

Between Aristotle and the Welfare State

The Establishment, Enforcement, and Transformation of the Moral Economy in Karl Polanyi's *The Great Transformation*¹

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William Booth's 'On the Idea of the Moral Economy' (1994) is a scathing critique of the economic historians labelled as 'moral economists', chief among them Karl Polanyi, whose *The Great Transformation* is the groundwork for much of the later theorizing on the subject. The most devastating of Booth's criticisms is the allegation that Polanyi's normative prescriptions have anti-democratic, Aristotelian and aristocratic undertones for being guided by a preconceived notion of 'the good'. This article presents an attempt to rescue Polanyi from this charge by reinterpreting his view of the relationship between the economic and the political, while elucidating the practical meaning of a moral economy.

Polanyi and Booth both raise many questions. The mechanism through which the economy is embedded, and the notions of 'the social' and 'the political', remain extremely vague. Any discussion of what is to be considered as part of a moral economy as opposed to a liberal economy is neglected. I agree with Booth to the extent that he points to the social and political embeddedness of free market liberalism. However, Booth's characterization of Polanyi's views as being 'Aristotelian' represents a very peculiar reading of Polanyi, which is not wrong but incomplete. The dominant strain within Polanyi's magnum opus is unabashedly democratic and egalitarian in its normative implications, whereas a minor strain, due to its conceptual underdevelopment, may be misinterpreted as representing an Aristotelian, aristocratic, anti-democratic approach to the economy. The communitarian-liberal debate is brought in to clarify the nature of the moral economy, its establishment, enforcement, and transformation. Furthermore, Polanyi's argument operates at two levels, the domestic and the international, and yet Booth neglects the international dimension,

which for Polanyi was at least as important as the domestic dimension. Similarly, Polanyi develops his arguments with special attention to how events unfold in history, hence placing ‘politics in time’, while Booth launches his criticisms from a decidedly ahistorical, theoretical vantage point, discussing rival ideas in the abstract. Most importantly, I argue that the foundations of any economic system are political, and change in this realm is initiated and enforced by political authorities. Once the political embeddedness of market economies and their dependence on political enforcement are recognized, it is possible to arrive at a superior organization of economic activity based on principles established through democratic deliberation. The political foundations of free markets imply that these supposedly neutral arenas of exchange are also structured by a concept of the good.

Was Polanyi an Aristotelian?

Polanyi’s advocacy of a protectionist counter-movement implies a normative commitment different than, if not opposed to, liberalism, which may or may not have an Aristotelian ontology. There are two different lines of argument submerged in Polanyi’s narrative, one of them more articulated and dominant, and the other one less articulated and secondary. Both arguments remain incomplete. This article attempts to complete both arguments in order to evaluate fairly Booth’s criticism and to understand better the notion of the moral economy.

According to Booth, Polanyi’s analysis of the modern economy ‘can be read as an attempt to sketch the outlines of a (loosely) Aristotelian economic theory in opposition to the rights-based arguments that at present command the horizon of normative economic theorizing’ (1994: 653). Referring to ‘Aristotle’s famous distinction of householding proper and money-making’,² which for Polanyi ‘was probably the most prophetic pointer ever made in the realm of the social sciences’, Booth maintains that ‘in the embedded economy, the production and distribution of the means of human livelihood are subordinated to the pursuit of good life broadly understood, a subordination that expresses the economy’s governed character’ (1994: 655).

Subordination of the market exchange to the pursuit of a preconceived notion of good life allows Booth to allege an affinity between Polanyi’s criticism of the free market and the classical aristocratic ‘critique of both market and democracy for their indifference to the rank ordering of persons and of the good that ought to be pursued’

(1994: 660). The pursuit of good life requires that people be treated according to their ‘worth’, which is derived from their social status:

... the embedded economy ... did not disrupt the rank order of human beings but rewarded each according to his worth... Embedded also means ... that each does what is proper to his or her status—male and female, freeman and slave, adult and child ... Finally, *embedded* conveyed the sense of “subordinate to the proper ends and purposes”—not the Midas or animal like passions of the many, not the “cloak of many colors” (as Plato in *Republic* 557c mockingly calls the diversity of goods under democratic regimes) but the pursuit of *ta kala*, the beautiful life made possible by detachment from provisioning activity, a detachment secured in its turn by domination over others. (1994: 660)

The defining elements of the embedded economy are ‘suffused with *hierarchy*—the good rank-ordering of ends and persons’ (1994: 660).

Booth asserts that, contrary to Polanyi’s view, market society has moral foundations (1994: 661). Market liberalism is ‘embedded’ both *institutionally* via property rights made operative in the form of law, and *normatively-ethically* via the egalitarian universalism of market exchange (1994: 661). Free markets as arenas of exchange do not discriminate on the basis of race, religion, ethnicity, sex, or any other criteria apart from having enough money to purchase the desired goods. This is a radical break with many millennia of regulated markets and exchange that served as institutions of discrimination:

There was indeed a great transformation, but it might better be expressed as a move from a community and its economy (heavily encroached upon by hierarchy and status) to a society in which a certain equality and autonomy were accorded primacy. (1994: 661)

Booth notes a similarity between Polanyi’s arguments and the *Gesellschaft* critique of modernity originally put forward by Tönnies, and as this evolved into the communitarian critique of liberalism (Booth 1994: 653, 657; Tönnies 1988). He does not elaborate on this affinity, except for suggesting that Michael Walzer’s ‘spheres of justice’ may better question the character of the market society (Booth 1994: 662; Walzer 1983).

