakened by globalisation (Helleiner 2000: 25-27). Similar problems apply to liberal reforms in developing countries, where a roll-back of the state undermines those institutional vehicles for social protection that are essential in sustaining capitalist development (Putzel 2002: 1-2). Such a reform orientation thus contradicts the developmental logic

of commodification with its massive expansion of government regulations and administrative operations. Instead, the case of East Asian development illustrates the transformative role of the state in governing socio-economic change through a wide array of institutional means that include the shielding of domestic markets from exogenous shocks (Stiglitz 2001: xiv-xv).

At this point, re-embedding efforts through state intervention provide the major terrain for future conflicts in the double movement. These efforts may be accompanied by the internationalisation of political initiatives for the de-commodification of labour (Munck 2002: 18). Polanyi's notion of the double movement then qualifies as a device for assessing the organised criticism of globalisation as a counter-move against the formation of a globalised commodity fiction (Birchfield 2005: 581-582). As the state provides a decisive terrain for these conflicts, the double movement is reflected within the state apparatus itself, shaping the overall profile of public policy. Policy implications that may be distilled from Polanyian considerations then highlight a reflexive, dialogical mode of governance as the solution to a sustained co-existence between market economy and the wider social and ecological system (Jessop 2001: 228-229). Such a reflexive mode of governance may also allow for retaining basic characteristics of welfare regimes that are currently contested by transformative pressures. Indeed, both embeddedness and commodification remain undetermined in their context-specific institutional dynamism that informs the analytical orientation of Polanyi's theory of public policy – thus adding to its enduring relevance.

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