Finally, Booth argues that a major inadequacy of the moral economic model is that ‘it has only thin theoretical resources with which to explain economic change—why economic regimes come into being and pass away’ (1994: 658). The question of ‘change’ brings another related criticism that is not stated by Booth: why and how societies

move from an embedded to a disembedded economy and vice versa. The mechanism through which the market is socially embedded, disembedded and re-embedded is neither clearly described in Polanyi's narrative nor called into attention in Booth's critical review. Polanyi would argue that the need to recoup the sunk cost of industry gives the impetus for the commodification of land, labour, and capital. It is not clear who the agent affecting this change is, since Polanyi wavers between a socioeconomic determinism reminiscent of classical Marxism and his sensitivity to the social fabric of the market.

Was Polanyi a New Deal social(-ist) democrat?

How can one reply to Booth's claims about Polanyi's argument? There are two rival currents in Polanyi's writing, which are somewhat contradictory. The less emphasized one of these arguments indeed stems from a quasi-Aristotelian understanding of the economy. Polanyi's second (more emphasized) argument, however, is undoubtedly egalitarian in its prescription of a social democratic welfare state.

Given the explicit normative commitments and prescriptions that appear in *The Great Transformation*, it is easy to exonerate Polanyi from the charge of being an Aristotelian 'reactionary'. Whenever he discusses the political economic form of the counter-movement, Polanyi presents the American New Deal as his preferred outcome (2001: 24, 211, 236-237). He discriminates between malign and benign forms of the counter-movement, Nazism representing the former and the New Deal representing the latter:

... the United States caught up with a century of European development: protection of the soil and its cultivators, social security for labor through unionism and legislation, and central banking—all on the largest scale—made their appearance ... the New Deal started to build a moat around labor and land, wider than any ever known in Europe. Thus America offered striking proof ... of our thesis that social protection was the accompaniment of a supposedly self-regulating market. (Polanyi 2001: 211)

Polanyi uses the New Deal as being the image of the future and almost as an ideal-type, speaking of attempts at implementing a 'British' New Deal and a 'French' New Deal (2001: 235-7).

Polanyi, though not a Marxist,³ has been a democratic socialist throughout his life, and socialist ideology arguably prescribes the opposite of the hierarchic social order that Booth attributes to Polanyi:⁴

Socialism is, essentially, the tendency inherent in an industrial civilization to transcend the self-regulating market by consciously subordinating it to a democratic society. It is the solution natural to industrial workers who see no reason why production should not be regulated directly and why markets should be more than a useful but subordinate trait in a free society. (Polanyi 2001: 242)

Polanyi as an Austro-Hungarian Intellectual

With regards to the personal-historical context of Polanyi's work a substantial amount has been written already (Block 2003; Polanyi-Levitt 1990: 111-126). I suggest two alternative contextualizations, hoping to supplement these previous contributions. First, Polanyi's moralistic approach to economy and society reflects an 'Austrian' disposition at the turn of the century. Schorske characterizes the period leading up to the First World War as a failed attempt at liberalism, epitomized in the moralistic-communitarian backlash that brought the Christian Socialist Karl Lueger to the mayoral office in Vienna (Schorske 1980). The Catholic-conservative *Biedermeier* culture of the Josephine Era is posited as a 'seedbed of later attitudes' among Austrian intellectuals (Johnston 1983: 11-30).

In sociological terms, the *Biedermeier* represents the waning years of unalloyed preindustrial society. To use a distinction coined by Ferdinand Tönnies in 1887, *Biedermeier* Austria preserved *Gemeinschaft* society, rural and cohesive, while thereafter her cities began to harbor the anonymous society of industrial capitalism that Tönnies called *Gesellschaft* ... Even at Vienna capitalism awakened nostalgia for *Biedermeier* security, causing social theorists after 1870 to extol either *Gemeinschaft* or some compromise version of it. (Johnston 1983: 30)

The yearning for a communitarian social structure that survived longer in Austria than, for example, in England, may have had an influence in informing Polanyi's worldview.

Polanyi and the Anti-Utopian Genre

The second context of Polanyi's writing is the anti-utopian, 'Realist' genre of the interwar period. The cataclysmic fallout of the Great War ushered a climate of pessimism and resignation. The liberal, cos-

mopolitan, utopian visions of the previous centuries seem to have provoked their opposite. Popularity of dystopian literary works such as Huxley's *Brave New World* aside, this period witnessed the rise of intellectuals who self-identified as 'Realists'. From Niebuhr's *Moral Man in Immoral Society* (1932), to Carr's *Twenty Years' Crisis* (2001 [1939]), to Morgenthau's *Politics among Nations* (1951), 'anti-utopianism' flourished as a social scientific genre. Polanyi frequently uses the terms 'utopia' and 'utopian' to deride and ridicule the 'self-regulating market' and laissez-faire liberal economists, respectively. In order fairly to evaluate Polanyi and his critics, apart from his explicitly espoused normative commitments, one has to examine the main pillars of his argument step by step and carry them to their logical conclusion.

The International Level and the Historical Approach of Polanyi's Argument

There are two conspicuous contrasts between Polanyi's argument and Booth's critique, both of which demonstrate aspects of Polanyi's argument that Booth does not engage. Firstly, Polanyi's argument operates on two different but related levels, the domestic and the international. His domestic argument is about how the utopian pursuit of free market liberalism provokes a counter-movement in a particular society. The unit of analysis is the dynamics of a single society, which is representative of how social science analysis was conducted until the paradigm change towards world-systems that took place in 1970s (Janos 1986). This is the level at which Booth engages Polanyi. Hence, this article mostly investigates the arguments at the domestic level. Equally important for Polanyi, however, was the international level of market liberalism, which he claimed was held together by two factors: balance of power and the gold standard. The collapse of both led to the great catastrophe of the Second World War with which Polanyi opens his book. In attributing such central importance to the international level, Polanyi anticipated the world-systemic turn in social sciences by a quarter century (Janos 1986: 65-96). Booth does not address at all the international level of Polanyi's argument, which offers at least as much critical insight to the global political economy today as Polanyi's domestic level analysis.

Secondly, fitting to an economic historian, Polanyi is pointedly historical in his analysis, developing elements of his conceptual repertoire as they unfold in historical process. As his anti-utopianism and

disdain for the abstract idea of the self-regulating market attest, Polanyi is not interested in ideas as abstract concepts; in fact, he finds such an approach to economic history to be dangerous. In sharp contrast, Booth is ahistorical, abstract, and detached from how events unfolded during and after the Industrial Revolution. Booth excessively relies on arguments made in ancient Greece, especially by Plato and Aristotle against free markets and democracy in the debate around Xenophon's *Oeconomicus* (Booth 1994: 659-660, 663-664). The neglect of the temporal dimension of political analysis came under heavy criticism recently as one of the most important shortcomings in political science today (Pierson 2004). In this respect, too, Polanyi predated his successors in social sciences by half a century, while Booth's criticisms lack such a temporal dimension.

Polanyi's Two Domestic Level Arguments

Polanyi asks why a prolonged period of relative peace and prosperity in Europe (1815-1914) suddenly gave way to a world war followed by economic collapse. He claims that '[t]he idea of the self-regulating market is a stark utopia, which cannot exist for any length of time without annihilating the human and natural substance of the society', further arguing that '[t]he origins of the cataclysm lay in the utopian endeavour of economic liberalism to set up a self-regulating market system' (2001: 3, 31).

Reviewing the history of England, he shows that the markets had to be forcefully instituted despite popular resistance. Every improvement in industrial output was paid for by massive social dislocation (2001: 41). He makes his normative commitments and his view of the 'proper role of government' explicit:

A belief in spontaneous progress must make us blind to the role of government in economic life. *This role consists often in altering the rate of change, speeding it up or slowing it down as the case may be...* The usual "long-run" considerations of economic theory are inadmissible ... If the immediate effect of a change is deleterious, then, until proof to the contrary, the final effect is deleterious. (Polanyi 2001: 39-40, emphasis is mine)

Polanyi draws heavily on anthropological research to uncover the relationship between the social and the economic functions in historical perspective:

The outstanding discovery of recent historical and anthropological research is that man's economy, as a rule, is submerged in his social relationships. He does not act so as to safeguard his individual interest in the possession of material goods; he acts so as to safeguard his social standing ... He values material goods only in so far as they serve this end. (2001: 48)

Laissez-faire market liberalism is a radical departure in history for attempting to reverse the relationship between the market and the society. The utopian idea of the self-regulating market 'means no less than the running of society as an adjunct to the market. Instead of economy being embedded in social relations, social relations are embedded in the economic system' (2001: 60).

Why would the separation of the economic from the social be unsustainable? The conceptual link here is the concept of 'three fictitious commodities', by which Polanyi identifies the inherent contradiction of the market with reference to the commodification of land, labour, and money:

The crucial point is this: labor, land, and money are essential elements of industry; they also must be organized in markets ... But labor, land, and money are obviously *not* commodities ... Labor is only another name for a human activity which goes with life itself ... Land is only another name for nature, which is not produced by man; actual money ... is merely a token of purchasing power which ... is not produced at all ... (2001: 75)

If 'fictitious commodities' provide Polanyi's view of the self-regulating market with its 'contradiction', his celebratory observation of a 'counter-movement' is stylistically akin to Marx's anticipation of the 'proletarian revolution':⁵

For a century the dynamics of modern society was governed by a double movement: the market expanded continuously but this movement was met by a countermovement checking the expansion in definite directions. (Polanyi 2001: 136)

The 'historical bloc' behind the societal counter-movement is almost all-inclusive in its social composition, though Polanyi anticipates landed and labouring classes to be at the forefront (2001: 138-9). People from all segments of societies around the world react to the commodification of their lives (labour), to the destruction of their natural surroundings (nature), and to the instability inherent in the commod-

ification of the means of exchange (money) with regulation in all three fields. Regulation in all three is connected, but monetary protectionism is 'to a greater extent, a national factor, often fusing diverse interests into a collective whole' (2001: 213). Polanyi's prescriptions must follow from these premises. One would assume him to be an advocate of increased regulation of the markets for land, labour and money. Given his sympathy for the New Deal, one can infer that Polanyi is in favour of a social democratic welfare state.

On the other hand, Booth correctly noted that Polanyi's critique has important similarities with the *Gesellschaft* critique of modernity (Booth 1994: 653, 657). I would further note that in identifying the strains created by the self-regulating market, Polanyi's narrative is similar to Durkheim's criticisms around the idea of *anomie* due to the division of labour in modern society (Durkheim 1997). (Despite the obvious similarity, Durkheim does not even appear once in *The Great Transformation*!) In order for a self-regulating market to function, all social-cultural-moral bonds that claim the adherence of the individual (kinship, religion, neighbourhood, etc.) must be reduced to a secondary status so that the individual makes his preferences on the basis of a narrowly defined economic self-interest. Transformation in the motive of action, akin to a 'creative destruction' for liberalism, is crucial since '[o]nly in the institutional setting of market economy are market laws relevant' (Polanyi 2001: 40). One way of reconstructing a moral community under these conditions would be to postulate a 'modern religion', like nationalism, as was done by Durkheim.

Even though a welfare state styled after the New Deal can 'check the expansion of the market in definite directions' by environmental, monetary, and labour regulation, it is not clear how the social, moral, cultural and other non-economic disruptions caused by market liberalism can be alleviated. Economic redistribution and regulation do not necessarily build up moral, cultural, and societal bonds. Polanyi's silence regarding the moral, cultural, and communal rebuilding of the modern society contrasts with the recent attempts of American scholars to rebuild the American community under (post)modern conditions, a society faced with problems akin to those described by Polanyi (Putnam 2003, 2000).

Unlike Durkheim, Polanyi fails to seek a satisfactory resolution to the non-economic aspects of the multifaceted problem that he meticulously identifies. The origins of morality and the production of meaning in society are almost completely ignored in Polanyi's narra-

tive. This weakness is due to his ‘tragic view’ that the societal ‘coziness’ of premodern community is lost forever.

Polanyi’s advocacy of a regulative welfare state to remedy the ills of market liberalism, which is logically consistent with his critique of the self-regulating market, suggests that Booth’s representation of Polanyi as a theorist of Aristotelian economics with anti-democratic tendencies cannot be completely true. There is another, albeit minor, strain within Polanyi’s theorizing that is distinct from his main line of argument and responsible for Booth’s criticism.

Throughout *The Great Transformation*, one finds scattered comments regarding the change in the ‘motive of action’ from the motive of subsistence to the motive of gain brought about by the advent of the self-regulating market:

The mechanism which the motive of gain set in motion was comparable in effectiveness only to the most violent outbursts of religious fervor in history ... The transformation implies a change in the motive of action on the part of the members of the society; for the motive of subsistence that of gain must be substituted. All transactions are turned into money transactions ... [A]n industrial system was in full swing over the major part of the planet which, practically and theoretically, implied that the human race was swayed in all its economic activities, if not also in its political, intellectual, and spiritual pursuits, by that one particular propensity. Herbert Spencer ... equated the principle of the division of labor with barter and exchange, and another fifty years later, Ludwig von Mises and Walter Lippmann could repeat the same fallacy. ... (2001: 31, 43-44, 46)

Therein lies the second strand of Polanyi’s argument, from which Booth extrapolates his assertion regarding the Aristotelian ontology of Polanyi’s views. Here, the fundamental transformation brought about by market liberalism is beyond the exterior environment of human beings. Rather, the fundamental transformation is that which takes place in human nature, wherein ‘motive of gain’ rises above all other motives. Economic activity is perceived now as an end in itself rather than as a means to some higher good. Economic regulation and redistribution via social democratic welfare state cannot hope to undo the transformation in the human motive of action. Polanyi does not discuss the resolution of the problem regarding the transformation in the motive of action, leaving the door open for interpretations like Booth’s.

Booth interprets Polanyi’s perception and advocacy of ‘economic activity as a means to some higher good’ as an aristocratic position

because historically, the good that economic activity was made to serve was articulated by upper classes. The articulation of 'the good' was bound up with processes of domination (e.g., clergy in the Middle Ages). In response to Booth, one could argue that the subordination of economic activity to some notion of a higher good is not necessarily aristocratic if the notion of the good is democratically articulated, though Polanyi has no such argument.

Polanyi's vagueness and Booth's confusion are also due to the under-theorized nature of the relationship between the economic and the social spheres, and the role of 'the political' in this connection. Booth's discussion of the embeddedness of market liberalism points out to this intersection. Contrary to Polanyi, Booth claims that market liberalism is both normatively and institutionally embedded. The major ideologues of market liberalism never denied that market liberalism was based on a particular ideological creed with certain normative commitments. F. A. Hayek, Polanyi's contemporary and a fellow Austrian, is one of the most articulate ideologues of market liberalism. Hayek views the society as an arbitrary condition brought about by the need to overcome the challenges of security and material scarcity, whereas market is an ahistorical, amoral sphere that exists independently of society but to which society is subjected. Within this market, the 'marvelous' *price system* assigns a numerical value to all 'commodities', which is practically everything. The *price system* is complemented by the *individual maximization principle*, whereas individual maximization is subject to a *system of preferences*. These constitute the pillars of Hayek's neoclassical cosmology (Hayek 1945).

For Hayek, individual initiative in a thoroughly decentralized market represents the best organization of information and allocation of resources, which is inextricably linked to freedom and democracy. Any deviation from this plan paves the 'road to serfdom' (Hayek 1944). Hayek explicitly posited a vision for the model human being and a particular view of civilization:

It does not matter for him why at the particular moment more screws of one size than of another are wanted, why paper bags are more readily available than canvas bags ... All that is significant for him is how much more or less difficult to procure they have become compared to other things with which he is also concerned, and the causes which alter their relative importance are of no interest to him ... It is a profoundly erroneous truism, repeated by all copy-books and by eminent people when

they are making speeches, that we should cultivate the habit of thinking [about] what we are doing. The precise opposite is the case. Civilization advances by extending the number of important operations which we can perform without thinking about them (Hayek 1945: 525, 528).

According to an ardent follower of Hayek, ‘market ethics is that the market system rewards individual success in fulfilling the needs of others regardless of the merit of those needs, rather than ensuring the individuals’ conformity with some rationally conceived moral system’ (Prybyla 1991: 5). This view is the polar opposite of the embedded, moral economy, since it suggests an economic system that is indifferent to the moral and societal implications of the outcomes generated by exchanges in the market.

Hayek’s ‘naturalistic’ account of free market liberalism helps to illuminate the *normative* dimension of market liberalism’s embeddedness, whereas the *institutional* dimension remains in the dark. Institutionally, market liberalism demands a Smithian ‘watchman state’ for its survival, to enforce contracts, to oversee transactions, to build and maintain infrastructure, and to prevent attacks on property. The state’s role is to be ever-present in almost every aspect of economic life so as to protect property. Another role of political authority is to determine the boundaries of the market, deciding which goods and services should be allowed to be traded as commodities. This issue is conspicuous for its absence in liberal discourse, which is brought back as a major topic of contestation by communitarian critics.⁶

The primacy of political authority in establishing an economic order was recognized by early modernization theorists. Scholars focused on ‘the violent creation of order’, emphasizing the role of the political, which in this context meant ‘coercive imposition’ (Cohen *et al.* 1981: 901-910). The politico-legal framework is at the core of market liberalism’s institutional embeddedness. Only a utopian visionary can imagine an economy where there is no political authority or mechanism to enforce the rules of that economic system, even if the economy is submerged in social relationships. This is the kind of utopianism that Polanyi’s analysis borders on. Even if economic exchange is submerged in social relationships, it cannot be regulated through social consensus or moral discourse alone, since social and moral order must have a political mechanism of enforcement. The debates over the developmental state and ‘bringing the state back in’, and the new institutionalism’s emphasis on political agency have resuscitated ‘the political’ to a certain prominence in studies of polit-

ical economy (Woo-Cumings 1999; Deyo 1987; Skocpol 1985; Immergut 1998).

The origins of socio-economic systems are political. The processes of embedding, disembedding, and re-embedding economies are initiated by political authorities or by social movements that affect the application of political power. A fundamental issue, ignored by Polanyi and Booth, is to situate the causal—not normative—role of ‘the political’ in relation to the economic.

Polanyi would probably not subscribe to a political view of embeddedness, and regard political embeddedness as utopian imposition. Yet he would contradict himself in disregarding the embeddedness inherent in the submersion of the economic sphere in the political-institutional apparatus, since his proposal to re-embed the economy makes use of the same political-institutional mechanisms to regulate the land, labour and money markets. If market liberalism is not socially embedded, the New Deal is not socially embedded either, which would be problematic for Polanyi.

What, then, is ‘social embeddedness’ in contrast to ‘political embeddedness’ for Polanyi? If political embeddedness entails the top-down imposition of an economic order, social embeddedness should refer to the bottom-up approval and enmeshment of the economic order. This description attributes the initiative to the political authority, which I would argue is the case.

Social embeddedness entails the enmeshing of the economic order in the ‘life-world’ as in Habermas (Habermas 1989). Booth recognizes the affinity between moral economists’ use of ‘embeddedness’ and Habermas’s conceptualization of the life-world (Booth 1994: 653). Life-world for Habermas, though in constant interaction with the material world, has a dialectic of its own. For moral economists like Polanyi, the demarcation line between the material and the life-world may be more fluid than it is for a reformed historical materialist such as Habermas. Nonetheless, Habermas and Polanyi have a similar understanding of the relationship between the social and the economic realms. Habermas’s conception of the welfare state evolving into socialism as a result of communicative action in the life-world is similar to Polanyi’s view of the New Deal.⁷ Two other prominent scholars who posit a quasi-evolutionary progressive reform in liberal capitalism are John Rawls and Amartya Sen. Sen conceptualizes democracy and development as emergent universal values that can rein in the most atrocious tendencies in capitalism, while Rawls proposes the ‘veil of ignorance’ as a deliberative method

to protect the most vulnerable members of society (Rawls 1999: especially 30-43; Sen 1999, 2001).

Implied in the notion of a socially embedded economy are aspects of consent, approval, reciprocity, and enmeshment in social norms, morals, and psychology. The concept of 'hegemony' as it is developed by Gramsci may better capture the meaning of a socially embedded economy. Hegemony includes political-institutional enforcement, whereby the economic order is superimposed from above, as well as consent and cooptation, whereby people voluntarily cooperate with the political authority (Carnoy 1984: 65-88; Gramsci 1990: 47-54). Both Gramsci and Polanyi belonged to the group of 'heterodox left-wing intellectuals ... who rescued Marxism from the mechanical thinking of the Second and the Third International. The key figures of this tradition were continental European thinkers including Georg Lukacs, Karl Korsch, Antonio Gramsci, Walter Benjamin, and the writers of the Frankfurt School' (Block 1990: 278). The concept of hegemony merges top-down and bottom-up processes of domination into one mode of governance.

Resistance is the opposite of the same process. Gramsci conceptualizes such resistance as 'counter-hegemony', similar to Polanyi's 'counter-movement' (Birchfield 1999). Every attempt at hegemonic enmeshment of an economic system, it seems, would require a 'psychological-emotional regime change' so as to legitimate the new economic organization and the resulting new social hierarchy. Hirschman recounts how long and complex this process was for the intellectual circles of England even before the rise of capitalism (Hirschman 1977). Without legitimation at the socio-psychological level, a system cannot be fully hegemonic. In England the passion for 'money-making' was favoured against the passion for 'glory' and 'honour', both of which were associated with the violent, militaristic, and aristocratic activities of 'battle-waging' and 'war-making'. With the transition to a market economy, a substantial effort was made to elevate the esteem of material prosperity over that of martial glory. Such a psychological-emotional transformation is necessary for market liberalism to be hegemonic and socially embedded.⁸ Polanyi would argue that market liberalism cannot achieve such hegemony.

What is the boundary between a moral economy and a liberal economy and how does it change at the political-institutional and societal levels? Communitarian critics of liberalism elaborated a framework that is analogous to that of moral economists. Communitarians conceive of human life in its unity, with Aristotelian virtues in

the context of a grand narrative, and reject the compartmentalization of human life at an ontological level (MacIntyre 1984). Communitarians attack liberalism for its creation of a ‘procedural republic’ premised on citizens with ‘unencumbered’ selves, a critique that is aimed at liberalism’s lack of a value-orientation, in a way that is explicitly Aristotelian (Sandel 1992). Even though normative arguments are conflated with ontological ones in liberal-communitarian debates, it would be accurate to situate Polanyi and the moral economists on the communitarian side of the great divide on both ontological and normative grounds (Taylor 1989). Communitarians advocate on both normative and ontological grounds that a person’s life is *unified*, and that all his actions are *encumbered* in a grand narrative of unified life, and hence his economic activity *is* and *should be* subordinate to the same grand narrative.

Michael Walzer’s definition of ‘needs’ versus ‘luxuries’ is analogous to Polanyi’s definition of ‘fictitious commodities’ versus other commodities (Walzer 1984). Asserting that ‘needs are socially constructed’, Walzer argues that the nature and the degree of these needs can only be decided and enforced politically:

... culture, religion, and politics. It is only under the aegis of these three that all the other things we need become *socially recognized needs* ... Despite the inherent forcefulness of the word, needs are elusive. People don’t just have needs, they have ideas about their needs; they have priorities, they have degrees of need; and these priorities and degrees are related not only to their human nature but also to their history and culture. Since resources are always scarce, hard choices have to be made. I suspect that these can only be political choices ... The question of degree suggests even more clearly the importance of political choice and the irrelevance of any merely philosophical stipulation ... Needs are not only elusive ... needs are voracious ... But that [providing for all the needs most voraciously and broadly defined] would be very expensive, and so we settle for something less. How much less can only be decided politically. (Walzer 1984: 200-203)

Walzer also makes a crucial move by asserting that ‘needed goods are not commodities’, arguing that the production and distribution of socially recognized needs ‘cannot be left to the whim... of some powerful group of owners or practitioners’ (1984: 215). Examining the move of medicare from the realm of luxuries to the abode of socially recognized needs, he notes that this shift paralleled another shift in

what I called the ‘emotional-psychological regime’, away from ‘eternity’ to ‘longevity’:

Then, as eternity receded in the popular consciousness, longevity moved to the fore. Among medieval Christians, eternity was a socially recognized need; and every effort was made to see that it was widely and equally distributed, that every Christian had an equal chance at salvation and eternal life ... Among modern citizens, longevity is a socially recognized need; and increasingly every effort is made to see that it is widely and equally distributed, that every citizen has an equal chance at a long and healthy life ... Parallel to the shift in attitudes, and following naturally from it, was a shift in institutions: from the church to the clinic and the hospital. (Walzer 1984: 212-3)

Walzer is submitting a very potent definition of the moral economy by positing that the social recognition of a good or a service as a need *naturally* leads to its removal from the ‘whimsical’ mechanism of market exchange and subjects its distribution to an essentially political (and moral?) administration. Once a good or a service is socially recognized as a ‘need’, it is eventually removed from free market and into a moral economy. The moral economy is the abode of socially recognized needs, its boundary shifting in tandem with the changes in popular consciousness. As Dieter Helm showed in the case of Thatcherite Britain, the extent of state intervention in the economy changes because of social movements and political choices, and not because of our changing capacity to understand a certain economic Truth, since there is no such thing as a certain economic Truth (Helm 1989).

As the above efforts to complete Polanyi’s arguments demonstrated, *The Great Transformation* is an unfinished book, with a number of contradictions within its narrative. Situating these contradictions in the experience of Polanyi, Block reminds that

[Polanyi] developed the outline for the book while he was still in England in the latter part of the 1930s. In his English years, Polanyi had his second encounter with Marxism in which he developed his own Hegelianized Marxist position that had distinct commonalities to arguments developed by Lukacs in *History and Class Consciousness*. However, as Polanyi began writing the book in the United States in 1941, his theoretical framework shifted. But since Polanyi composed the manuscript across a period in which his thinking was changing, the resulting manuscript was left with a number of contradictions and conflicts. (Block 2003: 276)

Central to Polanyi ‘was the idea that progress could only come through conscious human action based on moral principles’, and it is in this vein that he ‘passionately rejected the Second International’s belief in the inevitability of progress as a consequence of predetermined stages of human development’ (Block 2003: 277). Polanyi was advocating the formation of a counter-hegemonic historical bloc, and for this reason he derided workers’ movements that did not aspire to speak for the whole of the society (Block 2003: 278-9).

Polanyi’s debunking of the utopian view of the self-regulating market is a spectacular achievement despite its many shortcomings. The meaning of this debunking and the problems that arise in situating ‘Polanyism’ in relation to ‘utopian’ free market liberal capitalism and Marxist-socialism are issues worth discussing. What is ‘Polanyism’? Was Polanyi advocating a social democratic reform in capitalism? Or does he have a radically different view of society and the economy?

Robert Owen is the one person whose theory and practice as a social activist and reformer is lauded above any other in *The Great Transformation* (Polanyi 2001: 175ff). Owen was an idealist who applied utopian socialist theory in his own socially reformist practice (Kumar 1990). The criticisms levelled against the Owenite movement are brought against Polanyi as well. Surprisingly, E. P. Thompson, another ‘moral economist’, accuses Owen of belonging to the ‘paternalist tradition’ in social theory:

We must see that the great experiments at New Lanark were instituted to meet the same difficulties of labour discipline, and the adaptation of the unruly Scottish labourers to new industrial work-patterns that we have already encountered in our discussion of Methodism and of Dr. Ure. ... [Owen] was in one sense the *ne plus ultra* of Utilitarianism, planning society as a gigantic industrial panopticon (Thompson, quoted in Kumar 1990: 12).

A. L. Morton noted that Owen was ‘a successful capitalist’, who acknowledged ‘as the original inventor of his scheme the seventeenth-century “projector” John Bellers, with his idea of privately-run “Colleges of Industry” as the solution to the problem of poverty and unemployment’ (Kumar 1990:12). Owenite thought and practice was thought of as a lower class complement to the Tory tradition of organic society (a conservative-aristocratic position) that saw England as a community, and his schemes ‘were denounced by Cobbett as “parallelograms of paupers”, and other Radicals saw them as

essentially extensions of the workhouse system' (Kumar 1990: 12). His plans were seen as modifications of traditional schemes for lowering the poor rates and getting the unemployed and the poor to support themselves.

Is Polanyi simply Owen resuscitated? Does Polanyism propose a 'capitalism with a human face'? At one level, Polanyism merely represents a more realistic, socially embedded view of the economy as well as of capitalism, presenting a long-term survival perspective for capitalism. This lukewarm radicalism may explain the appeal of Polanyi for capitalist planners with long time horizons such as Joseph Stiglitz.⁹ Polanyi offers a more realistic, 'scientific capitalism' as opposed to the 'utopian capitalism' of von Mises and Hayek. He self-consciously sides with the realism of reformist capitalist Roosevelt. Once stripped of its neoliberal, naturalistic pretensions, 'capitalism' may not appear as villainous as it does in its 'utopian' *laissez-faire* version.

Accordingly, the value of Polanyi's analysis in challenging the market liberal hegemony has been widely noted and celebrated, especially among the scholars of globalization, corresponding to the last round of neoliberal economic restructuring. James Mittelman, who applies Polanyi's framework to globalization, opens his book by simply restating Polanyi's thesis: 'The main concern of this book is the interplay between the powerful thrust of globalizing market forces, sometimes propelled by the state, and a counterthrust fueled by the needs of society' (Mittelman 2001: 3). Authors bringing together critical reflections on globalization use Polanyi as their seminal reference point (Mittelman 1996).

The reason for the currency of Polanyi in globalization studies is due to his successful debunking of the myth of the self-regulating market. The same dangerous myth achieved a hegemonic position in mainstream thinking about the economy since the 1980s and was widely employed in pushing through the neoliberal economic policies around the world. Polanyi is most immediately related to debates over 'neoliberal hegemony', whereby social constituencies are disciplined in their demands by a hegemonic discourse based on positing economics as a scientific-technocratic study, isolated from political intervention and social action (Gill 2003; Rupert 1995). This is the primary reason behind Polanyi's recent popularity among those who are discontented more about the 'discursive hegemony of neoliberal economics' than anything else.

Liberal Illusions and 'Paternalism' in Modern Society

Polanyi's thesis is that the economy as a sphere of action and discipline separate from political and social forces does not exist. What sustains economic systems is the political enforcement of their foundations. Polanyi's thesis, after the revisions proposed in this paper, should resuscitate politics to the commanding heights of social theory. Politics is 'the master science of the good' as Aristotle presciently stated (Aristotle 1999: 4). If extra-economic (political and social) regulations are meant by the negative terminology of 'Aristotelianism' and 'paternalism', then one could argue, as Polanyi did, that paternalism in a complex society is inescapable but it makes an immense difference which ideas are guiding the paternalistic policies, and how they are chosen: democratically, technocratically, or tyrannically?

'Why then do liberals oppose state paternalism? Because, they argue, no life goes better by being led from the outside according to values the person does not endorse. My life only goes better if I am leading it from inside, according to my beliefs about value' (Kymlicka 1990: 203-204). The liberal argument is based on the fallacious belief that unlimited personal freedom is possible even in a complex, modern society by eliminating political and societal intervention. On the contrary, the market, even if it was possible to eliminate all outside interference, would operate on the basis of supply and demand, hence favouring the choices of the wealthy, and catering to the tastes of the upper classes who have the means to choose according to *their* beliefs about value. Polanyi concludes by suggesting that paternalism of one kind or another is inescapable:

No society is possible in which power and compulsion are absent, nor a world in which force has no function. It was an illusion to assume a society shaped by man's will and wish alone. Yet this was the result of a market view of society which equated economics with contractual relationships, and contractual relations with freedom. The radical illusion was fostered that there is nothing in human society that is not derived from the volition of individuals ... But power and economic value are a paradigm of social reality. They do not spring from human volition; non-cooperation is impossible in regard to them. The function of power is to ensure that measure of conformity which is needed for the survival of the group. ... (Polanyi 2001: 266-267)

If power and compulsion, or what the liberals call 'paternalism', is inescapable, then the real question is 'whose paternalism?' a question

that Polanyi could have dealt with better, had he paid more attention to the role of ‘the political’. Thus, the provocative question of ‘whose paternalism’ is also the question that the author of this article would pose as the centrepiece of his concluding remarks to this critical and yet sympathetic reevaluation of Polanyi’s magnum opus.

Given how geopolitical and geo-economic developments unfolded in the process of late 20th and early 21st century history, as suggested earlier in this article, Polanyi’s argument about the fragility of the international economy, based on a balance of military power and global financial institutions, provides an equally strong challenge to advocates of market liberalism, a challenge that has not been taken up by Booth. This article, likewise, mostly focused on the political foundations of market liberalism at the domestic level, and inquired as to how a social democratic reform of the market can be guided by a democratically formulated notion of the good.

NOTES

1. Kiren A. Chaudhry, Andrew C. Janos, Leonid Kil, Adnan Naseemullah and two anonymous reviewers for *Theoria* read previous drafts of this article and provided useful commentary.
2. In denouncing the principle of production for gain ‘as not natural to man’, as boundless and limitless, Aristotle was, in effect, aiming at the crucial point, namely the divorcedness of a separate economic motive from the social relations which these limitations inhere’ (Booth 1994: 655; Polanyi 2001: 56).
3. Polanyi criticizes Marx for his close adherence to Ricardo’s economics and for succumbing into the ‘naturalistic’ fallacy: ‘The true significance of the tormenting problem of poverty now stood revealed: economic society was subject to laws which were *not* human laws. The rift between Adam Smith and Townsend had broadened into a chasm; a dichotomy appeared which marked the birth of nineteenth-century consciousness. From this time onward naturalism haunted the science of man . . . Marxian economics—in this line of argument—was an essentially unsuccessful attempt to achieve that aim, a failure due to Marx’s too close adherence to Ricardo and the traditions of liberal economics’ (2001: 131).
4. On Polanyi’s ‘socialism’ see Kari Polanyi-Levitt (1994).
5. Marx’s anticipation of the proletarian revolution is based on a historically over-determined linear progress, whereas Polanyi suggests a repetitious ‘tug of war’ between the expansionary movement of the market and the societal counter-movement, together constituting the ‘double movement’. The double movement

- appears to be predetermined in the sense that market expansion is always followed by societal counter-movement.
6. Michael Walzer's (1984) distinction between luxuries and needs is meaningful here. He posits that, throughout history, the socially recognized needs were always subjected to a moral economy and never left to the 'whimsical' operation of the market. Moreover, there are always morally imposed constraints on the freely tradable items: human beings themselves are not freely traded anymore. Human organs are subject to similar moral regulations. As a final example, the trading of nuclear, chemical, and biological weapons and even the know-how related to these weapons is highly and coercively regulated.
 7. The rise of the welfare state is not inevitable for Polanyi. However, welfare state is one of the two main options (fascism is the other) that the societal counter-movement can choose from. 'This leaves no alternative but either to remain faithful to an illusory idea of freedom and deny the reality of society, or to accept that reality and reject the idea of freedom. The first is the liberal's conclusion; the latter the fascist's. No other seems possible' (2001: 266). Polanyi obviously thinks that social democratic welfare state is the third, and preferable, option.
 8. Also see Peter Berger's 'On the Obsolescence of the Concept of Honor' (1984: 149-158), for an examination of how the rise of liberalism correlates with the relegation of 'honour' to an obsolescent position.
 9. Joseph Stiglitz, formerly the chair of President Clinton's Council of Economic Advisors and chief economist of the World Bank, wrote the preface for the last edition of *The Great Transformation*. There he openly identifies with Polanyi's prescient observations and analysis.

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